

ORDER NO. 24-388

ENTERED Oct 31 2024

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 511

In the Matter of

NORTHWEST NATURAL GAS
COMPANY dba NW NATURAL,

Advice No. 24-12B, Amortization of
Property Sale Gain Related to the Sale of
Certain Property Located in Lincoln City,
Oregon.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Special Public Meeting on October 29, 2024, 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:



Alison Lackey

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.

ITEM NO. CA22

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
SPECIAL PUBLIC MEETING DATE: October 29, 2024**

REGULAR **CONSENT** X **EFFECTIVE DATE** November 1, 2024

DATE: October 7, 2024

TO: Public Utility Commission

FROM: Will Wheeler

THROUGH: Caroline Moore, Scott Gibbens, Anna Kim, and Ted Drennan **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UG 511/Advice No. 24-12B)
Requests Revision of Schedule 178 for Amortization of Residual Account Balances, Transport Security Administration O&M Expenses, and Gain on Sale of Property.

STAFF RECOMMENDATION:

Staff recommends approval of Northwest Natural Gas Company's (NW Natural, NWN, or Company) Advice No. 24-12B, revising its Schedule 178, requesting amortization of residual amounts from previous amortizations, of O&M Expenses related to Transport Security Administration (TSA) Security Directive 2, and of a property sale gain located in Lincoln City, with rates effective for service rendered on and after November 1, 2024.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's Advice No. 24-12B, revising its Schedule 178 to amortize residual amounts from previous amortizations, from O&M Expenses related to TSA Security Directive 2, Docket No. UM 2192, and from a property sale gain located in Lincoln City, Docket No. UP 425, for inclusion in rates effective November 1, 2024. The amortization period is 12 months starting November 1, 2024, and ending October 31, 2025.¹

¹ Company Response to Staff DR 7.

Docket No. UG 511/Advice No. 24-12B
October 7, 2024
Page 2

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.

ORS 757.205 requires public utilities to file all rates, rules, and charges with the Commission. Unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. When subject to an automatic adjustment clause under ORS 757.210(1), the Commission may require an earnings review. With some exceptions, a company's amortization of amounts deferred under ORS 757.259(6) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year.

ORS 757.480(1) requires public utilities doing business in Oregon to seek Commission approval prior to the sale, lease, assignment, or disposal of certain property, depending on its value, that is necessary or useful in the performance of its duties to the public. Prior to January 1, 2020, transactions involving property valued in excess of \$100,000 triggered this requirement; ORS 757.480(1) was updated in the 2019 legislative session to increase that threshold to transactions involving property valued in excess of \$1 million.

OAR 860-027-0025 sets forth the information required to support a request for the approval of sale, lease, assignment, or disposal of utility property.

OAR 860-027-0025(1)(I) requires that the applicant show that the proposed transaction is consistent with the public interest. The Commission has interpreted the phrase "consistent with the public interest" as used in this rule to require a showing of "no harm to the public."

OAR 860-022-0030 requires that tariff filings which result in increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.

Analysis

From time to time, the Company proposes amortization of residual amounts that were not fully amortized in rates. Authorization of the creation of deferral accounts for residual

Docket No. UG 511/Advice No. 24-12B
October 7, 2024
Page 3

amounts by utilities was granted in Commission Order No. 10-279, in UM 1147. All of the deferred amounts included in this filing were subject to prior amortization with appropriate Commission authorization, as rate orders or under approved tariffs.²

Background on Residual Balances

In Order No. 18-400, the Commission approved NW Natural's Advice No. 18-05, related to residual account balances, for service rendered on and after November 1, 2018. At that time, Schedule 178 rates were set to zero.

Background on TSA Security Directive 2 O&M Expenses (UM 2192)

The TSA issued Security Directive 2 on July 20, 2021, requiring designated pipeline owners and operators to (1) implement specific mitigation measures to protect against ransomware attacks and other related threats, (2) develop and implement a cybersecurity contingency and response plan, and (3) conduct a cybersecurity architecture design review. As an owner and operator of critical pipeline infrastructure, NW Natural is subject to TSA Security Directive 2.³ The Company has filed a deferral application each year since September 2021. These filings have been docketed as UM 2192. The O&M start-up costs associated with complying with this directive were deemed prudent and approved for amortization in Order No. 23-407, Docket No. UG 484.⁴ The Company is currently proposing the amortization of residual amounts from this previous amortization.

Background on Property Sale (UP 425)

NW Natural moved into a new Lincoln City, Oregon resource center in October 2022. The Company reached an Agreement for Purchase of Real Property for the former Lincoln City resource center on October 11, 2023. On December 22, 2023, the Company requested authorization of the sale, proposing that 100 percent of the net gain from the property sale allocated to Oregon be returned to Oregon customers. Oregon was allocated 93.94 percent of the proceeds from the property sale, which was based on the weighted average number of years the asset was included in Washington rates.⁵ The Commission approved this allocation and the Lincoln City property sale on February 22, 2024, in Order No. 24-051, Docket No. UP 425.

Discussion of Proposed Changes

Removal of Current Temporary Increments: The amortization of the residual balance

² Company Response to Staff DR 5; see *also* discussion of relevant approvals below.

³ Please note that general rate case Docket No. UG 435 has more detailed explanations of TSA Security Directive 2 requirements. NW Natural's filings in that docket were subject to both Protective Order No. 21-461 and TSA Modified Protective Order No. 21-465.

⁴ Company Response to Staff DR 12.

⁵ Company Response to Staff DR 6 and DR 15.

Docket No. UG 511/Advice No. 24-12B
 October 7, 2024
 Page 4

was last authorized in Order No. 23-403 in UG 480, resulting in a temporary increment of \$27,325 for amortization from November 1, 2023 to October 31, 2024, that is being removed.

Addition of Proposed Temporary Increments: The proposed temporary increments come from three sources:

- TSA security directive O&M expenses, which had a balance of \$434,370 on June 30, 2024, with an estimated October 31 balance of \$208,070, resulting in an estimated \$214,206 after interest during amortization.⁶
- The general residual balance account had a balance of (\$26,682) on June 30, 2024, with an estimated October 31 balance of (\$34,992), resulting in an estimated (\$36,024) after interest during amortization.⁷
- The gain from the Lincoln City property sale allocated to Oregon customers had a balance of (\$921,848) on June 30, 2024, which after interest leading up to and during amortization, results in a balance of (\$969,397).⁸

These balances are deferred in FERC Accounts 186 and 254.⁹ Summing the balances to be collected/refunded from these sources results in a net balance of (\$791,215), which yields total additional increments of (\$815,978) after adding in the revenue sensitive factor.

The net effect of the removal of current temporary adjustments applied to rates effective November 1, 2023, and the application of the new temporary adjustments decrease the Company's annual revenues by \$843,305 in total, or 0.09 percent.¹⁰ In compliance with OAR 860-022-0025, the proposed rate adjustment will affect 703,546 total customers, detailed in the table below.

Customer Type	Count
Residential	640,507
Commercial	62,203
Industrial	836

⁶ See Proposed Temps workpaper, tab PGA, excel row 40.

⁷ See Proposed Temps workpaper, tab PGA, excel row 66.

⁸ See Proposed Temps workpaper, tab PGA, excel row 74.

⁹ Company Response to Staff DR 8.

¹⁰ See Docket No UG 511, NWN Advice No 24-12, Exhibit A – Supporting Materials Page 5, August 1, 2024.

Docket No. UG 511/Advice No. 24-12B
 October 7, 2024
 Page 5

Rate Spread/Design

The proposed adjustment for the residual amortization is spread to all customers on an equal cent per therm basis and the proposed adjustments for the TSA O&M expenses and the Lincoln City property sale are spread to all customers on an equal percentage of margin basis.¹¹ The total estimated amount to be refunded to customers is \$815,980.¹² To amortize this balance, NW Natural requests a temporary rate adjustment of (\$0.00130) per therm for residential Rate Schedule 2 customers and (\$0.00097) per therm for commercial Rate Schedule 3 customers. A worksheet showing these and all other rate adjustments can be found in NWN's Exhibit A to Schedule 178, pages 1 and 2. The following table illustrates the average monthly bill impact.¹³

Customer Type	Avg. therms/month	Current Avg. Monthly Bill	Proposed Avg. Monthly Bill	Difference \$	Difference %
Residential (2)	55	\$79.24	\$79.16	-0.08	-0.1
Commercial (3)	251	\$287.97	\$287.72	-0.25	-0.1
Industrial (32)	20,942	\$13,593.87	\$13,587.40	-6.47	0.0

Earnings Review

Pursuant to ORS 757.259(5), an earnings test is not required. Staff notes that the Company is subject to an annual earnings review. The Company did not earn more than the Commission approved return on equity in 2023 and is therefore not subject to sharing due to earnings.¹⁴

Three Percent Test

Staff confirmed that, pursuant to ORS 757.259(6), this filing, by itself, does not impose an annual rate increase greater than three percent of gross revenues.

¹¹ Company Response to Staff DR 10.

¹² This represents the refund to customers after being adjusted for revenue sensitive items. See the rate development file; allocation equal cent per therm tab, column AP, and the allocation equal percentage of margin tab, columns T and Z.

¹³ Docket No. UG 511, NWN Advice No 24-12, August 1, 2024; for additional breakdown see also, Rate Development Workpaper, tab Average Bill by RS.

¹⁴ Order No. 24-220, Docket No. UM 903, July 10, 2024.

Docket No. UG 511/Advice No. 24-12B
October 7, 2024
Page 6

Conclusion

Staff concludes that the revisions filed by NW Natural are appropriate. Staff reviewed the proposed schedule changes to ensure that they are consistent with the rates approved by the Commission. Staff identified no issues or errors with the filing and recommends the Commission approve the tariff changes as filed, allowing the revisions to Schedule 178 to go into effect for service rendered on and after November 1, 2024.

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

PROPOSED COMMISSION MOTION:

Approve NW Natural's Advice No. 24-12B, as filed, for service effective on and after November 1, 2024.