

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UG 450

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Request for Amortization of Certain Non-Gas  
Deferred Accountings Relating to Margin  
Normalization (Decoupling), Schedule 190.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its special public meeting on October 25, 2022, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:



A handwritten signature in blue ink, appearing to read "Nolan Moser".

**Nolan Moser**  
Chief Administrative Law Judge

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 Circuit Court for Marion County in compliance with ORS 183.484.

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
SPECIAL PUBLIC MEETING DATE: October 25, 2022**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** November 1, 2022

**DATE:** September 23, 2022

**TO:** Public Utility Commission

**FROM:** Julie Jent

**THROUGH:** Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UG 450/Advice No. 22-08A)  
Request for Amortization of Margin Normalization (Decoupling),  
Schedule 190.

**STAFF RECOMMENDATION:**

Staff recommends approval of Northwest Natural Gas Company's (NW Natural, NWN, or Company) Advice No. 22-08A, revising its Schedule 190 rates to reflect the amortization of certain non-gas cost deferred accounts relating to Distribution Margin Normalization (DMN) for service rendered on and after November 1, 2022.

**DISCUSSION:**

Issue

Whether the Commission should approve NW Natural's Advice No. 22-08A, revising its Schedule 190 rates to reflect amortization of deferrals tracked through its DMN mechanism.

Applicable Law

ORS 757.259 authorizes the Commission to amortize deferred utility expenses or revenues into rates to the extent authorized by the Commission in a proceeding to change rates and after a review for prudence.

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ORS 757.259(4) states that the Commission may authorize deferrals under subsection (2) beginning with the date of application, together with interest established by the Commission. A deferral may be authorized for a period not to exceed 12 months beginning on or after the date of application.

The Commission may approve tariff changes if they are deemed to be fair, just, and reasonable. ORS 757.210. Tariff revisions may be made by filing revised sheets with the information required under the Commission's administrative rules, including OAR 860-022-0025. OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

ORS 757.262 authorizes the Commission to set rates to encourage acquisition of cost-effective conservation resources.

Commission Order No. 08-263, modified by Order No. 10-279, sets out the interest rate to use for deferral accounts and the interest rate to use when such amounts are amortized.

On September 12, 2002, the Commission issued Order No. 02-634, adopting a Stipulation introduced by NW Natural, Staff, and the Community Action Directors of Oregon, which allowed the Company to defer margins and recover 90 percent of the differentials between the weather-normalized usage and the baseline usage through the Partial Decoupling mechanism. This mechanism is an automatic adjustment mechanism.

On October 26, 2012, the Commission issued Order No. 12-408, which adopted a Stipulation signed by the Parties to Docket No. UG 221, wherein the Parties agreed the decoupling mechanism should continue. This stipulation included a number of changes to the mechanism, including the removal of the baseline usage elasticity adjustment.

On June 24, 2014, the Commission issued Order No. 14-248, which adopted modified PGA filing guidelines. Guideline VI (7) states in part that "should it appear that there are issues remaining that require process beyond that provided by the public meeting, then any party may move to suspend the PGA docket and file a request for further investigation pursuant to ORS 756.500 to 756.515 and ORS 757.210." Guideline VI (8) states, "If the PGA schedule for an LDC is suspended, pending additional investigation and process, the parties agree to support a staff recommendation to the Commission that rates go into effect subject to refund."

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On October 26, 2018, in Order No. 18-419, the Commission adopted a Stipulation signed by the Parties to Docket No. UG 344, wherein it was agreed that it is appropriate to administer decoupling for NW Natural's commercial customer class on a rate schedule specific basis (Rate Schedules 3 and 31) instead of on a combined basis.

### Analysis

#### *Background*

The decoupling mechanism was authorized by the Commission to enable utilities to defer for later recovery the difference between actual distribution margin per residential customer and per commercial customer and the margin to be collected from each of these two customer groups based on "normal" consumption. This deferral is an integral part of the Company's decoupling mechanism. The last deferral reauthorization was approved in UM 1027 in Order No. 22-342 on September 23, 2022, for the 12-month period beginning November 1, 2021.

Docket No. UG 388,<sup>1</sup> the Company's most recently completed general rate case, established the levels of "normal" consumption. NWN recovers a portion of its fixed costs through volumetric rates. During each rate case, rates are set in a manner that if the Company had the expected number of customers, and on average the customers consume the expected amount of gas, the Company will recover all fixed costs. If customers use less gas than predicted, the Company may not recover all of its fixed costs. The difference between actual use and expected use per customer has two components, weather related, and non-weather related. NW Natural addresses non-weather related differences through its DMN mechanism.

The DMN mechanism tracks a portion of the under-collection or over-collection of revenues in a deferred account. The DMN mechanism then recovers revenue shortfalls and refunds excess revenues by adjusting the per-therm rate the Company charges for gas every 12 months. The Commission has decided that in the case of amortization of the requested deferral, which is a component of an automatic adjustment clause, no earnings test or sharing is required.

#### *Discussion of DMN Changes*

The net effect of the removal of current temporary adjustments applied to rates effective November 1, 2021, and the application of the new temporary adjustment, of \$(16,718,687) is a decrease to the Company's annual revenues by \$13,340,776, or 1.89 percent.

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<sup>1</sup> NW Natural's application was filed prior to the completion of the Company's general rate case docketed as UG 435. The Order for UG 435 is expected to be issued October 20, 2022.

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In Compliance with OAR 860-022-0025, the proposed rate adjustment will affect 691,484 total customers:

Customer Type	Count
Residential	631,884
Commercial	59,600

#### *Rate Spread/Design*

The Company's proposed residential deferral credit to amortize over the next PGA year is \$9,447,275. The proposed commercial deferral credit to amortize over the next PGA year is \$7,271,412 total. To amortize this balance, NW Natural requests a temporary rate adjustment of (\$0.02316) per therm for residential Rate Schedule 2 customers, (\$0.03930) per therm for commercial Rate Schedule 3 customers, and (\$0.02503) for commercial Rate Schedule 31 customers.

The total estimated amount to be refunded to customers is \$16,718,687. The following table illustrates the average monthly bill impact to NW Natural Residential (Rate Schedule 2) and Commercial (Rate Schedules 3 and 31) customers:

Customer Type	Avg. therms/month	Current Avg. Monthly Bill	Proposed Avg. Monthly Bill	Difference \$	Difference %
Residential (2)	54	\$64.50	\$63.84	\$(0.66)	(1.00)%
Commercial (3)	242	\$245.34	\$234.51	\$(10.83)	(4.40)%
Commercial (31)	2,898	\$2,125.37	\$2,034.72	\$(90.65)	(4.30)%

#### *Three Percent Test*

This amortization is an automatic adjustment clause that is not subject to the three percent test pursuant to ORS 757.259(4).

#### *Prudence Review*

Staff reviewed the calculated deferral balance and the rate amortizing the deferral balance. The Company accrues DMN deferrals on a monthly basis by calculating the difference between baseline use per customer, as identified in Docket No. UG 388, and the weather normalized use per customer. The deferral balance accrues interest at the Company's weighted average cost of capital. The Company calculates and compounds

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this interest monthly. Monthly interest is calculated by multiplying the monthly rate by the beginning of month deferral balance plus one-half of the new current month deferral. Staff reviewed the calculations of interest for both the deferral and amortization period.

Staff has reviewed and finds no issue with the forecasted load and the calculations of the per-therm charge required to recover the amortization balance. An earnings review is not undertaken for this amortization.

### Conclusion

Staff has reviewed the rates included in this filing and finds that the Company has accurately implemented the DMN deferral and amortization mechanism. Staff recommends approval of NW Natural's Advice No. 22-08A relating to its Schedule 190 rates, which amortizes certain non-gas cost deferred accounts relating to the DMN, for service rendered on and after November 1, 2022. The Company has reviewed this memo and agrees with its content.

### **PROPOSED COMMISSION MOTION:**

Approve NW Natural's Advice No. 22-08A relating to its Schedule 190, revising rates to reflect the amortization of certain non-gas cost deferred accounts relating to DMN, for service rendered on and after November 1, 2022.

NWN UG 450 Advice No. 22-08A Sch. 190 Decoupling