

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 20, 2021**

REGULAR CONSENT EFFECTIVE DATE March 23, 2021

DATE: April 12, 2021

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1766(5))
Requests Re-Authorization of Deferred Accounting Related to Annual
Regulatory Fees.

STAFF RECOMMENDATION:

Staff recommends that 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 twelve-month period beginning March 23, 2021.

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 rule and law

NW Natural submitted its request for reauthorization to defer annual regulatory fee amounts on March 22, 2021, 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.. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

Unless subject to an automatic adjustment clause under ORS 757.210(1), 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).

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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. The fee for 2021 is 0.375 percent. Order No. 21-066.

In 2016, NW Natural was originally granted authority to defer the difference between the amount collected in rates for the fee (based on a percentage of 0.25 percent) and the newly established rate of 0.275 percent. Order No. 16-154. That authority was reauthorized annually. In its 2020 general rate case, NW Natural's base rates were updated to include the then-authorized .350 percent regulatory fee. Order No. 20-364.

Description:

NW Natural seeks authority to defer the difference between the amount collected in rates for the regulatory fee and the amount owed for its annual regulatory fee. The Company's calculation for the amount to defer is the incremental difference between the Company's annual fee assessed by the Commission and the annual fee contained in NW Natural's current rates. The previous 0.35 percent fee is currently included in base rates; this filing covers the incremental amount of 0.025 percent above that amount contained in base rates.

Proposed Accounting:

NW Natural records deferred costs related to the fee increase in Account 186909.

Estimated Deferrals in Authorization Period:

NW Natural estimates the amount deferred in the period between March 23, 2021 and March 22, 2022 to be \$403,983.

Information Related to Future Amortization:

- Earnings Review – ORS 757.259(5) requires the Commission to review the utility's earnings at the time of application to amortize the deferral for amounts deferred pursuant to ORS 757.259(2)(e).
- Prudence Review – For amortization, the prudence review should be limited to verification of the accounting methodology used to determine the final amortization balance.
- Sharing – For the reasons discussed more fully below, Staff recommends that there be no sharing between NW Natural and its customers for this deferral.
- Rate Spread/Design – Account balances will be spread to the appropriate customer classes.
- 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 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

Staff concludes that the Company's application to reauthorize deferral of the incremental increase in the annual regulatory fee should be approved. Staff also supports the Company's decision to amortize reasonably incurred deferred amounts as part of its PGA process.

While an earnings review is required prior to amortization of this deferral pursuant to ORS 757.259(5), the Commission is not required to perform an earnings test that could result in sharing of deferred costs between the Company and its customers. Staff recommends that any deferred amounts not be subject to an earnings test for two reasons. First, the PUC fee is collected from customers and directly passed-through to

the Commission. Second, the proposal to not subject the deferred amounts to sharing is generally consistent with the treatment allowed by the Commission in Order No. 10-083, wherein the Commission lowered the annual PUC rate and ordered electric and natural gas utilities to defer the difference between the previous rate and the revised rates. In Docket UM 1488, the utilities put forth proposals for amortization of deferred PUC fee credits to customers, which were not subject to sharing from the results of an earnings review.¹

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, 2021.

NWN UM 1766(4) OPUC Fee Increase

¹ See *In re Amortization Proposals Related to PUC Fee Deferral Ordered in UM 1012*, OPUC Docket No. UM 1488, Order Nos. 10-443 (NW Natural), 10-437 (Cascade), 10-436 (Avista), 10-373 (Idaho Power), 10-372 (PGE), and 10-307 (PacifiCorp) (2010).