

ORDER NO. 25-105

ENTERED Mar 18 2025

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1496(14)

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Application for Reauthorization to Defer
Certain Purchase Gas Adjustment
Revenues and Expenses.

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** **EFFECTIVE DATE** _____ **N/A**

DATE: February 19, 2025

TO: Public Utility Commission

FROM: Kathy Zarate

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

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1496(14))
Reauthorization to Defer Certain Purchase Gas Adjustment Revenues and Expenses

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Northwest Natural Gas Company's (NW Natural or Company) application for reauthorization to defer Purchased Gas Cost (PGA) differences for the 12-month period beginning November 1, 2024.

DISCUSSION:

Issue

Whether the Commission should reauthorize NW Natural's application to defer, with interest, gas cost differences for later adjustment to the price of gas supplied to ratepayers in accordance with the PGA mechanism.

Applicable Law

Due to the fluctuation of the wholesale price of natural gas, the PGA mechanism was originally established by the Commission in Order No. 89-1046. The purpose of an annual adjustment mechanism is to allow a gas company to accrue the differences between forecasted and actual costs for annual demand and commodity related gas costs. This difference is then flowed through the PGA mechanism to determine the amount included in rates. Since the mechanism's creation in 1989, the Commission has

Docket No. UM 1496(14)
February 19, 2025
Page 2

issued a series of orders concerning PGA filings in Docket No. UM 1286. Most recently, in Order No. 14-238, the Commission adopted revised PGA Filing Guidelines that describe the filing requirements for reauthorizations of deferral accounts. OAR 860-027-0300(3) also contains filing requirements for applications for deferral including: a description of the expense, the reason deferred accounting is being requested and the statutory section that authorizes the deferral, the account proposed for recording the deferral, an estimate of the amounts to be deferred, and notice of the application. For an application for reauthorization, OAR 860-027-0300(4) requires a description of the entries in the deferred account to date, and the reason for continuation of the deferred accounting.

ORS 757.259 contains two sets of requirements for the Commission to approve an application for deferral. First, ORS 757.259(2) contains procedural requirements whereby there must be an application, public notice, opportunity for comment, and a hearing if any party requests a hearing. Second, ORS 757.259(e) contains the substantive requirement that the application for deferral be for “[i]dentifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels.” With these two requirements met, the Commission may authorize deferral for later incorporation into rates. Pursuant to ORS 757.259(4) the deferral may “begin no earlier than the date of application, together with interest established by the Commission.” A deferral may be authorized for a period not to exceed 12 months.

Analysis

Background

On October 11, 2024, the Company filed an application seeking reauthorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-month period beginning November 1, 2024, through October 31, 2025, for all expenses associated with gas commodity costs and demand costs.

The PGA mechanism allows utilities to regularly adjust the price of gas charged to ratepayers to reflect a portion of the costs incurred by the utility to purchase and transport the gas. The monthly differences arise because the rates associated with gas costs are calculated using forecasted gas prices and therms.

Description of the Expenses

The company requests under this application to use the deferred accounting for the following items.

Docket No. UM 1496(14)
February 19, 2025
Page 3

- Demand and other fixed gas costs to be recovered or refunded at one hundred percent (100%) of the difference between the actual cost experienced and the amount collected from rates pursuant to Tariff P.U.C. Or. 25 Schedule P, or its successor, and as previously authorized in Commission Order Nos. 89-1046, 99-272, and 99-697.
- Commodity gas cost variations to be recovered or refunded as described in NW Natural's Tariff P.U.C. Or. 25 Schedule P, or its successor.
- All previously authorized account balances related to PGA commodity and capacity cost deferrals not presently authorized for amortization or being proposed for amortization, all as described in NW Natural OPUC Advice No. 24-19A (UG 518)¹

Reason for Deferral

Due to the volatility of natural gas prices and to minimize the frequency of rate changes, the PGA mechanism enables utilities to defer the difference between gas costs expected to be collected from customers and included in rates and the gas costs actually incurred, as set forth in Schedule P - Purchased Gas Cost Adjustments, which provides for the collection of these costs through deferred accounting treatment and subsequent amortization through the Company's PGA, which is implemented pursuant to ORS 757.210(1)(b).

Proposed Accounting

The Company will continue recording to sub-accounts of FERC Account 191 for subsequent distribution to, or collection from customers, consistent with the PGA methodology.

Estimate of Amounts

The Company is unable to estimate the amount of this period due the market fluctuations and cyclical collection. However, information required by the commission Order No. 09-263, Staff's investigation onto Purchase Gas Adjustment, the Company will provide a completed Summary Sheet electronically with the 2025-26 PGA filing.

Estimate of Amounts Deferred during the last year

Pursuant to OAR 860-027-300(4)(a), NW Natural states it has deferred (\$16,226,552.37)² for the months November 2023 through June 2024 with interest.

¹ See, Application UM 1496 (14), page 4.

² See, Exhibit A/Page 3 of 5.

Docket No. UM 1496(14)
February 19, 2025
Page 4

The Amount Amortized Last Year

The Company's last PGA amortization of Oregon Demand Deferral Account Number: 151525 was in Docket No. UM 1496 and UG 457. The Commission approved amortization for the months November 2023 through June 2024 with interest of \$1,914,031.59³ in Order No. 23-387. In the same dockets and order, the Commission also approved amortization of Oregon WACOG Deferral Account Number: 151510 for the months November 2023 through June 2024 with interest of (\$3,967,798.19).⁴

Note: The interest rate for gas cost deferral accounts is based on the Company's cost of capital from the last completed general rate case, currently at 6.836 percent. Monies that have been transferred for amortization accrue interest at the rate of 5.13 percent.

Information Related to Future Amortization

- Earnings Review – An annual spring earnings review will be conducted pursuant to OAR 860-022-0070.
- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – Per NW Natural's September 11, 2024, filing in Docket No. UM 1286, its sharing election related to the 2024-2025 PGA year is that 90 percent of the difference between actual commodity costs and the commodity costs collected from customers will be deferred with the Company absorbing the remaining 10 percent.

The commodity portion of purchased gas cost differences includes purchasing natural gas, the variable cost of transporting the gas from the supply basin to the city-gate, the benefits received from storage optimization, off-system sales, and other miscellaneous costs or benefits.

- Rate Spread/Design – Prudently incurred gas cost differences that have been correctly accounted for should be developed into a rate per therm based on estimated usage for the upcoming PGA year.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and

³ See, Exhibit A/Page 2 of 5.

⁴ See, Exhibit A/Page 1 of 5.

Docket No. UM 1496(14)
February 19, 2025
Page 5

(8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year.

- This deferral is subject to the exception at ORS 757.259(7) that allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion

Based on the review of NW Natural's application for reauthorization, Staff concludes that NW Natural's application for reauthorization of its deferral represents an appropriate use of deferred accounting under ORS 757.259 and OAR 860-027-0300 because NW Natural satisfied the applicable procedural requirements of application and notice and because NW Natural's incurred gas costs are properly within the PGA mechanism and appropriate for deferral as the type of "identifiable utility expense" the Commission has found should be deferred to reduce the frequency of rate changes.

The Company has reviewed this memo and agrees with its contents

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's application for reauthorization to defer certain purchased natural gas revenues and expenses for the 12-month period beginning November 1, 2024.

NWN UM 1496(14)