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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 132

In the Matter of the Application of)
NORTHWEST NATURAL GAS COMPANY) ORDER
for a General Rate Revision.)

DISPOSITION: MOTION FOR CLARIFICATION DENIED

The Northwest Industrial Gas Users (NWIGU) requests clarification of Order No. 99-697, which approved new rate schedules for NW Natural Gas Company, d.b.a. NW Natural. NWIGU contests the final rate changes set forth in Appendix B to the order. NWIGU contends that Appendix B does not fully implement the rate spread decisions contained in the text of the order. For reasons that follow, we deny NWIGU’s motion and affirm Appendix B.

INTRODUCTION

In approving new rate schedules for NW Natural, we recognized that a disparity exists among different customer classes in the relationship between the long run incremental costs (LRIC) of serving a class and the rates charged to the class. To achieve a more balanced distribution of the costs of service, we adopted a rate spread that assigns a greater percentage of costs to residential customers. We also concluded that certain industrial schedules should receive rate decreases. As relevant to NWIGU’s motion, we stated:

We find Staff’s approach to be a reasonable method of moving rates towards LRIC in this docket. While not agreeing with all the particulars of the company’s LRIC study, Staff reasonably considered the results of the study and addressed NWIGU’s concerns by targeting certain schedules for rate reductions. Staff also recognized that the revenue requirement resulting from the Mist II and CIS investments should not be borne by transportation service customers members, but rather allocated to the commercial and residential customers for whom the investments were made. In short, Staff has reasonably moved the company’s schedules by reducing key industrial rates, maintaining rates for current market-based schedules, and increasing residential and commercial rates. Order No. 99-697 at 63.

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We summarized the approved rate spread methodology in Appendix B, set forth as Attachment 1 for reference. Appendix B first shows the allocation of almost \$4.5 million in Mist II expenses, and about \$5.3 million in CIS expenses, to residential and commercial schedules. It next sets forth the targeted reductions for Schedules 23, 90, and 91. A later column shows the spread of the residual revenue requirement change to all listed schedules except those targeted for rate decreases. The total change for each schedule is set forth in the final column, which shows a 1.3 percent increase for residential customers, and 10 and 20 percent decreases for the selected industrial schedules.

MOTION FOR CLARIFICATION

Positions of the Parties

NWIGU contends that Appendix B enacts only the general percentage reductions to the industrial schedules and does not adjust rates to reflect the non-assignment to certain rate schedules of any revenue requirements from Mist II or CIS. NWIGU explains that, while the overall impact of the order was to increase NW Natural's revenue requirement by just over \$200,000, the revenue requirement associated with Mist II and CIS is over \$9 million. Thus, NWIGU argues, the company's revenue requirement would be more than \$9 million lower if Mist II and CIS expenses were excluded. From that conclusion, NWIGU contends that the reduction percentages for the industrial schedules should include not only the 10 and 20 percent reductions, but also reductions to reflect the lower revenue requirement.

To illustrate its argument, NWIGU submitted a revised Appendix B that it believes properly reflects the order's conclusions with regard to rate spread. The revised appendix, set forth as Attachment 2, makes several modifications to the original that increases the amount of rate reductions for industrial schedules. First, after allocating Mist II and CIS expenses to the lower numbered schedules, it offsets the combined amount of those expenses (\$9.711 million) to all listed schedules, including the industrial schedules. This results in revenue requirement decreases of \$121,000, \$67,000, and \$230,000 for Schedules 23, 90, and 91, respectively. Next, the revised appendix sets forth the 10 and 20 percent reductions targeted for Schedules 23, 90, and 91. Finally, in another column, the revised appendix adds an additional rate decrease to reflect the other changes contained in the rate order. These three reductions result in overall decreases of 11.9 percent for Schedule 23, 23.4 percent for Schedule 90, and 14.1 percent for Schedule 91. To offset these reductions, the revised appendix contains larger increases for the lower numbered schedules, including a 1.4 increase for residential customers.

Staff opposes NWIGU's motion. It believes that Appendix B is consistent with the text of the order, noting that the Mist II and CIS expenses have not been allocated to Schedules 23, 90, and 91. Staff also contends that the specified rate reductions of 10 and 20 percent were intended to be

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the ultimate rate changes for the targeted schedules. It explains that these reductions were based on LRIC considerations, not those related to revenue requirement. Finally, it argues that, contrary to NWIGU's implied assertion, the order did not determine that other offsetting elements of the case, such as the ROE reductions, were required to be allocated to targeted schedules.

NW Natural does not oppose NWIGU's motion. It believes that NWIGU's reading of Order No. 99-967, including the revised Appendix B, is a plausible interpretation of the order's decisions with respect to rate spread. It raises two general concerns, however, related to the motion. First, NW Natural is concerned with margin migration. With the reductions to the industrial schedules, NW Natural states that customers will switch from higher margin to lower margin schedules. Such rate schedule migration, NW Natural contends, will prevent the company from collecting the revenue requirement authorized in Order No. 99-697. The company adds that this margin migration could accelerate if NWIGU's request is granted. Second, NW Natural is concerned about the implementation of new rates if the Commission agrees with NWIGU. For these reasons, NW Natural asks that the Commission delay a decision on this issue until after NWIGU, Staff, and the company have had an opportunity to discuss the issues raised in the motion and the Commission's rate spread decision.

Resolution

NWIGU and Staff offer alternative interpretations of Order No. 99-967 with respect to rate spread. While NWIGU's reading may be a plausible one, we affirm that only Staff's is correct. We intended the specified rate reductions of 10 and 20 percent to be the final rate changes for the targeted industrial schedules. We did not conclude, as NWIGU suggests, that the targeted reductions were simply an intermediate step to be applied prior to spreading other revenue requirement elements of the case. In fact, had we adopted that approach, the targeted schedules might have received less than the 10 and 20 percent rate reductions under different rate making scenarios. For example, had we approved NW Natural's revenue requirement request as filed, NWIGU's proposed methodology would yield smaller decreases than those determined in Appendix B. In addition, NWIGU's proposal would not yield Schedule 6 base distribution rates that are equal to Schedule 90 rates, contrary to our holding in the order. *See* Order No. 99-697 at 63.

Accordingly, we deny NWIGU's motion for clarification and affirm that Appendix B accurately reflects the rate spread decisions set forth in the text of Order No. 99-697. Appendix B properly allocates Mist II and CIS expenses to the lower schedules, and includes the 10 and 20 percent reductions to Schedules 23, 90, and 91. Indeed, in specifying the rate reductions, Appendix B contains the \$632,000 and \$607,000 revenue requirement deductions discussed in the text of the order. *See* Order No. 99-697 at 60.

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We also decline NW Natural's request to delay a decision on this issue until after the parties have had an opportunity to discuss related matters. NW Natural's request to delay was primarily based on concerns stemming from the possible approval of NWIGU's motion for clarification. Because we have denied that motion, those concerns have been rendered moot. NW Natural's remaining concern about margin migration is unrelated to NWIGU's motion. Accordingly, we find no reason to delay resolution of this motion based on that concern. We note, however, that NW Natural may, at anytime, address this issue with Staff and NWIGU if the company's concerns about rate schedule migration materialize.

ORDER

IT IS ORDERED that the Motion for Clarification, filed by the Northwest Industrial Gas Users, is denied.

Made, entered, and effective _____.

Ron Eachus
Chairman

Roger Hamilton
Commissioner

Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order to a court pursuant to ORS 756.580.