

ITEM NO. CA9

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 20, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2017

DATE: December 12, 2016

TO: Public Utility Commission

FROM: Mitchell Moore *mpm*

THROUGH: *I* Jason Eisdorfer and *A* Marc Hellman

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1557(8)) Reauthorization to defer changes in distribution margin.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas's (Cascade or Company) request for reauthorization to defer variances in its collection of distribution margin due to conservation and weather for the period January 1, 2017 through December 31, 2017.

DISCUSSION:

Issue

Whether Cascade should be allowed to continue to defer costs for later recovery in rates in accordance with its Conservation Alliance Plan (CAP).

Applicable Law

In accordance with ORS 757.259(2), utilities may seek approval to defer amounts for later inclusion in rates to minimize the frequency of rate changes or to appropriately match customer benefits and costs. OAR 860-027-0300(4) requires the utility to provide certain information in an application to defer, such as the reason for the deferral, estimated amount of the deferral, etc.

Analysis

Background

In Order No. 06-191, the Public Utility Commission of Oregon approved the CAP for Cascade, which includes a decoupling mechanism, deferral accounting, a public purpose charge, Company funding for conservation, and provisions governing the use of the Energy Trust of Oregon (ETO). Since its adoption, the Commission has made adjustments to the CAP and its various components and conditions over time. The most recent iteration of the CAP mechanism was approved by the Commission in Order No. 15-412, issued in UG 287, the Company's 2015 General Rate Case. In accordance with the Order, the CAP mechanism has no set termination date, but will be reviewed in the fourth quarter of 2019.

Cascade makes this filing pursuant to ORS 757.259 and OAR 860-027-0300(4) requesting reauthorization to defer the changes in margin due to conservation and variances from normal weather for its decoupling mechanism in CAP Schedule 30. The Commission has authorized Cascade to defer these amounts in previous years, most recently in Order No. 15-401, for the 12-month period of January 1, 2016, through December 31, 2016.

Reason for Deferral

The use of deferred accounting, related to the Conservation Alliance Plan (CAP) mechanism established by the Commission in Order No. 06-191, minimizes the frequency of rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Reauthorization of deferred accounting is still warranted for those reasons.

Description of Expense

Consistent with procedures outlined in Schedule No. 30 – Conservation Alliance Plan, the CAP is a decoupling mechanism consisting of two deferral accounts, one to track changes in margin due to variations in weather-normalized usage (conservation) and another to track changes in margin due to weather that varies from normal.

Proposed Accounting

In accordance with the provisions in Schedule No. 30, differences are accumulated as regulatory assets or liabilities for distribution or collection from customers annually at the time of the Company's PGA filing. Absent deferred accounting treatment the Company would record under- or over-collected margins as utility operating revenue in FERC Account 480.

Deferral Activity

In its application, the company states that it is difficult to estimate the amounts to be recorded in the deferral account, as the deferral amount is dependent on a number of variables.

Information Related to Future Amortization

- Earnings Review – The Commission has historically relied on the results of the annual Spring Earnings Review to determine whether Cascade must share overearnings. As this deferral is related to the conservation of natural gas resources, the amortization of the correctly calculated costs has always been approved.
- Prudence Review – The prudence review should consist of a verification of the accounting methodology used to determine the final amortization balance.
- Sharing – See “Earnings Review” above.
- Rate Spread/Design – The amortization amount will be spread as specified by Cascade’s Rule 19 – CONSERVATION ALLIANCE PLAN MECHANISM.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility’s gross revenues for the preceding year.

Conclusion

As the Company’s application meets the requirements of ORS 757.259 and OAR 860-027-0300, and the reason for the deferral is still valid, Staff recommends the Commission approve Cascade’s application.

For the reasons discussed earlier in this memo, Staff recommends the Commission authorize deferred accounting for the period January 1, 2017, through December 31, 2017.

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PROPOSED COMMISSION MOTION:

Approve Cascade's application to defer amounts collected through the CAP for the 12-month period beginning January 1, 2017.

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