ITEM NO. CA9

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 18, 2016

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ____**November 1, 2016**____

DATE: September 21, 2016

TO: Public Utility Commission

FROM: Judy Johnson

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1496(6)) Requests reauthorization to defer expenses or revenues.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural Gas Company's (NW Natural or Company) request for reauthorization to defer certain expenses or revenues be approved for the 12-month period beginning November 1, 2016.

DISCUSSION:

Issue
Whether the Commission should allow Northwest Natural to defer gas commodity costs and demand costs as authorized under its Purchased Gas Adjustment (PGA) mechanism.

Applicable Law
The PGA mechanism was originally established by the Commission in Order No. 89-1046 in order to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings through open-Docket No. UM 1286. Commission Order No. 09-263 stated that the purpose of an annual mechanism is to allow the gas company to accrue the differences between what is forecast into rates and actual costs for annual demand and commodity related gas costs. Ultimately, a portion of the deferred gas commodity and demand costs may be recovered from, or returned to, customers. The Commission has issued a series of orders within Docket No. UM 1286 that adopted, and modified, Guidelines for the PGA. NW Natural's PGA is an automatic

adjustment clause established under ORS 757.210. Although the deferral is allowed under Order No. 09-264, NWN must still seek deferral of these costs under ORS 757.259 and OAR 860-27-0300 on an annual basis.

Discussion and Analysis

Description of Expense or Revenue
NW Natural proposes to use deferred accounting for the following:

1. Demand and other fixed gas costs to be recovered or refunded at 100 percent of the difference between the actual cost experienced and the amount collected from rates.
2. Commodity gas cost variations to be recovered or refunded at 80% based on the Company's sharing election for the 2016-2017 PGA Year.
3. All previously-authorized account balances related to PGA commodity and capacity cost deferrals not presently authorized for amortization or being proposed for amortization.

Proposed Accounting
NW Natural will defer to FERC Account 191 for distribution to, or collection from, customers at a later date consistent with the PGA methodology. Gas cost differences will be segregated between demand-related and commodity-related cost differences. Absent deferred accounting, the charges incurred for gas costs pursuant to PGA activity and other incurred gas costs would be recorded as increases/decreases in the appropriate FERC Account 80X gas expense subaccounts.

Estimated Deferrals in Authorization Period
The goal of the PGA mechanism is to match gas costs incurred by the Company with gas costs included in customer rates. According to NW Natural, any differences are the result of unexpected weather or volatility in gas prices, thereby making an accurate estimation of the deferred amount unlikely.

Information Related to Future Amortization

- Earnings Review – An annual spring earnings review will be conducted pursuant to OAR 860-022-0070.

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

- Demand and other fixed gas costs to be recovered or refunded at 100 percent of the difference between the actual cost experienced and the amount collected from rates as previously authorized in Commission Order Nos. 89-1046, 99-272, and 99-697.

- Rate Spread/Design – Prudently incurred gas cost differences that have been correctly accounted for should be translated into rate changes consistent with historical practice.

- 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. Should a deferred balance result in a credit to customers, the balance is exempt from the three percent test, per the advice of Staff's counsel.

- This deferral is subject to the exception at ORS 757.259(7) that allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion
NW Natural's application for reauthorization of deferred accounting meets the requirements related to the establishment of the PGA mechanism, as well as the requirements of ORS 757.259 and OARS 860-027-0300, and should be approved. The Company has reviewed this memo and has no issues with it.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's application for reauthorization to defer gas commodity costs and demand costs associated with the PGA mechanism for the 12-month period beginning November 1, 2016.