

ORDER NO. 12 047

ENTERED FEB 14 2012

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1413(3)

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Request for reauthorization to defer revenue
requirement related to the Automated Meter
Reading costs.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on February 14, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.



BY THE COMMISSION:

Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

ITEM NO. CA 4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 14, 2012**

REGULAR _____ CONSENT X EFFECTIVE DATE February 3, 2012

DATE: January 25, 2012

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: *MEG* Bryan Conway and *MG* Maury Galbraith

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1413(3)) Requests reauthorization to defer revenue requirement related to the Automated Meter Reading costs.

STAFF RECOMMENDATION:

Staff recommends Northwest Natural's request to defer revenue requirement related to the Automated Meter Reading installation be approved for the 12-month period beginning February 3, 2012, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

DISCUSSION:

On January 19, 2012, Northwest Natural (NW Natural, NWN or the Company) filed an application requesting reauthorization to defer revenue requirement related to Phase II of its Automated Meter Reading (AMR) project, effective February 3, 2012. Commission Order No. 11-151 previously authorized NWN to defer AMR costs for the prior 12-month period.

BACKGROUND:

After learning in May of 2005 that Portland General Electric intended to dissolve a Joint-Meter Reading (JMR) partnership with NWN, the Company began investigating cost effective alternatives to JMR.

AMR presented the most cost-effective plan for NWN including allowing the Company to significantly reduce the number of meter readers it employed. In December 2005, NWN began deploying Phase I of AMR in Vancouver, Eugene, Albany, The Dalles, PGE's Salem territory, PacifiCorp's Portland territory, Astoria, Coos Bay and Lincoln City.

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Deployment of Phase I was completed in June 2007. The Phase 1 project costs totaled approximately \$14 million to complete and reduced the need for approximately thirty-four meter reading positions.

Phase II covered the remaining areas of NWN's service territory and began deployment in August 2008. Phase II was originally estimated to cost approximately \$30 million upon completion and was slated to be final by December 2009, including all system testing.

As of December 30, 2009, all JMR routes were returned to PGE completing full deployment of AMR. NWN realized an additional \$500,000 annual savings in O&M due to high performance of equipment and successful full deployment.

The Commission first approved NW Natural's request to defer the revenue requirement related to Phase II of the installation of AMR in Commission Order 09-105.

Description of deferred amounts:

NWN proposes to defer the revenue requirement associated with the Phase II project minus the avoided capital expenditures related to the difference between the current meter reading costs and the previous JMR costs.

Final costs related to Phase II of AMR totaled approximately \$24 million rather than the \$30 million originally forecast. This reduced the amount deferred for 2009 from the original estimate of approximately \$2.8 million down to \$2.5 million.

AMOUNT DEFERRED LAST YEAR:

NWN deferred approximately \$981,000 in the prior 12-month period, plus an additional \$41,300 of interest accrual.

INTEREST ACCRUAL:

NWN accrued interest at its currently authorized cost of capital, or 8.618 percent related to the deferred amounts. The blended treasury rate of interest, or 2.24 percent accrued related to the amounts being amortized.

REASON FOR DEFERRAL:

NWN files this application pursuant to ORS 757.259 to match appropriately the costs borne by and benefits received by ratepayers.

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ESTIMATE OF AMOUNT TO BE DEFERRED:

For the 12-month period between February 3, 2012 and February 3, 2013, NWN anticipates it will defer approximately \$730,000 of revenue requirement related to continued deployment of AMR in Phase II of the project.

PROPOSED ACCOUNTING:

NWN proposes to defer the net cost of service (current revenue requirement associated with the capital costs less depreciation and O&M savings) into a sub-account of FERC Account, 186 (Miscellaneous Deferred Debits) until the net AMR costs can be reflected in permanent rates through a general rate proceeding.

STAFF ANALYSIS:

As a note for future proceedings, Staff had outlined in its March 24, 2009, Public Meeting Memo what it believed to be the appropriate time period for the earnings review that would relate to a future amortization request. This recommendation was adopted in Commission Order 09-105.

On October 9, 2009, NW Natural, Citizens' Utility Board (CUB), Northwest Industrial Gas Users (NWIGU) and Staff (Parties) filed a Supplemental Stipulation agreeing to specific terms related to the deferral and amortization of Phase II of NWN's AMR project. This Stipulation was filed as a supplemental filing to NWN's last general rate proceeding, UG 153, in part because AMR was included in UG 153 under terms regarding NWN's rate moratorium.

The terms in this Stipulation modified the earnings review period previously outlined in Staff's recommendation last year and adopted by the Commission in Order 09-105. In addition, terms regarding how any shareholder earnings would apply for the earnings test were specifically carved out in this Supplemental Stipulation.

The Commission adopted the Supplemental Stipulation on February 1, 2010, in Commission Order No. 10-028. Staff believes the terms of the Stipulation override Staff's earlier recommendation of an earnings period and believes the Parties should adhere to the terms in the Stipulation. Staff believes it is important to note these changes since the Stipulation was not filed under the same docket number as this deferral.

Staff has reviewed NWN's calculation of interest and accruals and recommends the Commission adopt NWN's request to reauthorize deferral of AMR costs.

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PROPOSED COMMISSION MOTION:

Northwest Natural's request to defer revenue requirement related to the Automated Meter Reading installation be approved for the 12-month period beginning February 3, 2012, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

NWN – UM 1413(3) Defer AMR