

ORDER NO. 25-104

ENTERED Mar 18 2025

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1027(22)

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Application for Reauthorization for  
Deferred Accounting of Refunds or  
Collections of Distribution Margin.

ORDER

**DISPOSITION: STAFF'S RECOMMENDATION ADOPTED**

At its public meeting on March 18, 2025, 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.

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 18, 2025**

**REGULAR** \_\_\_\_\_ **CONSENT**  X  **EFFECTIVE DATE** \_\_\_\_\_ **N/A**

**DATE:** February 27, 2025

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Scott Gibbens and Michelle Scala **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 1027(22))  
Reauthorization for Deferred Accounting of Refunds or Collections of  
Distribution Margin.

**STAFF RECOMMENDATION:**

Staff recommends the Oregon Public Utility Commission (the Commission) approve Northwest Natural Gas Company's (NW Natural, NWN, or Company) application to defer the variance between the actual distribution margin and the forecasted margin in the Company's last general rate case, for residential customers, and commercial customers on Schedule 3 and Schedule 31, for the 12-month period beginning November 1, 2024.

**DISCUSSION:**

Issue

Whether the Commission should reauthorize NW Natural to defer the difference between the actual distribution margin per residential and commercial customer based on "normal" consumption, and what is actually collected from those customers.

Applicable Law

The decoupling mechanism has been approved by the Commission to enable utilities to recover distribution fixed costs through rates and encourage energy conservation while minimizing the frequency of rate changes and the fluctuation of rate levels. NW Natural

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requests this deferral related to its decoupling mechanism in accordance with ORS 757.259 and OAR 860-027-0300.

ORS 757.259 provides the Commission with authority to approve the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities.

### Analysis

#### *Background*

On October 11, 2024, the Company submitted a request to reauthorize the deferral with interest, on an ongoing basis, the amount by which actual distribution margin per residential, small (rate Schedule 3), and mid-sized (rate Schedule 31 sales) commercial customers are different from the margin collected from those same customers based on "normal" consumption, as assumed in the Company's last general rate case, UG 490. This request is for the 12-month period beginning November 1, 2024, and ending October 31, 2025.

The last reauthorization was approved by the Commission and Order No. 24-100 was issued on April 19, 2024.

ORS 757.259(2)(e) allows the deferral of identifiable utility expenses to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne and benefits received by customers. Thus, the Company seeks continuation of this deferral account to continue to allow the Company to recover one hundred percent (100%) of the difference between the actual distribution margin per residential, small, and mid-sized commercial customers.

#### *Description of the Expenses*

The expense proposed for deferral is the difference between the actual distribution margin per residential and commercial customer based on "normal" consumption, and what is actually collected from those customers.<sup>1</sup>

#### *Reason for Deferral*

The deferral is a standard component to a decoupling mechanism, the latter of which is intended to reduce a utility's incentive to increase sales of natural gas. The deferral enables NWN to defer, for later recovery, the difference between actual distribution margin per residential and commercial customer and the margin to be collected from

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<sup>1</sup> "Normal" consumption was established in the Company's last general rate case UG 435.

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residential and commercial customers based on “normal” consumption. Again, this deferral is an integral part of the Company’s authorized decoupling mechanism.

*Proposed Accounting*

The Company proposes to record the amounts deferred in a sub-account of Account 186.

*Estimate of Amounts*

The Company is unable to estimate the amounts because they are dependent on actual customer usage.

*Deferral in Authorization Period*

The interest rate for deferral accounts is 7.056 percent, or the cost of capital from the Company’s last general rate case. Monies that have been transferred for amortization accrue interest at the rate of 5.16 percent.

In addition, the actual amount deferred, and amortization from last year are in Exhibit A on the same application.<sup>2</sup>

*Information Related to Future Amortization*

- Earnings Review – An earnings review is not required at the time of amortization under ORS 757.259(5) because this deferral supports an automatic adjustment clause. Because of the purpose of this deferral, Staff has not recommended a discretionary earnings test. However, in the future, the Commission could exercise its discretion and recommend to the Commission an earnings review. At this time, Staff does not propose any application of an earnings test due to this being a decoupling mechanism.
- Prudence Review – A prudence review will be conducted prior to amortization. The review should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – No sharing will be required as this mechanism allows deferral of refunds or collections at 100 percent.
- Rate Spread/Design – The correctly accounted for distribution margin differences are to be allocated between residential and commercial customers based on the guidelines established by the mechanism.

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<sup>2</sup> See, UM 1027 - NWN's 2024-25 Deferral Reauthorization Exhibit A, page 1 of 6.

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- Three Percent Test (ORS 757.259(6)) – The three percent test measures the overall average impact on customer rates resulting from deferral amortizations under ORS 757.259. The three percent test limits the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding calendar year.

### Conclusion

Based on review of NW Natural's application, Staff concludes that the request is an appropriate use of deferred accounting under ORS 757.259. Additionally, the Company's application meets the requirements related to the establishment of the decoupling mechanism, the requirements of ORS 757.259 and OAR 860-027-0300, and is an appropriate exercise of discretion under ORS 757.262 to encourage acquisition of cost-effective conservation.

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

### **PROPOSED COMMISSION MOTION:**

Approve NW Natural's application to defer the variance between the actual distribution margin and the forecasted margin in the Company's last general rate case, for residential customers, and commercial customers on Schedule 3 and Schedule 31, for the 12-month period beginning November 1, 2024.

NWN UM 1027(22) Deferral Distribution Margin