

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 18, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE November 1, 2016

DATE: September 28, 2016

TO: Public Utility Commission

FROM: Abdoulaye Barry *AB*

THROUGH: Jason Eisdorfer and Marc Hellman *J* *H*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1558 (5)) Requests reauthorization to defer Purchased Gas Cost differences.

STAFF RECOMMENDATION:

Staff recommends the Public Utility Commission of Oregon (Commission) approve Cascade Natural Gas' (Cascade or Company) application for an authorization to defer purchased gas cost differences for the 12-month period beginning November 1, 2016.

DISCUSSION:

Issue

Whether the Commission should reauthorize Cascade to defer gas cost differences for later adjustment to the price of gas supplied to ratepayers in accordance with the Purchased Gas Adjustment (PGA) mechanism.

Applicable Law

Due to the fluctuation of the wholesale price of natural gas, the PGA mechanism was established by the Commission in its Order No. 89-1046 to enable utilities to pass on to customers actual gas costs while minimizing the frequency of rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e). Under the PGA mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer the difference between actual purchased gas costs and those forecasted in rates for a twelve-month period. The difference between the actual gas costs and the cost charged to ratepayers is subsequently amortized into rates, subject to sharing, if the utility's earnings are not excessive as defined by OAR 860-022-0070.

Discussion and Analysis

Description of Expense

The expense subject to deferral is the monthly difference between gas costs expected to be collected from customers and gas costs actually collected, as set forth in Schedule No. 177 – Purchased Gas Cost Adjustment Provision – Oregon. The monthly differences arise because the rates associated with gas costs are calculated using forecasted gas prices and therms. A request to amortize the accumulated deferral is made annually, effective November 1.

Reason for Deferral

Due to the volatility of natural gas prices and in order to minimize the frequency of rate changes, the PGA mechanism was established by the Commission's Order 89-1046 to enable utilities to defer the difference between gas costs expected to be collected from customers and gas costs actually collected, as set forth in Schedule No. 177 – Purchased Gas Cost Adjustment Provision – Oregon.

Proposed Accounting

The Company proposes to continue deferring gas costs differences to sub-accounts of FERC Account 253 for subsequent distribution to, or collection from, customers consistent with the PGA mechanism. Gas cost differences will be segregated between commodity-related and demand-related cost differences. In the absence of an authorization by the Commission to use the deferred accounting treatment, the charges incurred for gas costs would be recorded using standard accounting procedures to the appropriate 800 expense account.

Estimated Deferrals in Authorization Period

The PGA mechanism enables utilities to pass through rates, the actual costs of gas used by customers. However, due to the volatility of natural gas prices depending on market and weather conditions, it is impossible to accurately predict the deferral amount resulting from the difference between gas costs incurred by the Company with gas costs included in customer rates.

Information Related to Future Amortization

- Earnings Review – An annual spring earnings review will be conducted pursuant to OAR 860-022-0070.
- Prudence Review – Prior to amortization, a prudence review will be conducted. The review should also include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – In order to comply with the Commission's Orders 08-504 and 11-196 in UM 1286, the Company has made a 90/10 sharing election for the 2016-2017 PGA year. Therefore, 90 percent of the difference between actual commodity costs and the commodity costs collected from customers will be deferred and are eligible for amortization. Cascade will absorb the other 10 percent. The commodity portion of purchased gas cost differences include purchasing natural gas, the variable cost of transporting the gas from the supply basin to the City Gate, the benefits received from storage optimization, off-system sales, and other miscellaneous costs or benefits.
- One hundred percent of the demand portion of the purchased gas cost differences will be deferred. The demand portion includes fixed pipeline costs, capacity releases, and miscellaneous pipeline related refunds or surcharges.
- Rate Spread/Design – Prudently incurred gas cost differences that have been correctly accounted for should be developed into a rate per therm based on estimated usage for the upcoming PGA year.
- 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.
- This deferral is subject to the exception at ORS 757.259(7) that allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the commission finds that allowing a higher amortization rate is reasonable under the circumstances.

Conclusion

Based on the review of Cascade's application, staff concludes that the proposal represents an appropriate use of deferred accounting under ORS 757.259. Further, the Company's application for reauthorization of deferred accounting meets the requirements related to the establishment of the PGA mechanism, as well as the requirements of ORS 757.259 and OARS 860-027-0300.

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PROPOSED COMMISSION MOTION:

Approve Cascade's application for reauthorization of deferral accounting for gas costs differences associated with the PGA mechanism for the 12-month period beginning November 1, 2016.

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