ITEM NO. CA18

**PUBLIC UTILITY COMMISSION OF OREGON**
**STAFF REPORT**
**PUBLIC MEETING DATE: October 15, 2020**

**REGULAR ____ CONSENT _X_ EFFECTIVE DATE ___November 1, 2020___**

**DATE:** September 29, 2020

**TO:** Public Utility Commission

**FROM:** Mitchell Moore

**THROUGH:** Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

**SUBJECT:** CASCADE NATURAL GAS:
(Docket No. UM 1558(9))
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 authorization to defer purchased gas cost differences for the 12-month period beginning November 1, 2020.

## DISCUSSION:

### Issue

Whether the Commission should reauthorize Cascade to defer, with interest, 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 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 actual purchased gas costs for a twelve-month period. The difference between the actual gas costs and the cost charged to ratepayers is amortized and passed through into rates if the utility's earnings are not excessive as defined by OAR 860-022-0070.

<u>Analysis</u>

*Background*
The PGA mechanism allows utilities to regularly adjust the price of gas charged to ratepayers to reflect the costs incurred by the utility to purchase and transport the gas. 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 No. 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 include verification of the accounting methodology used to determine the final amortization balance.

- Sharing – Due to the Company's sharing election related to the 2019-2020 PGA year, 90 percent of the difference between actual commodity costs and the commodity costs collected from customers will be deferred. 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 citygate, 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.

<u>Conclusion</u>

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 OAR 860-027-0300.

**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, 2020.

Cascade UM 1558(9)