Agenda Date:	September 26, 2001
Item Number:	2F
Docket:	UG-011090
RE:	Northwest Natural Gas Company's request for an accounting order concerning revenues from their interstate gas storage facility
Staff:	Merton Lott, Energy Coordinator Joanna Huang, Revenue Requirement Specialist

Recommendation:

Issue an order authorizing the accounting treatment as amended by Northwest Natural Gas Company (NWNG), concerning the sharing of revenue generated by the Company's expanded facilities at its Mist storage site.

Discussion:

On August 1, 2001, NWNG submitted its request for an accounting order. The Company proposal offers to share revenue from NWNG's interstate storage service. The Company originally requested to share revenue from these storage facilities in Docket UG-010332 filed March 9, 2001. In that docket the Company submitted a tariff to track the ratepayers' share of the revenue. After discussions with Staff a general agreement was reached and NWNG withdrew that tariff filing on May 22, 2001. The proposal in NWNG accounting petition generally represents the agreements from the meetings in the earlier docket.

Revenue from the storage facility is either regulated by the Federal Energy Regulatory Commission (FERC), or is deregulated. NWNG intends to offer its storage capacity for compensation. In this pursuit, NWNG made a filing with FERC, March 2000, seeking a Limited Jurisdiction Blanket Certificate. On May 17, 2001, the FERC issued a certificate but rejected NWNG's request to charge market-based prices and ordered the Company to charge cost-based prices instead.

The sharing formulae included in the mechanism are designed to first, allow NWNG to recover incremental expenses of the service, second, to share a portion of the revenue until NWNG achieves a reasonable return, and third, to share additional revenues equally between ratepayers and the company. The first band gives 100% of the revenues to the Company. The second band shares the revenue 80% to the Company and 20% to the ratepayers. In the third band, additional revenues are shared 50/50 between the Company and ratepayers. The revenues subject to this sharing mechanism include both storage revenues under FERC's order, and net (unregulated) secondary sales income from future sales transactions by NWNG directly accommodated by these incremental storage facilities.

For the most part revenues for these interstate services will be earned through property that was not included in the Company's general rate last year in Docket UG-000073 (Commission Order October 26, 2000). In that proceeding the company requested new investments at the Mist storage fields be included in rate-base, but did not request recovery of the incremental costs to serve this interstate storage service. Further, the company is again expanding its facilities at Mist to accommodate this interstate storage service. This 2001 investment is anticipated to be placed in service in December with a capitalized amount of approximately $11.1 million. The main reason for the expansion of the Mist facilities is to serve core customers in the future. Further, NWNG's ability to utilize these dedicated storage fields is dependent on the Company's other investments at Mist and investments in other operating property throughout NWNG's system. These other investments, at Mist and throughout NWNG's system, have been included in the ratebase and are thus embedded in rates. However, currently the capacity created by these incremental expansions is in excess of the capacity requirements of NWNG through the end of 2002. The sharing proposal here is scheduled to terminate December 31, 2002.

In Docket UG-010332 the Company proposed a tariff that would credit to customers a share of revenues based on a formula which required the measurement of expenses and returns. The revenue credits would have been given to the ratepayers in a separate credit on their bills. That proposal would have required audit of incremental costs, and possible disagreement over the calculation of the proper levels to be credited to customers. After discussions in that docket, NWNG and Staff agreed that it would be simpler and hopefully less contentious to share the revenue using fixed formulae. Further, as the size of the credits is anticipated to be relatively small, the Company and Staff agreed that the credits could be included in the PGA deferral recovery process.

The Staff has reviewed the petition submitted in this docket, and in discussions with the Company two amendments to the petition have been made. First, on September 17, 2001, the Company submitted a letter to Staff that indicated that the sharing formula were intended to commence in 2000 rather than 2001. The second amendment is an agreement between Staff and Company as to when the second level of phase of the sharing bands would begin. In the petition, the sharing bands were increased January 1, 2002. This was based on the assumption that the 2001 investment would be closed to plant in service in December of this year. The revised agreement is that the second phase bands will start to apply only in the quarter in which the new investment ($11.1 million) is substantially in service. For example, if the investment is placed in service by early February 2002 then the new sharing bands would commence as scheduled January 1, 2002. However, if that investment for some reason, now unanticipated, is not placed into service until after that time, the 2001 sharing bands as represented in the petition would continue to be applied until the new investment is placed in service.

<u>Conclusion:</u>

Staff recommends the Commission issue an Order adopting the amended accounting treatment described in this memorandum, to share revenues generated by the Company's incremental investment in the Mist storage facility as described in its petition.