



OAR 860-027-0300 specifies the information a public utility must submit when it makes an application to defer certain costs. This application contains the necessary information.

**ORDER**

IT IS ORDERED that NW Natural's request for deferred accounting treatment for certain revenues or revenue credits as described in Appendix A is granted.

Made, entered, and effective \_\_\_\_\_.

BY THE COMMISSION:

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**Vikie Bailey-Goggins**  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to 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 of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order to a court 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 17, 1999

**TO:**            Bill Warren through Lee Sparling and Bonnie Tatom

**FROM:**        Ray Nuñez

**SUBJECT:** Northwest Natural (NWN) Advice No. OPUC 99-10A; Substitute Mist Storage Facilities Expansion Phase III and LSN Application; UM 956 Application for Authorization for Deferred Accounting

**SUMMARY RECOMMENDATION:**

Staff recommends that the Commission approve Northwest Natural's proposed rate increases and related tariff sheets as filed to recover the portion allocated to Oregon of its incremental cost of service relating to the expansion of its Mist Storage facilities. Staff also recommends the Commission approve the accompanying LSN application. In addition, staff recommends the Commission approve authorization of NWN's application to defer certain revenues or revenue credits for later incorporation into rates.

**DISCUSSION:**

On September 16, 1999, Northwest Natural filed NWN Advice No. OPUC 99-10, and after discussions with staff, subsequently withdrew its application. Later, on November 15, 1999, Northwest Natural filed NWN Advice No. OPUC 99-10A, to apply for a rate increase to general service, residential, commercial, institutional & industrial, and large firm service customers for the purpose of recovering the portion allocated to Oregon of its incremental cost of service relating to the expansion of NWN's Mist Storage Facilities (Mist III). NWN proposes these rate increases to become effective December 1, 1999.

This filing is pursuant to a Stipulation dated September 3, 1999, between NWN and Staff. Staff and NWN agree that Mist Storage is the lowest-cost option of providing daily seasonal peaking capacity for NWN's gas distribution system, as demonstrated in NWN's 1995 Integrated Resource Plan, acknowledged by the Commission in 1996. The Stipulation also allows for deferred accounting treatment as discussed on page 2.

The rate increases recover \$4,755,446 per year, which is the amount allocated to Oregon of NWN's estimated annual cost of service for Mist III. The rate changes in this filing will increase average residential rates by 1.3%, average commercial rates by 1.7% and average industrial rates by 0.8%. Because the increased gas delivery capacity of the Mist III expansion project improves the service quality to NWN's firm service low load factor customers, the rate increases apply only to Schedules 1,2,3, and 4.

Briefly, Mist III will be completed and placed into service on or before December 1, 1999. An attestation of completion will be completed by December 1, 1999. This estimated \$33.4 million pipeline expansion project will add about 450 thousand therms a day of delivery capacity which will help meet the peak day requirements of its growing customer base. NWN will add its 500,000<sup>th</sup> customer by the end of 1999, having added 100,000 customers to its system since 1995.

These rate increases capture the actual costs through October 1999, plus estimated costs for project completion, and represent the initial rate treatment for phase III of the Mist Storage expansion project. Therefore, the total cost for the Mist III expansion project may exceed \$33.4 million. During the next twelve months, NWN will defer for subsequent amortization any difference between the rate increments collected under the proposed Schedule 176 and the revenues that would have been collected by rate increments using the final project costs for Mist III. The company will file to replace, effective December 1, 2000, the original rate increments for recovery of the Mist III cost of service with the final rate increments incorporating trued-up and audited project costs.

#### **UM 956**

The company's application complies with the deferred accounting requirements of OAR 860-027-0300(3), in that NWN requests deferral for the difference each month, from December 1, 1999, through November 30, 2000, between (i) the revenues actually derived from rate increments proposed to be in effect on December 1, 1999, for the recovery of NWN's Mist III cost of service, and (ii) the revenues that would have been derived from trued-up rate increments for Mist III calculated once final project costs and other ratemaking components relevant to Mist III are available. The ratemaking treatment for Mist III, including the role of deferred accounting, is pursuant to the September 3, 1999, Stipulation between NWN and Staff.

Deferral of the Mist III revenue differentials will ensure that NWN's customers will pay no more or less in support of Mist III than they would have paid had all costs been known with certainty and incorporated in rates as of December 1, 1999. Deferral may be authorized under ORS 757.259(2)(d) because these revenue differentials represent "utility . . . revenues, the recovery or refund of which . . . should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the cost borne by and benefits received by ratepayers." In this case the deferrals may be either positive (leading to future temporary surcharges) or negative (leading to future temporary refunds). Placing a rate increment in effect as of December 1, 1999, that incorporates mostly actual but some estimated project costs, then applying deferred accounting treatment during the next twelve months to account for the revenue differentials, provides the most reasonable way to match the costs borne by the company with the benefits to customers of having Mist III in service during the year.

#### **STAFF RECOMMENDATION:**

Staff recommends that the Commission:

1. Approve NWN's rate increases to recover the portion allocated to Oregon of its incremental cost of service relating to the expansion of its Mist Storage facilities.
2. Approve the accompanying LSN application.

3. Approval the following tariff sheets:

Tariff P.U.C. Or. 22:

- Tenth Revision of Sheet v,
- Original Sheet 176-1, Schedule 176,
- Original Sheet 176-2, Schedule 176,
- Fourteenth Revision of Sheet 1-1, Schedule 1,
- Sixteenth Revision of Sheet 2-1, Schedule 2,
- Fifteenth Revision of Sheet 3-1, Schedule 3,
- Fourteenth Revision of Sheet 4-1, Schedule 4 and;

Tariff P.U.C. Or. 23:

- Sixth Revision of Sheet iv,
- Original Sheet 1B-1, Schedule 1B,
- Original Sheet 1B-2, Schedule 1B,
- Fifteenth Revision of Sheet 1-1, Schedule 1

4. Authorize NWN to defer certain revenues or revenue credits for later incorporation into rates (UM 956).

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