ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 16, 2024

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** _____N/A_____

DATE: March 18, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1027(21))
Reauthorization to defer refunds or collections of Distribution Margin.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's (NW Natural, NWN, or Company) application for reauthorization to defer refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2023, and ending October 31, 2024.

DISCUSSION:

Issue

Whether the Commission should reauthorize NW Natural to defer the difference between the actual distribution margin per residential and commercial customer based on "normal" consumption, and what is actually collected from those customers. "Normal" consumption was established in the Company's last general rate case, UG 435.

Applicable Law

The decoupling mechanism has been approved by the Commission to enable utilities to recover distribution fixed costs through rates and encourage energy conservation while minimizing the frequency of rate changes and the fluctuation of rate levels. NW Natural requests this deferral related to its decoupling mechanism in accordance with ORS 757.259 and OAR 860-027-0300.

ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

Analysis

Background
On October 17, 2023, the Company submitted a request for reauthorization seeking reauthorization to record and defer with interest, on an ongoing basis, the amount by which actual distribution margin per residential, small (rate schedule 3), and mid-sized (rate schedule 31 sales) commercial customers are different from the margin to be collected from residential, small, and mid-sized commercial customers based on "normal" consumption, as assumed in the Company's last general rate case, UG 435. This request is for the 12-month period beginning November 1, 2023, and ending October 31, 2024.

Estimated 2023-2024 Costs.
The Company cannot estimate what amounts will be recorded in the distribution margin normalization "use balancing account" for the upcoming 12-month period because the amount is dependent on customer usage.

Nevertheless, the interest rate for deferral accounts is 6.836 percent, the cost of capital from the Company's last general rate case. Monies that have been transferred for amortization accrue interest at the rate of 1.82 percent.

Reason for Deferral
ORS 757.259(2)(e) allows the deferral of identifiable utility expenses to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers.

Proposed Accounting
The Company proposes to record the amounts described in Section J (7) of this Application in a sub-account of Account 186.

Information Related to Future Amortization

- Earnings Review – ORS 757 .259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e). Because the requested deferral is a component of an automatic adjustment clause, there is no earnings test required. However, in the future, the Commission could exercise its discretion and require an earnings review. Staff does not propose any application of an earnings test due to this being a decoupling mechanism.

- Prudence Review – A prudence review will be conducted prior to amortization. The review should include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – No sharing will be required as this mechanism allows deferral of refunds or collections at 100 percent.

- Rate Spread/Design – The correctly accounted for distribution margin differences are to be allocated between residential and commercial customers based on the guidelines established by the mechanism.

- Three Percent Test (ORS 757.259(6)) – The three percent test measures the overall average impact on customer rates resulting from deferral amortizations under ORS 757 .259. The three percent test limits the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding calendar year.

Conclusion

Based on review of NW Natural's application, Staff concludes that the request represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application meets the requirements related to the establishment of the decoupling mechanism, as well as the requirements of ORS 757.259 and OAR 860-027-0300.

NW Natural has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve NW Natural's application for reauthorization to defer refunds or collections of Distribution Margin for the 12-month period beginning November 1, 2023.