

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 4, 2017

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE March 1, 2017

DATE: March 27, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *MPM*

THROUGH: Jason Eisdorfer *J* and Marc Hellman *AA*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1420(8)) Requests reauthorization to defer Industrial DSM Program Costs.

**STAFF RECOMMENDATION:**

I recommend that Northwest Natural's (NW Natural or Company) application for reauthorization to defer, with interest, the incremental costs associated with the Industrial Demand Side Management (DSM) program be approved for the 12-month period beginning March 1, 2017.

**DISCUSSION:**

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer the incremental costs associated with the Company's Industrial DSM program for later recovery in rates.

Applicable Rule or Law

NW Natural submitted its deferral application on February 24, 2017, in accordance with ORS 757.259(2)(e), ORS 757.262 and OAR 860-027-0300. ORS 757.259(2)(e) provides the Commission with authority to authorize the deferral of utility revenues and expenses, for later inclusion in rates, upon finding that the deferral would minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently

granted by Order No. 16-120. ORS 757.262 addresses the Commission's authority regarding utility acquisition of cost-effective conservation resources and small-scale, renewable-fuel electric generating resources.

### Analysis

This application is for accounting purposes only. As in the past, NW Natural will seek amortization of the current balance in another proceeding, concurrent with its upcoming purchased gas cost adjustment.

### *Background*

NW Natural's Industrial Demand Side Management (DSM) Program was established in 2009 in response to its 2008 Integrated Resource Plan (IRP) wherein NW Natural identified cost-effective DSM for Industrial Firm Sales Customers. Although the 2008 IRP did not include a technical study to assess the potential of cost-effective DSM for Industrial Interruptible Sales Customers, the program offering was also extended to this customer class pursuant to a Memorandum of Understanding (MOU) signed by NW Natural, Commission Staff, Northwest Industrial Gas Users, and the Citizens' Utility Board of Oregon (collectively, Parties).

The MOU established a two-year pilot program for Industrial DSM and required an assessment at the end of the period to determine whether the program should be made permanent. In 2011, Parties signed a new MOU that converted the pilot Industrial DSM program to a permanent offering, available to all industrial customers except those receiving service under a transportation rate.

NW Natural's Schedule 360 Industrial Demand Side Management (DSM) Programs outlines the terms of this offering and the deferred amounts are collected from the appropriate customer classes through Schedule 188, subject to Commission approval.

### *Description of Expense*

In this Application, the Company is asking to defer the costs, plus interest, that are associated with the studying, planning, administering, and delivering of its Industrial DSM Program. This program seeks to acquire DSM for Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. The Energy Trust of Oregon currently administers NW Natural's Industrial DSM programs.

*Reason for Deferral*

This request is made in accordance with ORS 757.259(2)(e) which allows the deferral of utility expenses where necessary to appropriately match the costs borne by and benefits received by ratepayers.

*Proposed Accounting*

The Company proposes to account for the deferred expenses related to the Industrial DSM Program by recording the deferral in a sub-account of Account 186 (Miscellaneous Deferred Debits). In the absence of deferred accounting, the Company would record Industrial DSM Program expenses in the appropriate sub-account of FERC Account 909.

*Last Year's Activity*

NW Natural deferred \$3,527,052 (includes \$158,872 interest) during the last deferral period of March 1, 2016, through February 28, 2017. Beginning November 1, 2015, \$532,119 was amortized in rates through December 31, 2015.

*Current Estimate of Amounts*

NW Natural estimates that the amount to be amortized beginning November 1, 2016, will be approximately \$5,920,596.

*Reason for Continued Deferral*

NW Natural continues to offer its Industrial DSM Program. The acquisition of cost-effective DSM is in compliance with OAR 860-027-0310 which encourages utilities to provide the least cost resources as identified in its most recent integrated resource plan.

*Information Related to Future Amortization*

- Earnings review – An earnings review must be conducted for amortization of these costs.
- Prudence Review – A prudence review is a requirement of the earnings review and should include the verification of the accounting methodology used to determine the final amortization balance. The prudence review will be held when NW Natural files for amortization.
- Sharing – One hundred percent of the deferred costs are subject to utility recovery, pending a prudence review.
- Rate Spread/Design – The costs are allocated among Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers on an equal cents per therm basis.

Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

Conclusion

As Schedule 360, Industrial Demand Side Management (DSM) Programs, is still in effect, and this application meets the statutory requirements of ORS 757.259 and OAR 860-027-0300, I recommend Commission approval.

**PROPOSED COMMISSION MOTION:**

Approve NW Natural's request for reauthorization to defer Industrial DSM program costs for the 12-month period beginning March 1, 2017.