

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 25, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE November 1, 2017

DATE: September 18, 2018

TO: Public Utility Commission

FROM: Mitchell Moore *in p24*
JF

THROUGH: Jason Eisdorfer and John Crider *JC*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1798(1)) Reauthorization to Defer Revenues and Expenses Related to Schedule 195, Weather Adjusted Rate Mechanism (WARM).

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural or Company) application for reauthorization of deferred accounting for revenues and expenses relative to Schedule 195, Weather Adjusted Rate Mechanism (WARM), for the twelve month period from November 1, 2017 through October 31, 2018.

DISCUSSION:

Issue

Whether the Commission should approve Northwest Natural's application for reauthorization of deferred accounting revenues and expenses related to Schedule 195, (WARM).

Applicable Law

In accordance with ORS 757.259(2)(e), utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs. OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as the reason for the deferral, estimated amount of the deferral, etc.

Discussion and Analysis

Background:

Pursuant to Commission Order No. 16-223 (Order) issued in Docket UM 1750, the Company updated Schedule 195, revising the WARM program that impacts commercial and residential customer bills for the period beginning December 1, 2016. The changes were as follows:

Residential Bills

The maximum WARM adjustment increase applied to a monthly bill during the WARM Period will be twelve dollars (\$12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. The maximum WARM adjustment credit applied to a monthly bill during the WARM Period will be twelve dollars (\$12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

Commercial Bills

The maximum WARM adjustment increase applied to a monthly bill during the WARM Period will be thirty-five dollars (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. The maximum WARM adjustment credit applied to a monthly bill during the WARM Period will be thirty-five dollars (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

The Order established that any amounts not applied to a customer's bill during the WARM Period due to the cap and floor described above will be deferred in a residential or commercial deferral account and then amortized on an equal cent per therm basis through the annual Purchased Gas Adjustment (PGA) process to rate schedules 2 and 3 customers, respectively, over the 12 month period November 1 through October 31 of each year.

In accordance with the Order, the Company accrues interest on the deferred amounts at the Modified Blended Treasury Rate, plus 100 basis points; the Company accrues interest during the amortization period at the Modified Blended Treasury Rate. The Order also acknowledged that the deferred amounts is not subject to an earnings test, given the fact that the WARM mechanism is an automatic adjustment clause.

Description of the Expenses or Revenues:

NW Natural will defer any amounts not applied to customer bills during the WARM Period due to the monthly cap and floor in accordance with the Order 16-223. The deferred amounts may result in a charge or credit to customers depending on the variability in the weather during the WARM period.

Proposed Accounting:

NW Natural proposes to account for the WARM deferral amounts by recording the deferral in FERC Account 186 in two separate accounts (residential and commercial).

Estimated Deferrals in Authorization Period:

NW Natural cannot estimate the amounts that will be recorded in the WARM deferral account for the upcoming twelve-month period because the amount is dependent on the affect that weather may have on customer use.

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). Because rate recovery for deferred amounts is accomplished through an automatic adjustment clause, there is no earnings test required.
- 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.
- Sharing – Staff believes the Commission did not authorize sharing between NW Natural and its customers for this deferral.
- Rate Spread/Design – The Order established that any amounts not applied to a customer's bill during the WARM Period due to the cap and floor described above will be deferred in a residential or commercial deferral account and then amortized on an equal cent per therm basis through the annual Purchased Gas Adjustment (PGA) process to rate schedules 2 and 3 customers, respectively, over the 12 month period November 1 through October 31 of each year
- 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.

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Conclusion

Staff concludes that the Company's application for reauthorization of deferred accounting for revenues and expenses related to Schedule 195, Weather Adjusted Rate Mechanism, meets the requirements and should be approved.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's application for reauthorization of deferred accounting for revenues and expenses related to Schedule 195, Weather Adjusted Rate Mechanism, for the twelve month period from November 1, 2017 through October 31, 2018.

NWN UM 1798 WARM