

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 25, 2006**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  May 1, 2006

**DATE:** April 17, 2006

**TO:** Public Utility Commission

**FROM:** Ken Zimmerman

**THROUGH:** Lee Sparling, Ed Busch and Bonnie Tatom

**SUBJECT:** NORTHWEST NATURAL: (Advice No. 06-6) Makes revisions to Schedule 185, Special Annual Interstate Storage & Transportation Credit, and Schedule 186, Special Annual Core Storage & Pipeline Capacity Optimization Credit.

**STAFF RECOMMENDATION:**

I recommend the Commission allow the tariffs in Advice No. OPUC 06-6 to become effective with service on and after May 1, 2006.

**DISCUSSION:**

On March 31, 2006, Northwest Natural Gas Company (NW Natural or company) filed tariff sheets in Advice No. OPUC 06-6, seeking an effective date of May 1, 2006.

The first purpose of this filing is to update Schedule 185 to credit certain customers of NW Natural for the Oregon share of revenues received during 2005 by NW Natural for two storage-related business activities: 1) interstate storage and related transportation service activities provided under a Limited-Jurisdiction Blanket Certificate from the Federal Energy Regulatory Commission (FERC) and 2) storage asset optimization. The FERC certificate was granted under FERC Regulations 18 C.F.R. § 284.224. For purposes of this memo these storage and transportation services will collectively be referred to as "§ 284.224 service."

Schedule 185 provides that the company will share the net margin received from § 284.224 service with customers on an 80%/20% basis, with 80 percent retained by

the company and 20 percent shared with customers.<sup>1</sup> For purposes of determining this credit, the net margin is defined as the revenues from the interstate storage and transportation services activities, less incremental operating and maintenance expense, less incremental capital related costs, on a before income tax basis. The customer share for this activity in 2005 is approximately \$1,164,520 compared to just over \$961,000 in 2003 and approximately \$823,000 in 2004.

In addition to this credit for § 284.224 service, the tariff includes a credit to customers for their share of the net margin revenues received by the company for storage optimization activities – both interstate and core capacity. The proportion of net margin related to interstate capacity is shared 20 percent with customers like the sharing for § 284.224 service. Margin revenue from optimization for the proportion of core capacity is shared on a 67 percent/33 percent basis; NW Natural will retain 33 percent, and 67 percent will be shared with customers through the credit provided for in these schedules. This percentage is consistent with the sharing of commodity cost differences in the company's Purchased Gas Adjustment. In 2002 the amount attributable to storage activities was deemed to be the historic average margin available for sharing to core customers for the period April 1, 2000 through March 31, 2002. During this period, the historic net margin from storage optimization was \$700,000. Beginning in 2003 the marketing/trading company separately tracked the net margin from optimization between storage and pipeline capacity activities; the amount attributable to storage activities was just over \$1.8 million. The 2003 customer share of this amount was roughly \$861,000. For 2004 the pre-tax income from optimization was just over \$747,000<sup>2</sup>. The 2004 customer share was approximately \$324,000. For 2005 the total optimization revenue is about \$1,555,242 and the customers' share of that is approximately \$655,000.

Staff has reviewed the company's confidential work papers and finds that the identified total balance for refund to Oregon customers of approximately \$1.87 million (including amounts carried forward from the last three years) for Schedule 185 is accurate. This amount also includes an adjustment to the actual revenue for revenue-sensitive charges. The customer credit amount is then apportioned across Rate Schedules 1, 2, 3, 31 and 32 consistent with the cost allocations for storage expenses approved by the Commission in the company's most recent general rate case, UG 152, in Order No. 03-507, to acknowledge that all sales service customers receive benefits from Mist storage. By allocating this credit back to these same rate schedules that were

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<sup>1</sup> The Commission first approved this treatment for Schedule 185 at its public meeting on April 12, 2000. The first credits to be distributed to customers were approved by the Commission in April 2002.

<sup>2</sup> Net margin for the purposes of determining the credit to customers is defined as revenue from storage optimization less optimization O&M, on a before income tax basis.

charged in the approved cost allocations, the customer classes that fund the storage facility improvements will receive the benefits of the storage and transportation service activities made possible by those improvements.

The actual credit amount per therm for each rate schedule is the result of dividing that respective rate schedule's portion of the total credit by the actual billed consumption within each rate schedule during the January 1, 2005 to December 31, 2005, period. That amount per therm will then be applied to each respective customer's actual billed use during 2005.

For example, the residential service (Schedule 2) portion of the Schedule 185 refund amount, based upon 327,698,079 therms sales, is \$0.00347/therm. An individual customer, billed for average consumption of 559 therms during 2005, would be refunded \$1.94 under Schedule 185. This compares to the per therm credit for Schedule 2 customers in May 2005 of \$0.00257/therm, with an average one time credit of \$1.62, and a May 2004 credit of \$0.00380, with an average one-time credit of \$2.48.

The second purpose of this filing is to revise Schedule 186. This schedule is designed to provide a one-time credit to customers for Oregon's share of the company's revenues associated with its upstream off-system optimization activities.

As background, NW Natural has an optimization agreement with a third party energy marketing/trading company to optimize both storage and off-system transportation assets on an as available basis. Under the agreement, NW Natural maintains control of the assets and continues to purchase gas supply on behalf of its retail firm sales customers, while some industrial customers only transport on the company's system and assume responsibility for their own commodity supply. The optimization firm uses underutilized pipeline capacity (in addition to storage) to take advantage of supply price differentials. This broadens the pool of customers sharing in the optimization activities beyond just those customers paying for Mist storage (as is the case in the Schedule 185 credit discussed above). Any proceeds from off-system transportation capacity and core storage optimization are shared with core customers on a 67/33 percentage basis, with 33 percent retained by the company and 67 percent shared with customers. Proceeds from interstate storage optimization are shared with core customers on a 20%/80% basis, with 80 percent retained by the company and 20 percent shared with customers.

These two schedules provide for a lump-sum credit to be applied to customers' bills for the Oregon share of revenues received from the company's core pipeline capacity and storage optimization activities. All rate schedules that include an allocation of upstream pipeline capacity costs will receive a customer sharing credit. The credit to be refunded

is approximately \$2.6 million, compared to \$1.5 million for 2005 and \$3.6 million for 2004. This credit applies across all sales-based rate schedules on an equal cents-per-therm basis, reducing customers' bills by \$0.00345 per therm. As with the Schedule 185 credit, the Schedule 186 credit will be calculated on a customer-specific basis using the customer's actual billed usage during the year. For residential customers on Rate Schedule 2, the average bill credit will be about \$1.93. Like Schedule 185, this is a one-time credit adjustment to the utility bills of customers on and after May 1, 2006, on current Rate Schedules 1, 2, 3, 31 and 32, and also to customers on Rate Schedule 19 for usage between January 1, 2005 and December 31, 2005.

The combined effect of the two credits will reduce customer bills issued on and after May 1, 2006, as shown in the table, below.

These two credits return about \$4.48 million to customers for not only the use of assets that are in rates, but for margin revenues acquired for use of assets that are not in customer rates. The \$4.48 million represents approximately 45 percent of the margin eligible to share with Oregon customers, and about 33 percent of the company's gross revenues for the interstate storage and optimization activities; NW Natural retained as after-tax net income about \$4.5 million.

Rate Schedule	Credits Per Therm			Average Credit
	Sch. 185	Sch. 186	Total	Per Customer
1	0.00257	0.00345	0.00602	\$1.09
2	0.00347	0.00345	0.00692	\$3.87
3	0.00365	0.00345	0.00710	\$17.37
19		0.00345	0.00345	\$0.86
31 Int. Sales		0.00345	0.00345	\$288.65
31 Firm Sales	0.00151	0.00345	0.00496	\$40.75
32 Int. Sales		0.00345	0.00345	\$2,209.37
32 Firm Sales	0.00151	0.00345	0.00496	\$2,687.42

Staff, along with CUB and NW Natural, reviewed the company's method for sharing earlier during 2004, and continues to assess whether or not there should be a change in the method or the sharing percentages. Staff will keep the Commission apprised of progress in this endeavor.

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**PROPOSED COMMISSION MOTION:**

The tariffs filed in Advice No. OPUC 06-6 be allowed to go into effect on and after May 1, 2006.