ORDER NO. 01-602

ENTERED JUL 26 2001

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 903/AR 357

In the Matter of the Spring 2001 Earnings Review of NORTHWEST NATURAL GAS COMPANY.	)))	ORDER

DISPOSITION: NO EARNINGS SHARED

On April 30, 2001, Northwest Natural Gas Company filed its 2001 earnings report for the 12 months ended December 31, 2000.

At its Public Meeting on July 10, 2001, the Commission adopted Staff's recommendation, which is attached as Appendix A and is incorporated by reference. Based on Staff's review of the earnings report and the Commission's records, the Commission finds that the adjusted earnings fall below the earnings threshold designated in Order Nos. 99-272, 99-284, and 99-697, resulting in no shared earnings.

ORDER

IT IS ORDERED that Staff's recommendation as stated in Appendix A is adopted.

Made, entered, and effective ________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. CA 7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 10, 2001

REGULAR AGENDA___ CONSENT AGENDA__X__ EFFECTIVE DATE_N/A

DATE: June 29, 2001

TO: Phil Nyegaard through Lee Sparling and Ed Busch

FROM: Judy Johnson

SUBJECT: NW Natural, UM 903/AR 357
Spring 2001 Earnings Review

SUMMARY RECOMMENDATION:

I recommend the Commission accept Staff's finding that NW Natural's 2000 earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

DISCUSSION:

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted PGA Procedures and Standards for Oregon's three regulated natural gas distribution companies – NW Natural, Cascade Natural Gas Corporation, and Avista Corp. One of the primary issues dealt with in these orders is the role and structure of earnings reviews.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to through a Statement of Stipulated Issues. On issues where no agreement was reached, the Commission ordered various resolutions. The Commission's findings, as they apply to earnings reviews, are summarized below:

- Relationship of Earnings Review to PGA Filings: A general earnings review will be held each spring beginning in 1999; a portion of revenues above a specified return on equity (ROE) level would be booked to a deferred account.
- Structure of Earnings Reviews: By May 1 each year beginning in 1999, LDCs will file results of operations for the twelve months ended the prior December

31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1, and the Commission would issue its decision on unresolved issues by September 15. Beginning in 2001, by August 15, LDCs will file annual gas cost tracking filings for October 1 rate changes. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.

- Effective Date of Rate Adjustment: Amount of overearnings to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
- NW Natural's earnings threshold will be calculated as 300 basis points above a benchmark ROE (the ROE authorized in UG 132, adjusted by the change in the risk-free rate). For the Spring 2001 review, the earnings threshold, for 2000, was calculated as 13.05 percent.
- If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold level will be shared with customers.
- Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. NW Natural made a one-time election to include a weather normalization adjustment in its spring 1999 earnings review filing and each subsequent annual filing.
- Changes to PGA Mechanism: For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism there will be no earnings test in the fall prior to amortizing deferrals. For LDCs with an 80-20 sharing mechanism, an earnings test will be applied prior to amortizing deferrals. NW Natural has adopted a 67-33 percent sharing mechanism for commodity cost differences.

NW Natural's Earnings Review

On April 30, 200~~0~~1, NW Natural submitted its 2000 earnings report for the twelve months ended December 31, 2000. The company states that its report was developed in a manner consistent with Commission Order No. 99-272 and reflects applicable adjustments per Commission Order No. 99-697 for its general rate filing, UG 132. The company calculates its ROE as 8.77 percent after application of its Type 1 adjustments, which is below the 13.05 percent threshold authorized by the Commission.

Staff has examined the company's filed earnings report. Staff believes there are certain adjustments that may require revisions.[1] However, the magnitude of these adjustments, if modified, would not materially change the results. Therefore, because NW Natural's adjusted ROE is below the authorized threshold, there should be no sharing of earnings with customers.

As required by OAR 860-022-0070 (6), Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that NW Natural's earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

[1] The Sales and Marketing Adjustment (2d-1), and the Y2K Adjustment (2k) may require revisions. Staff will work with the company to determine the appropriate treatment of these adjustments.