

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 10, 2001**

REGULAR AGENDA **CONSENT AGENDA** X **EFFECTIVE DATE** N/A

DATE: July 2, 2001

TO: Phil Nyegaard through Lee Sparling and Ed Busch

FROM: Ed Krantz

SUBJECT: WP Natural Gas, UM 903/AR 357 Spring 2001 Earnings Review

SUMMARY RECOMMENDATION:

I recommend the Commission accept Staff's finding that WP Natural's 2000 earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

DISCUSSION:

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted PGA Procedures and Standards for Oregon's three regulated gas distribution companies – WP Natural Gas (a division of Avista Utilities), Cascade Natural Gas Corporation, and NW Natural. One of the primary issues dealt with in these orders is the role and structure of earnings reviews.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to through a Statement of Stipulated Issues. On issues where no agreement was reached, the Commission ordered various resolutions. The Commission's findings, as they apply to earnings reviews, are summarized below:

- Relationship of Earnings Review to PGA Filings: A general earnings review will be held each spring beginning in 1999; a portion of revenues above a specified return on equity (ROE) level would be booked to a deferred account.
- Structure of Earnings Reviews: By May 1 each year, LDCs will file results of operations for the twelve months ended the prior December 31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be

held. If there are still outstanding issues, parties will file position statements by August 1, and the Commission would issue its decision on unresolved issues by September 15. Beginning in 2001, LDCs will file annual gas cost tracking filings by August 15 for October 1 rate changes. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.

- Effective Date of Rate Adjustment: Amount of revenues to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
- WP Natural's earnings threshold will be calculated by adding 7.1 percent to a risk-free rate (rate case adjusted yields of the 5-, 7-, and 10-year U.S. Treasury debt securities). For the spring 2001 review, the earnings threshold was calculated as 13.20 percent, based on a risk-free rate of 6.10 percent (rounded) for calendar year 2000.
- If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold level will be shared with customers.
- Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. WP Natural made a one-time election not to include a weather normalization adjustment in its spring earnings review filings.
- Changes to PGA Mechanism: For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism there will be no earnings test in the fall prior to amortizing deferrals. WP Natural implemented an experimental Gas Benchmark Mechanism in late 1999 relating to variations in gas costs. In WP Natural's December 1999 gas cost tracking filing, the Commission approved the company's request to waive the fall earnings test for the duration of the experimental period; that is, for the 2000 and 2001 earnings reviews.

WP Natural Gas Earnings Review

On June 1, 2001, WP Natural submitted its 2001 earnings report for twelve months ended December 31, 2000. The company states that its report was developed in a manner consistent with Commission Order No. 99-272 and reflects adjustments made per past practices. The company calculates its ROE as **4.49 percent** after application of its Type 1 adjustments, which is below the 13.20 percent threshold authorized by the Commission.

Staff has examined the company's filed earnings report and concludes that the reported ROE of 4.49 percent is correct and below the 13.20 percent threshold authorized by the

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Commission. Because WP Natural's adjusted ROE is below the authorized threshold, there should be no sharing of earnings with customers.

As required by OAR 860-022-0070 (6), Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that WP Natural's 2000 earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.