

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 26, 2023**

REGULAR **CONSENT** **EFFECTIVE DATE** November 1, 2023

DATE: September 25, 2023

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, Marc Hellman, Anna Kim, and Rawleigh White **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UG 474/Advice No. 23-07A)
Request for Amortization of Amounts Collectible Through Site
Remediation Recovery Mechanism, Revises Schedule 183.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) Advice No. 23-07A, amortizing deferred amounts related to its Environmental Cost Recovery and the Site Remediation Recovery Mechanism (SRRM), for service rendered on and after November 1, 2023.

DISCUSSION:

Issue

Whether the Commission should approve the Company's Advice No. 23-07A, updating the rate increments in its Schedule 183 (relating to the SRRM) to reflect the continued recovery of deferred environmental remediation costs and offset future environmental remediation costs.

Applicable Rule or Law

ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund.

The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility. ORS 757.205 requires public utilities to file all rates, rules, and charges with the Commission. ORS 757.210 provides that the Commission may approve tariff changes if they are fair, just, and reasonable. Filings that make any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the changes.

ORS 757.259(6) states that, with some exceptions, the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.

OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

Analysis

Background

The SRRM was initially adopted in Order No. 12-437, Docket No. UG 221. In UG 221, the Commission ordered an earnings test for the SRRM but no sharing mechanism.¹

The SRRM was addressed in a series of orders issued in Docket No. UM 1635, with Order Nos. 15-049 and 16-029 being the most relevant for this filing. The SRRM provides for a mechanism for recovery of past remediation costs, a review of deferred remediation expenditures for prudence prior to amortization, a tariff rider, and insurance recovery with application of an earnings test.

Annual deferrals of environmental remediation costs have been authorized in Docket No. UM 1078, and most recently in Order No. 23-334 for the 12-month period beginning January 26, 2023. Annual prudence reviews of environmental remediation costs have been conducted by Staff, and subsequently approved by the Commission in Docket No. UM 1732; most recently, in Order No. 23-309, the Commission determined that \$19,355,594 in costs, related to the time period between January 1, 2022 and December 31, 2022, were prudent and eligible for recovery through the SRRM.

¹ Under ORS 757.259(5), an earnings review must be conducted prior to amortization of deferred amounts, unless those amounts are subject to an automatic adjustment clause. In Order No. 12-437, the Company's suggestion to implement an automatic adjustment clause with an earnings test as part of the SRRM was approved. *In the Matter of NW Natural, Request for General Rate Revision*, Docket No. UG 221, Order No. 12-437, at 31-33 (November 16, 2012).

Earnings Test

The purpose of the Company's most recent filing (UG 474) is to update Schedule 183 with continued recovery of deferred environmental remediation costs consistent with the SRRM mechanism. The initial filing was made on July 31, 2023, and was replaced with the Company's filing on September 14, 2023. The replacement filing requests amortization of deferred amounts totaling \$9,699,112. The effect of this temporary adjustment is to increase the Company's annual revenues by \$2,700,406, or about 0.32 percent.

For 2022, NWN's earnings were 6.63 percent, which is below the authorized rate of return on equity of 9.4 percent. Because the costs identified are not included in the results of operations (ROO), recognizing both the costs and revenues to recover the costs will not affect that ROO and therefore the entire balance is recoverable.

This proposed tariff adjustment reflects the per therm effect of the amortization of one-fifth of the SRRM Account balance, as calculated by NW Natural, on customer rates. For purposes of this filing, the Company has applied the amount of \$9,699,112 to the SRRM Account. This balance represents one-fifth of the amount of deferred environmental remediation expense through 2022 (which has been deemed prudent)² less the disallowances ordered by the Commission in Docket No. UM 1635, less the application of insurance receipts as ordered by the Commission, plus associated interest accumulated on the deferred expense and insurance through November 1, 2023. The current balance in the SRRM amortization account as of October 31, 2023, is expected to be approximately \$(462,664). The net result of the current SRRM account balance and the \$9.17 million applied to the SRRM account result in an expected balance of \$9.4 million (including revenue sensitive effects) to be amortized over the course of the year.

Discussion of SRRM Changes

The total estimated amount for collection is \$9,425,718. In Compliance with OAR 860 022-0025, the proposed rate adjustment will affect 699,614 total customers.

Customer Type	Count
Residential	636,785
Commercial	61,984

² Advice No. 23-07A, Exhibit A, pg 5.

Industrial	845
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Rate Spread/Design

The following table illustrates the average monthly bill impact to NW Natural Residential (Rate Schedule 2), Commercial (Rate Schedules 3 and 31), and Firm Sales Industrial (Rate Schedule 32) customers.

Customer Type	Avg. Therms/month	Current Avg. Monthly Bill	Proposed Avg. Monthly Bill	Difference \$	Difference %
Residential (2)	56	\$88.46	\$88.68	\$0.22	0.2%
Commercial (3)	255	\$317.60	\$318.39	\$0.79	0.2%
Commercial (31)	2,816	\$2,700.12	\$2,705.53	\$5.41	0.2%
Industrial (32)	7,043	\$6,088.29	\$6,097.09	\$8.80	0.1%

Prudence Review

Staff reviewed the previous orders associated with NW Natural's SRRM, the Company's initial filing, the work papers showing the calculation of the SRRM balance, amortization, and rate spread. Staff finds that the proposed amortization complies with all previous Commission orders, the amounts were calculated correctly, and the resulting rates are reasonable and fair.

Conclusion

Based on the review of this application, Staff concludes:

1. The Company's proposed rate change complies with previous Commission orders;
2. The Company's accounting for the SRRM and subsequent rate impact is accurate; and
3. The temporary adjustment results in fair and reasonable rates.

The Company has reviewed this memo and agrees with its content.

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PROPOSED COMMISSION MOTION:

Approve Northwest Natural's Advice No. 23-07A, amortizing deferred amounts related to its Environmental Cost Recovery and the Site Remediation Recovery Mechanism, for service rendered on and after November 1, 2023.

NWN UG 474 Sch. 183 SRRM amortization