

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

REGULAR X CONSENT _____ EFFECTIVE DATE November 1, 2016

DATE: October 4, 2016

TO: Public Utility Commission

FROM: Scott Gibbens 

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 313/Advice No. 16-17-A)
Reflects changes in the cost of purchased gas, amortization of deferred gas costs, storage recall and the combined changes associated with the annual Purchased Gas Adjustment (PGA) filing.

NORTHWEST NATURAL: (Docket No. UG 324/Advice No. 16-18)
Revises tariff rate schedules to reflect the combined effects of changes to rates.

STAFF RECOMMENDATION:

Staff recommends approval of Northwest Natural's (NWN or Company) proposed tariff sheets in Docket No. UG 313 / Advice No. 16-17-A and Docket No. UG 324/Advice No. 16-18, with an effective date of November 1, 2016.

DISCUSSION:

Issue

Whether the Commission should approve NWN's 2016 annual PGA along with the tariff sheet revisions proposed by the Company in Docket No. UG 313/Advice No. 16-17-A and Docket No. UG 324/Advice No. 16-18.

Applicable Law

ORS 757.210 authorizes the Commission to establish the rates charged by public utilities. ORS 757.259(5) authorizes the Commission to allow a utility to amortize costs deferred under an automatic adjustment clause. The amortization is subject to the Commission's determination the costs were prudently incurred. Under ORS 757.259(6), the overall average rate impact of the amortizations authorized under ORS 757.259 in any one year may not exceed three percent of the utility's gross revenues for the

preceding calendar year. OAR 860-027-0300 sets forth additional requirements and procedures related to deferred accounting.

The Purchase Gas Adjustment (PGA) mechanism was established by the Commission in 1989 and guidelines were first set forth in Order No. 09-248 (Docket UM 1286) (PGA Guidelines). Since then, in Order No. 11-196, the Commission adopted Natural Gas Portfolio Development Guidelines (Portfolio Guidelines) and in Order No. 14-238 the Commission adopted its most recent version of the PGA Guidelines.

To determine prudence the Commission reviews the Company's actions, based on all that the Company knew or should have known at the time, to determine whether the actions were reasonable and prudent in light of the circumstances which then existed.¹

Discussion and Analysis

On July 29, 2016, NWN filed its annual PGA requesting rate changes related to natural gas commodity purchases and the costs to deliver this gas to NWN's system for the upcoming gas year (a "gas year" runs from November 1 to October 31 of the following calendar year). The PGA is filed to adjust rates yearly based upon:

- (1) **A Forward Looking Portion:** An estimate of the commodity, pipeline, and storage costs – collectively referred to as the purchased cost of gas – for the upcoming gas year using projections for the price of natural gas and customer usage; and
- (2) **A Backward Looking Portion:** A true-up of balances in deferral accounts due to the inevitable imperfect projection of costs and usage in last year's PGA filing that resulted in over/under-collection relative to those projections.

On September 15, 2016, NWN submitted its updated and revised PGA filing.

This Staff memorandum discusses: (1) the forward looking portion; (2) the backward looking portion; and (3) the overall revenue and rate impacts of combining these two segments with non-gas cost components for the 2016-17 gas year.

¹ *In re PacifiCorp*, Order No. 12-493.

Forward Looking - Projected Purchased Gas Costs 2016-2017 PGA Year

There are two main components that together make up the purchased cost of gas: (a) commodity costs; and (b) demand costs. *Commodity costs* are the cost of the natural gas itself for delivery at specified trading hubs at specific times and *demand costs* are the cost of pipeline capacity and per unit of gas pipeline transport rates that allow NWN to transport its gas purchases to its own system (city-gate) at the time it is needed.

NWN proposes a decrease of approximately six percent in gas commodity cost compared to that in its 2015 PGA. The decrease is in the gas cost per therm (WACOG or weighted average cost of gas) because the percent calculation uses the 2016 PGA load forecast with the 2015 cost per therm and the 2016 WACOG to derive the change in total purchased gas cost. This calculation shows the forecasted gas rate change when holding the gas cost constant from 2015 to 2016. Based on the 2016 PGA load forecast, this decrease in gas commodity is approximately \$14,157,675 at \$0.31517 per therm. NWN proposes a decrease in demand cost from that in the 2015 PGA of approximately one percent (\$689,523). The total gas commodity and demand cost change compared to the 2015 PGA is a decrease of approximately five percent (\$14,847,198). These changes are approximate due to the use of forecasted loads and gas costs.

Staff reviewed NWN's forecasted commodity and demand costs to determine whether NWN complied with the Commission's Natural Gas Portfolio Development Guidelines (Portfolio Guidelines)..

Accepted "best practices" for purchasing natural gas supply by Local Distribution Companies (LDC) is portfolio construction that balances the objectives of reliability, cost, and price volatility using the tools of diversity, flexibility, and balance. The Portfolio Guidelines implement these "best practices" for Oregon LDCs. The Portfolio Guidelines also require each gas utility to include certain information related to its gas supply portfolio with its annual PGA filing. This information assists the Commission in determining the prudence of the LDC's costs.

NWN's portfolio preparation and planning process meets the standards in Section III of the Portfolio Guidelines related to portfolio planning, as do NWN's physical gas contracts and financial transactions relating to natural gas pricing. NWN has also demonstrated its adherence to the guidelines with regard to natural gas supplies and financial hedges. In addition, NWN has provided all the information called for in Order No. 11-196 in Section IV (Information and Workpapers), and Section V (Supporting

Data and Analysis) of the Portfolio Guidelines. NWN's planned supply portfolio, both physical and financial, is presented in Table 1.

Table 1: NW Natural Gas Supply Portfolio for 2016-2017 PGA Year

Resource	Percentage in Portfolio
Pipeline deliveries of natural gas	78.7%
Storage deliveries of natural gas	21.3%
Encana Gas Reserves	0.0%

NWN's gas purchasing strategy for the 2016-2017 period is to hedge the prices of approximately 75 percent of the expected purchases. The 75 percent hedging target is planned to include 19 percent from storage, seven percent from gas reserves, one percent from native gas production at Mist, and 48 percent from financial hedges. The remaining 25 percent of expected purchases will come from spot market purchases.

Spring Earnings Review

Each year, Oregon LDCs make an annual election for the upcoming PGA Year beginning November 1st whether to choose 90/10² sharing or 80/20 sharing with a corresponding earnings review threshold. For the 2016-2017 PGA year, NWN elected a 90/10 sharing on September 15, 2016.³

Backward Looking - True Up of Gas Commodity Costs for 2015-2016 PGA Year

Just as natural gas prices and demand are projected for the 2016-17 gas year in this year's PGA to determine rates, they were projected in previous years' PGAs to determine rates in those gas years as well. Due to a number of factors including natural gas price volatility, weather, and the overall economy, these projections did not match exactly actual experience so actual revenues collected did not equal those that were estimated.

NWN proposes to true-up its commodity and non-commodity deferred account amortization in effect since November 1, 2015, and that projected for the 2016-2017 PGA period. The commodity gas cost portion of the true-up is an increase of \$2,239,307 to customers. The removal of the prior year amortization is an increase to customers of \$2,648,070 and application of the proposed year amortization is a decrease to customers of \$408,763. The prior year amortization was projected and

² Sharing of the variance between the LDC's WACOG included in its rates and its actual WACOG. For example, 90/10 designates 90 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 percent is absorbed or retained by the LDC. See Order 08-504 at 17.

³ The election is filed annually in UM 1286 in compliance with Order No. 11-196 and Order No. 08-504.

included in the 2015 PGA. The proposed year amortization is the sum of the actual balances of the gas cost deferral, firm demand deferral, and interruptible demand deferral accounts as of October 31, 2016.

Staff has reviewed NWN's proposed gas cost deferral and determined that the proposed amortization is appropriate. The resulting revised rate increment is incorporated in the energy charge component of NWN's primary rate schedules.

Overall Rate and Revenue Impact

A summary of the proposed tariff changes for NWN's major rate schedules is shown in Attachment A. Table 2 shows the rates the Commission has approved for NWN's residential customers on Rate Schedule 2 between 2008 and 2016, the current proposal.

Table 2: Residential Rates 2008 – 2015 (Proposed)

Date	Customer Charge	Rate Per Therm⁴	Percentage Change⁵
November 2008	\$6.00	\$1.39742	14.12%
January 2009	\$6.00	\$1.39384	-0.26%
November 2009	\$6.00	\$1.14047	-18.18%
November 2010	\$6.00	\$1.10644	-2.98%
November 2011	\$6.00	\$1.08786	-1.68%
November 2012	\$8.00	\$0.97306	-10.55%
November 2013	\$8.00	\$0.99317	2.07%
November 2014	\$8.00	\$1.01330	2.03%
November 2015	\$8.00	\$0.93513	-7.71%
November 2016	\$8.00	\$0.90723	-2.98%

With these changes, the monthly bill of a typical residential customer using 50 therms per month will decrease by \$1.40, or 2.6 percent, from \$54.76 to \$53.36. In January, a typical residential customer's consumption of 96 therms will result in a billing decrease of \$2.68, or 2.7 percent, from \$97.77 to \$95.09.

The change in annual revenues is summarized in Table 3 below:

⁴ This rate does not include pass-through charges included on customer bills that utilities are required to collect and distribute such as franchise fees or the Public Purposes Charge.

⁵ The percentage change reflects only the change in the rate per therm, and does not include the effect of the monthly customer charge on the bill.

Table 3: Change in Annual Revenues

PGA Gas Cost Change	-\$14,847,198
Gas Cost-related Amortizations	\$0
Non Gas Cost-related Amortizations	\$2,239,307
Permanent Base Rate Increment	\$0
Total Proposed Change ⁶	-\$12,607,891

Three Percent Test

The gas cost related amortizations in this filing are included in the calculation of the three percent test pursuant to ORS 757.259(6), which restricts the overall annual average rate impact of amortizations authorized under the statute to three percent of the natural gas utility's gross revenues for the preceding calendar year. For the upcoming gas year, NWN is asking to amortize (\$230,720). During the last calendar year NWN gross revenues were \$653,343,000. Therefore, NWN is seeking to amortize amounts equal to (0.04) percent of the previous year's gross revenues, which does not exceed the three percent threshold. See Attachment C for a more detailed accounting of amortizations and the three percent test.

Conclusion

This 2016 PGA Filing reflects a revenue decrease of \$12.6 million, or approximately 1.77 percent⁷ effective November 1, 2016, due to gas costs (Purchased Gas Cost Adjustment Provision; Schedule 164) and amortization of previous deferrals (Gas Cost Cost Differences; Schedule 162). Combining the impact of this filing with the seven other regulatory filings filed on July 29, 2016 (i.e., Schedule 172, Intervenor Funding, Advice No. 16-10-A; Schedule 188, Industrial DSM Cost Recovery, Advice No. 16-15-A; Margin Normalization (Decoupling), No. 16-16-A; Schedule 177, System Integrity Management Program, Advice No. 16-11; Schedule 178, Residual Account Balances, Advice No. 16-12; Schedule 183, Environmental Cost Recovery SRRM, Advice No. 16-14; and Schedule 181, OR Regulatory Fee, Advice No. 16-13-A), results in a revenue decrease of \$17.65 million,⁸ or 2.5 percent.

With these changes, effective November 1, 2016, the monthly bill of a residential customer using an average of 50 therms per month will decrease by \$1.40, or 2.6 percent.

⁶ See Attachment B and CA1, CA2, CA3, CA4, CA5, and CA6 for details.

⁷ See page 3 of NWN's UG 313 supplemental application filed on September 15, 2016

⁸ See Attachment E of the Company's Supplemental 2016 PGA Filing, Cell B9

NWN Docket No. UG 313/Advice No. 16-17-A and Docket
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PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request for base gas cost changes for commodity and transportation, as proposed in Docket No. UG 313/Advice No. 16-17-A, be allowed to go into effect on and after November 1, 2015, along with the associated tariff sheets relating in Docket No. UG 324/Advice No. 16-18.

NWN Docket No. 313/Advice No. 16-17-A and Docket No. UG 324 / Advice No. 16-18

NW Natural
 Rates & Regulatory Affairs
 2016-17 PGA - Oregon: September Filing
 Attachment A: Incremental Revenue Change by Rate Schedule

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Rate Schedule	Description	Total Revenue at Current (1)	Total Revenue at Proposed	Total Change in Revenue	% Change by Rate Schedule	% Contribution to Total Change
2	Residential Sales	\$ 171,729,353	\$ 161,920,248	\$ (9,809,105)	-5.7%	69.51%
3C	Small Commercial Firm Sales	\$ 83,763,405	\$ 81,286,791	\$ (2,476,614)	-3.0%	17.55%
3I	Small Industrial Firm Sales	\$ 2,036,327	\$ 1,995,406	\$ (40,921)	-2.0%	0.29%
27	Residential Heating Dry Out	\$ 360,912	\$ 352,060	\$ (8,852)	-2.5%	0.06%
31CFS	Mid-size Commercial Firm Sales	\$ 15,781,739	\$ 15,299,682	\$ (482,057)	-3.1%	3.42%
31CFT	Commercial Firm Transportation	\$ 28,669	\$ 32,551	\$ 3,883	13.5%	-0.03%
31IFS	Mid-size Industrial Firm Sales	\$ 6,492,310	\$ 6,350,785	\$ (141,524)	-2.2%	1.00%
31IFT	Industrial Firm Transportation	\$ 4,075	\$ 5,750	\$ 1,675	41.1%	-0.01%
32CFS	Large Commercial Firm Sales	\$ 17,336,912	\$ 16,982,663	\$ (354,249)	-2.0%	2.51%
32IFS	Large Industrial Firm Sales	\$ 6,020,335	\$ 5,887,169	\$ (133,166)	-2.2%	0.94%
32FT	Large Comm/Indus Firm Transportation	\$ 168,208	\$ 217,460	\$ 49,253	29.3%	-0.35%
32CIS	Commercial Interruptible Sales	\$ 8,871,224	\$ 8,547,900	\$ (323,324)	-3.6%	2.29%
32IIS	Industrial Interruptible Sales	\$ 12,037,075	\$ 11,597,746	\$ (439,329)	-3.6%	3.11%
32IT	Interruptible Transportation	\$ 211,029	\$ 253,295	\$ 42,266	20.0%	-0.30%
33	High Volume Non-Residential	\$ -	\$ -	\$ -	0.0%	0.00%
		\$ 324,841,570	\$ 310,729,506	\$ (14,112,064)	-4.34%	100.00%

Note:

[1] Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted terms). There are small differences with the Advice filings.

NW Natural
Rates & Regulatory Affairs
2016-17 PGA - Oregon: September Filing
Attachment B: Incremental Revenue Change by Adjustment Schedule

	Tariff	Revenue at Current (1)	Revenue at Proposed	Change in Revenue	% Contribution to Total Incremental Change	Advice Filing
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2	Schedule P - PGA Forecast	\$ 295,789,137	\$ 283,679,765	\$ (12,109,372)	85.81%	16-17
	Schedule 162 - PGA Gas Cost Differences	\$ (2,591,477)	\$ (409,613)	\$ 2,181,863	-15.46%	16-17
3	Schedule 172 - Intervenor Funding	\$ 172,028	\$ 200,066	\$ 28,039	-0.20%	16-10
4	Schedule 181 - Oregon Regulatory Fee	\$ -	\$ 179,629	\$ 179,629	-1.27%	16-13
5	Schedule 183 - SRRM Adjustment	\$ 8,343,254	\$ 10,275,969	\$ 1,932,715	-13.70%	16-14
6	Schedule 188 - Industrial DSM	\$ 3,257,739	\$ 3,592,658	\$ 334,919	-2.37%	16-15
7	Schedule 190 - Decoupling	\$ 19,870,889	\$ 13,211,032	\$ (6,659,857)	47.19%	16-16
8	Total	\$ 324,841,570	\$ 310,729,506	\$ (14,112,064)	100.00%	

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10 **Note:**

11 [1] Revenue at "Current" does not reflect current revenues, but rather what the revenues would be
 12 if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted
 13 terms). There are small differences with the Advice filings.

**NW Natural
Rates & Regulatory Affairs
2016-17 PGA - Oregon: September Filing
Attachment C: 3% Test**

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Notes:

¹ Amortizations of the deferral are not subject to the 3% test pursuant to ORS 757.259 as they are automatic adjustment clauses.

² Unadjusted general revenues as shown in the most recent ROO.