ORDER NO. 99-759

ENTERED DEC 14 1999

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 137
UM 950

In the Matter of NW Natural's 1999 Gas Cost Tracking and Technical Adjustment Filing (UG 137) and Application for Reauthorization of the PGA Deferred Account (UM 950).	)))))	ORDER

DISPOSITION: FILING APPROVED

On October 18, 1999, the Commission received NW Natural's (Company) annual gas cost tracking and technical adjustment filing and an application filed pursuant to ORS 757.259, ORS 757.210 and OAR 860-027-0300, requesting reauthorization of deferrals. The Company requests a waiver of the statutory 30-day notice requirement on revised filings in both dockets.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At a Special Public Meeting on November 30, 1999, the Commission adopted Staff's recommendation to approve the application and the annual filing. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that NW Natural's 1999 Gas Cost Tracking and Technical Adjustment filing (UG 137) and the Company's application for reauthorization to continue deferring certain revenues and expenses (UM 950) are approved, subject to conditions, if any, stated in Appendix A.

Made, entered, and effective ____ .

BY THE COMMISSION:

____

Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order within 60 days pursuant to ORS 756.561. A party may appeal this order pursuant to ORS 756.580.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 30, 1999

REGULAR AGENDA X **CONSENT AGENDA** __ **EFFECTIVE DATE** December 1, 1999

DATE: November 23, 1999

TO: Bill Warren through Lee Sparling and Ed Busch

FROM: Judy Johnson

SUBJECT: NW Natural's 1999 Gas Cost Tracking and Technical Adjustment Filing (Docket No. **UG 137**, Advice Nos. 99-12 and 99-12A), and Application for Reauthorization to continue deferring certain revenues and expenses (**UM 950**)

SUMMARY RECOMMENDATION:

I recommend the Commission approve NW Natural's (NWN or company) Application to Waive Statutory Notice and proposed rate changes resulting from changes in purchased gas costs and amortization of certain deferred accounts. This filing increases the company's annual revenues by $27.2 million, or 6.6 percent. The proposed tariff sheets in Advice Nos. 99-12 and 99-12A (as listed in the Staff Recommendation section, Item 1) should become effective with service on and after December 1, 1999.

I also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its Purchased Gas Adjustment (PGA) balancing account.

DISCUSSION:

On October 18, 1999, NW Natural submitted its annual gas cost tracking and technical adjustment filing. In Advice No. 99-12 (docketed as UG 137), the company proposed to increase annual rates effective December 1, 1999, to reflect changes in the cost of purchased gas, and technical adjustments in its deferred revenue and gas cost accounts. On November 12, 1999, in Advice No. 99-12A, the company refiled certain tariffs, at staff's request, to reflect the limitations imposed on amortizations of deferred accounts by the three percent test (discussed in a following section). In a filing docketed as UM 950, NW Natural requested reauthorization of deferrals under its PGA mechanism.

UG 137

This application requests authority to increase rates to: (1) track increases in purchased gas costs, and (2) make technical adjustments to amortize NWN's deferred revenue. The change in annual revenues is summarized below and shown in **Attachment A.**

PGA Base Gas Cost Increase	$26,832,071
Removal of Temporary Increment	(14,000,698)
Adding New Temporary Increment	14,411,752
TOTAL Proposed Increase	$27,243,125

Purchased Gas Costs

Northwest proposes to pass through changes in the cost of natural gas purchased from the company's suppliers, including the costs of purchasing financial derivative products to limit customers' exposure to gas cost volatility, consistent with its PGA mechanism. The projected changes would increase the company's Oregon revenues by approximately $26.8 million on an annual basis. By component, base commodity gas costs increase by 4.416 cents per therm, and the per-unit demand charges effectively decrease by 0.361 cents per firm therm.

NW Natural pays demand charges to Northwest Pipeline Corporation (NPC) for long-term primary firm transportation (TF-1) contract demand of 3,520,440 therms per day. As an offset to these demand charges, the company receives payments from Portland General Electric (PGE) and Georgia-Pacific (GP) under the terms of special service contracts for their buy-sell use of company-owned capacity on NPC facilities. PGE and GP have reserved company capacity of 300,000 and 70,000 therms per day, respectively, and pay the company the current maximum tariffed NWP TF-1 rate for each therm of this reservation. These payments are credited against the TF-1 demand charges in the company's filing; hence the proposed TF-1 costs of approximately $33 million per year, based on determinants of 1,149,910,600 ((3,520,440 - 370,000) x 365). NW Natural also acquires another 137,000 therms per day of TF-1 capacity release from Avista, Duke, and Weyerhaeuser, but this is included in the WACOG along with ANG and NOVA demand costs.

NW Natural relies on storage to meet about 20 percent of its annual sales requirement and about 50 percent of its design peak day firm demand. Most of this storage is owned and operated by NW Natural within its service territory, in the Mist field northwest of Portland and two liquefied natural gas (LNG) plants in Portland and Newport, Oregon. With the additional flexibility provided by the Mist expansion, NW Natural has decreased the proportion of premium-priced swing supplies in its portfolio. However, overall prices are still high due to continued tightness in the supply/demand balance (especially with Canadian gas). On the supply side, low oil prices last year led to less oil exploration, reducing the amount of gas normally found in association with oil. On the demand side, a return to "normal" winter weather means, on a national basis, higher expected requirements for gas. Finally, it appears that prices in the Pacific Northwest more closely reflect national trends than ever before. Even with expected intensification of price competition with larger gas consuming regions, it may take some time to stabilize prices for NW Natural's customers.

Technical Adjustments - Deferred Accounts

Northwest's application proposes to make technical adjustments in amortizing credit and debit balances in its deferred accounts. This activity consists of the following components, as shown on Attachment A:

- Removal of temporary increments currently in place will decrease revenues by approximately $14.0 million.
- Collection of $14.4 million of debit balances in the company's deferred revenue and gas cost accounts. The Commission previously authorized all of the deferred amounts subject to amortization.

Approximately $11.1 million of additional net debits must be held for later amortization. These debits are being held for later amortization so that the overall annual average rate impact of the amortizations will not exceed three percent of the utility's gross revenues for the preceding calendar year, as required by statute (see discussion below). Of the $11.1 million, $9.8 million are from previously approved technical adjustments and $1.3 million are current year deferral accumulations.

Staff has reviewed the company's technical adjustments and determined that the proposed amortizations are appropriate. The revised amortization increments are incorporated in the energy charge component of the company's primary rate schedules. The net revenue effect of adding the new temporary increments and removing the current increments is an increase of $0.4 million on an annual basis. The net technical adjustment change for the residential customer class is a rate increase of 0.157 cents per therm.

Current Year Deferral Accumulations

NW Natural requests permission from the Commission to postpone amortizations of the 1999 deferral accumulations for 18 months, from June 30, 1999 through December 1, 2000. Amortization of the current deferrals will thus occur in the next PGA filing, effective December 1, 2000. The current year's deferral activity (July 1998 through June 1999) produced a net collection balance of $1.3 million.

The company states that the Commission may authorize delayed amortization of current year deferrals pursuant to OAR 860-27-0300 (9). This section requires NWN to commence amortizations of its current deferred accounts no later than one year from the date that deferrals cease, unless otherwise authorized by the Commission. Because the current deferred account balances reflect accumulations which ceased June 30, 1999, this OAR provision would require the company to begin amortizations by June 30, 2000, unless the Commission specifically grants the company permission to defer these balances for an additional 6 months, with amortizations to begin on December 1, 2000. Staff agrees with the company's request.

NW Natural further requests the Commission to find that the UM 903 earnings review conducted in the Spring of 1999 (based on results for the year ended December 31, 1998) satisfied the earnings review requirement for the current year deferrals, even though the amortization will be delayed for 18 months. As explained below, Staff agrees that there is no earnings review requirement for the current year deferrals, because the company assumes 33 percent of the risk for commodity cost differences.

Summary

With these changes, the monthly bill of a typical residential customer on Schedule No. 2 using 67.8 therms per month will increase by $2.86, or 6.3 percent. A summary of the proposed tariff and revenue changes for Northwest's major rate schedules is shown in Attachment A. Staff will recommend approval of Schedules 1, 2, 3, and 4 in the Staff memo for the company's Mist III filing.

Earnings Review and Three Percent Test

As a matter of policy, in past years the Commission has conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. In 1999, the Commission concluded its PGA Investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes. In addition, Section (8) of this rule states: "An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism." NW Natural has adopted a 33 percent sharing level and thus is exempt from an earnings review associated with this PGA filing.

ORS 757.259(6) states that the overall annual average rate impact of the amortizations authorized under the statute should not exceed three percent of the utility's gross revenues for the preceding calendar year. The company filed a tariff in Advice No. 99-12A to comply with the three percent limitation by deferring $9.8 million of $23.7 million in previously approved technical adjustments and $1.3 million of current year deferral accumulations.

In Advice No. 99-12A, NW Natural has specifically requested the Commission to recognize that the three percent test affects only the time period over which the company may recover these balances and does not affect the company's legal authority to actually recover them. The company made the same request in its 1998 filing, Advice No. 98-21A. Staff supported the company's position. The Commission agreed in its Order No. 98-501, Appendix A. Staff does not believe it is necessary to revisit this issue.

UM 950

In this filing, Northwest requests reauthorization of deferrals pursuant to its automatic adjustment clause, the Purchased Gas Adjustment (PGA) mechanism. The PGA allows Northwest to adjust tariffs annually for known and measurable changes in purchased base gas costs and for changes in amortization rates relating to the PGA balancing account.

The information contained in the application is consistent with the requirements of ORS 757.259, 757.210 and OAR 860-27-300. The application states that continued deferral of these cost and revenue differences minimizes the frequency of rate changes and appropriately matches costs borne and benefits received by ratepayers, consistent with ORS 757.259(2)(d). The reasons cited for reauthorization are still valid. Staff recommends the Commission approve the request for reauthorizing the PGA, effective December 1, 1999.

STAFF RECOMMENDATION:

I recommend the Commission take the following action regarding NW Natural filings:

1. Approve amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 137. Approve Northwest's request for waiver of the 30-

day notice requirement and allow the associated tariff sheets of Advice Nos. 99-12 and 99-12A specified below to go into effect December 1, 1999.

Advice No. 99-12

- Sixteenth Revision of Sheet 164-1
- Tenth Revision of Sheet 169-4
- Tenth Revision of Sheet 169-5
- Fifth Revision of Sheet 173-1
- Second Revision of Sheet 178-1

Advice No. 99-12A

- Fourteenth Revision of Sheet 5-1
- Eighteenth Revision of Sheet 6-1
- Fourteenth Revision of Sheet 10-1
- Fourteenth Revision of Sheet 19-1
- Fourteenth Revision of Sheet 21-1
- Thirteenth Revision of Sheet 23-1
- Thirteenth Revision of Sheet 54-1
- Seventeenth Revision of Sheet 90-1
- Fifteenth Revision of Sheet 91-1
- Seventeenth Revision of Sheet 162-1

2. Reauthorize deferred accounting for Northwest's Purchased Gas Balancing Account mechanism, Schedule No. 169, for one year beginning December 1, 1999.

3. Authorize the company to postpone amortizations of the 1999 deferral accumulations for 18 months, from June 30, 1999 through December 1, 2000, pursuant to OAR 860-27-0300 (9).

4. Find that there is no earnings review requirement for the gas cost deferrals for the twelve months ended June 30, 1999.

Attachments (NOTE: To receive a copy of the attachments, contact Renee Wallace (503) 378-4372.)

cc: Bonnie Tatom
Gerry Lundeen

Ed Busch
Ray Nuñez