

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 6, 2012

REGULAR _____ CONSENT X EFFECTIVE DATE October 4, 2012

DATE: November 1, 2012

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

THROUGH: Jason Eisdorfer, Maury Galbraith and Judy Johnson *ME* *JJ*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1557(1)) Requests reauthorization to defer the changes in margin due to conservation and variances from normal weather as set forth in Rule 19, Conservation Alliance Plan Mechanism.

STAFF RECOMMENDATION:

I recommend Cascade Natural Gas's (Cascade or Company) supplemental application be approved for the period October 4, 2012 through March 31, 2013.

DISCUSSION:

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 as set forth in Rule 19, Conservation Alliance Plan.

This deferral, most recently authorized by Order No. 11-427, was for the 11-month period of November 1, 2011 through September 30, 2012.¹

In response to Cascade's motion (UG 224) that essentially requested that the Commission extend the CAP by removing the sunset date, the Commission denied the motion, modified the sunset date to March 31, 2013, and ordered Staff to conduct an investigation.² If the Commission eventually approves the CAP, or some other mechanism that includes deferred accounting, to take effect on or after April 1, 2013,

¹ The sunset date for the CAP mechanism was originally set at September 30, 2010, by Order 06-191, and subsequently extended to September 30, 2012, by Order 07-220.

² See Order 12-372 for further details.

Cascade must make a filing to request a deferred accounting order that is effective on the implementation date.

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 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 for the 6-month period, 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.
- Ineligible Amortization Amount - The previous deferral ended on September 30, 2012, and Cascade's supplemental filing for this deferral requests

an effective date of October 4, 2012. This means that the deferred amount that can be directly attributed to the first three days of October 2012 will be excluded from any future amortization.

- 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.

Staff Analysis

Cascade’s application for reauthorization of deferred accounting for the CAP meets the requirements related to the establishment of the mechanism, as well as the requirements of ORS 757.259 and 860-027-0300, except for the length of the deferral period.

For the reasons discussed earlier in this memo, Staff recommends the Commission authorize deferred accounting for the period October 4, 2012 through March 31, 2013.

PROPOSED COMMISSION MOTION:

Cascade’s supplemental application be approved for the period October 4, 2012 through March 31, 2013.