

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 30, 2012

REGULAR _____ CONSENT X EFFECTIVE DATE November 1, 2012

DATE: October 11, 2012

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: *J* Jason Eisdorfer and *MG* Maury Galbraith

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1496(2)) Request for authorization and reauthorization to defer certain expenses or revenues.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural's request for authorization and reauthorization to defer certain expenses or revenues be approved for the 12-month period beginning November 1, 2012.

DISCUSSION:

On October 8, 2012, Northwest Natural (NWN or the Company) filed a request in order to continue deferrals relative to the Company's purchased gas cost adjustment increment and to obtain authorization to defer certain costs related to working gas inventory, as provided in a stipulation filed in UG 221, for later recovery through the Purchased Gas Adjustment (PGA) pursuant to ORS 757.259(2)(d).

Reason for Deferral

The PGA mechanism was originally established by the Commission in Order No. 89-1046. Commission Order No. 09-263, Docket No. UM 1286, established the purpose of an annual mechanism which allows the company to accrue the differences between what is forecast into rates and actual costs for annual demand and commodity related gas costs. Additionally, to defer certain costs related to working gas inventory as provided in a stipulation filed in UG 221, for later recovery through the PGA. Accruing these differences minimizes the frequency of rate changes and matches appropriately the costs borne by and benefits received by ratepayers pursuant to ORS 757.259(2)(d).

Description of Expense or Revenue

NWN 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.
3. All previously-authorized account balances related to PGA commodity and capacity cost deferrals not presently authorized for amortization or being proposed for amortization, all as described in NW Natural Advice No. 12-14.
4. Subject to the conditions established and the related investigatory process set forth in the Second Partial Stipulation signed by parties to UG 221 and filed with the Commission on October 2, 2012, NW Natural's carrying costs associated with working gas inventory. Under the terms of the stipulation, working gas inventory is excluded from rate base.

Proposed Accounting

NWN 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 401 gas expense subaccounts.

The deferral for the carrying costs on working gas inventory will be recorded in a 191 subaccount. Absent the deferred accounting treatment, the Company's rate base in UG 221 would have been higher by the amount of working gas inventory and carrying costs would have been recovered through base rates.

Estimated Deferrals in Authorization Period

NW Natural is unable to estimate the amount to be deferred during the next PGA cycle. Market fluctuations and cyclical collection differences make it impossible to accurately estimate capacity and commodity deferral amounts.

With respect to carrying costs on working gas inventory, the methodology and amounts to be deferred for the carrying costs on working gas inventory have yet to be determined, so the Company is unable to estimate the amount that will be deferred during the next PGA year. However, the current methodology using the cost of capital requested in UG 221 would result in an amount subject to deferral of \$4.1 million over the course of the twelve-month period subsequent to this deferral application.

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Staff Analysis

NWN's application for reauthorization of deferred accounting for the PGA gas costs and carrying costs of working gas inventory meets the requirements related to the establishment of the PGA mechanism, as well as the requirements of ORS 757.259 and 860-027-0300, and should be approved.

PROPOSED COMMISSION MOTION:

NWN's application for authorization and reauthorization to defer certain expenses or revenues be approved for the 12-month period beginning November 1, 2012.

NWN UM 1496(2) PGA Gas Costs Deferral Reauthorization 2012