

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 16, 2024**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: April 3, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Bryan Conway and Russell Beitzel **SIGNED**

SUBJECT: NORTHWEST NATURAL:
Docket No. UM 1798(7)
Request for reauthorization to Defer Expenses or Revenues related to
Schedule 195, Weather Adjusted Rate Mechanism.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) application for reauthorization of deferred accounting for revenues and expenses relative to Schedule 195, Weather Adjusted Rate Mechanism (WARM), for the 12-month period beginning November 1, 2023.

DISCUSSION:

Issue

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

Applicable Rule or Law

In accordance with ORS 757.259(2), 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.

Under ORS 757.259(2)(e), specific amounts eligible for deferred accounting treatment with interest authorized by the Commission include “identifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers.”

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).

When subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) may be subject to an earnings review of the utility’s earnings. With some exceptions, a company’s amortization of amounts deferred under ORS 757.259(5) cannot exceed an amount equal to three percent of the company’s gross revenues from the preceding year. ORS 757.259(6).

Analysis

Background

Northwest Natural seeks reauthorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-month period beginning November 1, 2023, through October 31, 2024, for amounts associated with NW Natural’s Schedule 195 Weather Adjusted Rate Mechanism (WARM).

Pursuant to Commission Order No.16-223 issued in Docket No. UM 1750, the Company made changes to the WARM program that influenced residential and commercial customer bills as follows:

- Residential Bills.
The maximum WARM adjustment surcharge that will be 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 surcharge that will be 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. Order 16-223 also provides 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 commercial 3 customers, respectively, over the 12-month period November 1 through October 31 of each year.

And, per Order 16-223, interest will accrue on the deferred balance at the Modified Blended Treasury Rate, plus 100 basis points. The Company will accrue interest during the amortization period at the Modified Blended Treasury Rate. The deferred amounts will not be subjected to an earnings test.

Description of Expense

NW Natural will defer any amounts not applied to customer bills during the WARM period under the terms of Order 16-223. The deferred amount may result in either a credit or charge to customers, depending on the weather during the WARM period.

Reason for Deferral

Deferral of the proposed amounts is consistent with the program terms approved in Order 16-223 and appropriate for deferral under ORS 757.259(2)(e).

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).

Current Estimate of Amounts

NW Natural cannot estimate the amounts that will be recorded in the WARM deferral account for the upcoming 12-month period because the amount is dependent on the effect that weather may have on customer use.

Nevertheless, during the past 12 months, the amount deferred with interest from November 1, 2022, through June 30, 2023, for residential and commercial accounts, is (\$1,294,616) and (\$1,307,802), respectively. The activity in these accounts is the adjustment outside the caps set in Order 16-223.

Information Related to Future Amortization:

- Earnings Review – Per Order 16-223, no earnings test will be applied.
- 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, and Staff does not recommend, 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.

Conclusion

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

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

PROPOSED COMMISSION MOTION:

Approve NW 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 beginning November 1, 2023.