

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 26, 2023**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **N/A** _____

DATE: October 9, 2023

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway, Marc Hellman, Anna Kim, and Rawleigh White **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1766(7))
Requests for Reauthorization of Deferred Accounting related to annual
Regulatory Fees.

STAFF RECOMMENDATION:

Staff recommends that the Oregon Public Utility Commission (the Commission) approve Northwest Natural's (NW Natural, NWN, or Company) request for reauthorization to defer costs associated with an incremental difference in the PUC annual regulatory fee and the costs currently being collected in rates for the 12-month period beginning March 23, 2023.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer costs associated with the difference between the annual regulatory fee included in base rates and the currently authorized regulatory fee.

Applicable Law

NW Natural submitted its request for reauthorization to defer annual regulatory fee amounts on March 22, 2023, in accordance with ORS 757.259, and OAR 860-027-0300.

ORS 757.259(2)(e) authorizes the Commission to allow a utility to defer expenses or revenues for later recovery in rates in order to minimize the frequency of rate changes or to appropriately match the costs and benefits to customers.

In OAR 860-027-0300(3) the Commission has set forth the requirements for the contents of deferred accounting applications. Applications for reauthorization must include that information along with a description and explanation of the entries in the deferred account to the date of the application for reauthorization and the reason for continuation of deferred accounting. OAR 860-027-0300(4).

Notice of the application must be provided pursuant to OAR 860-027-0300(6).

Analysis

Background

OAR 860-021-0034 requires natural gas utilities to pay regulatory fees to the Commission each year by April 1. The fee payable by the natural gas utility is an annual fee rate multiplied by the utility's gross operating revenues derived within Oregon for the previous calendar year. The annual fee rate is set by Commission order entered on or after March 1 of each year. On March 1, 2023, the Commission approved that the fee remains at 0.43 percent in Order No. 23-057.¹

In Order No. 22-392, entered in this docket on October 27, 2022, the Commission approved the Company's most recent request to continue deferring the amount of the annual regulatory fee not captured in the Company's last general rate case and temporary rates.²

Additionally, when the Company receives the invoice from the Commission, a deferral of the previous year is recorded on the Company books for the difference of the fee embedded in rates and the actual fee charged.

Description:

The Company is requesting authorization to defer the costs that represent the difference in the regulatory fee embedded in rates and the regulatory fee established in Order No. 23-057 for calendar year 2022 gross operating revenues. Specifically, NW Natural

¹ See *In the Matter of Public Utility Commission of Oregon, The Imposition of Annual Regulatory Fees Upon Public Utilities Operating Within the State of Oregon*, Order No. 23-057, Docket No. UM 1012, February 23, 2023.

² See *In the Matter of Northwest Natural Gas Company, dba NW Natural, Application for Reauthorization of Deferred Accounting Related to Increase in the Annual Regulatory Fee*, Order No. 22-392, Docket No. UM 1776(6), October 27, 2022.

requests to defer the difference between the annual fee amounts that are collected through rates and the annual fee.

Reason for Deferral

NW Natural seeks this reauthorization because the 2022 increase to the annual fee was not a regularly scheduled event, which makes planning for any fee increase difficult to align with ordinary rate case planning. The revenues received from January 2022 to October 2022 had a lower fee embedded in rates.

The Company does not seek to defer the costs associated with the annual fee that have already been included in rates, and only seeks to defer the incremental costs until such time as any increased fee amount can be included in NW Natural's established rates.

Proposed Accounting:

The Company proposes to account for the deferred expenses related to any increase regulatory fee by recording the deferral in a sub-account of Account 186.

Estimated Deferrals in Authorization Period:

The Company estimates the amount to be recorded in the deferred account for the 12-month period beginning March 23, 2023, through March 22, 2024, to be approximately \$385,773

The Amount Deferred Last Year.

\$580,068.85 was deferred during the last deferral year of March 23, 2022, through March 22, 2023.

This amount includes \$24,641 of interest.

The Amount Amortized Last Year.

\$129,819 was amortized in rates November 1, 2022, through December 31, 2022.

An Estimate of the Upcoming PGA-Period Deferral and/or Amortization.

In the 2023 PGA filing, the Company estimates that it will seek to defer \$385,773 and amortize \$99,168 in 2023.

Regarding future amortization, amounts deferred are allowed in rates to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. ORS 757.259(4); OAR 860-027-0300(9). The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility. ORS 757.259(5). Any

amounts approved for amortization will be subject to the three percent test under ORS 757.259(6), which 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 year.

Information Related to Future Amortization

- Earnings Review – An earnings test will not be applied to this deferral given its purpose.
- Prudence Review – For amortization, the prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.
- Sharing – This deferral is not subject to a sharing mechanism.
- Rate Spread/Design – Account balances are to be spread to the appropriate customer classes.
- Three Percent Test (ORS 757.259(6)) – The three percent test does not apply to amortization of this deferral. See “Earnings Review” above.

Conclusion

Staff concludes that the Company's application to reauthorize to use deferred accounting for the annual regulatory fee should be approved.

The Company has reviewed this memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve NW Natural's request for reauthorization to defer costs associated with a variance in the annual regulatory fee and the amount collected in rates for the 12-month period beginning March 23, 2023, ending March 22, 2024.