

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 7, 2013**

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE March 1, 2013

DATE: April 10, 2013

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman  
*E* *MG* *MG & MH*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1420(4)) Reauthorizes Deferral of Industrial DSM Program Costs.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Northwest Natural's (the Company or NW Natural) request for reauthorization to defer Industrial Demand Side Management (DSM) Program Costs effective March 1, 2013, through February 28, 2014.

**DISCUSSION:**

On February 21, 2013, NW Natural filed an application for reauthorization of deferred accounting of Industrial DSM Program Costs. Staff believes deferred accounting is appropriate for the costs incurred since March 1, 2013. Deferral would allow the Company to appropriately match the costs of the Industrial DSM Program with its benefits. (ORS 757.259(2)(e)).

Background

In Order 09-092, the Commission authorized the Company's request to record and defer with interest all costs associated with studying, planning, administering, and delivering Demand-Side Management (DSM) programs to Industrial Firm Sales Customers (Schedules 3, 31, and 32), Industrial Interruptible Sales Customers (Schedules 31 and 32), and Commercial Sales Customers (Schedule 32).<sup>1</sup> The Company's Industrial DSM program was established by the Memorandum of Understanding (MOU) between the Company, Citizens' Utility Board (CUB), Northwest

<sup>1</sup> Customers classified as Industrial customers are not served under the residential and small commercial DSM program approved by the Commission in Order No. 02-634.

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Industrial Gas Users (NWIGU), and Commission Staff (collectively the “Parties”). The MOU provided that the Energy Trust of Oregon (ETO) will develop, administer, and deliver NW Natural’s Industrial DSM Program. Pursuant to the MOU, the ETO provides a cost-effective DSM program to eligible firm sales customers. However, the MOU conditioned that the program be offered to eligible interruptible sales for a pilot period of 2 years, at an annual cost not to exceed \$500,000. Upon expiration of the initial period, the Parties agreed to review the success of the program, the inclusion of interruptible sales customers, and future program budgets.

In 2011, Parties signed a new MOU agreeing that the pilot Industrial DSM program should become a permanent offering and that it should continue to be offered to all industrial customers except those receiving service under a transportation rate.

#### Description of Expense

In this Application, the Company is asking to defer the costs associated with studying, planning, administering, and delivering its Industrial DSM Program. The Energy Trust currently administers NW Natural’s Residential, Commercial, and 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 match appropriately the costs borne by and benefits received by ratepayers.

#### Proposed Accounting

NW Natural 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.

#### Estimate of Amounts

For the 12-month period covered by this Application, NW Natural anticipates that the amount subject to this deferral will be approximately \$1,620,000.

#### Information Related to Future Amortization

- Earnings review – An earnings review must be conducted for 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 (100%) 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.
- 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.

**PROPOSED COMMISSION MOTION:**

NW Natural's request for reauthorization to defer costs related to the Industrial Demand Side Management Program effective March 1, 2013, through February 28, 2014 be approved.