ITEM NO. 5 & 6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 28, 2014

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **November 1, 2014**

DATE: October 16, 2014

TO: Public Utility Commission

FROM: Erik Colville

THROUGH: Jason Eisdorfer and Aster Adams

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 279/Advice No. O14-08-01) Reflects changes in the cost of purchased gas and the amortization rate for the Purchased Gas Adjustment (PGA) balancing account.

CASCADE NATURAL GAS: (Docket No. UG 283/Advice No. O14-08-05) Revises multiple schedules reflecting changes resulting from annual updates.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas' (Cascade) proposed tariff sheets in Docket No. UG 279/Advice No. 014-08-01 and Docket No. UG 283 / Advice No. 14-08-05, with an effective date of November 1, 2014.

DISCUSSION:

On August 1, 2014, Cascade filed its annual Purchased Gas Adjustment (PGA) and technical adjustment filing requesting rate changes related to natural gas commodity purchases and the costs to deliver this gas to Cascade'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, 2014, Cascade submitted its updated and revised PGA.

This Staff Report 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 2014-15 gas year.

Forward Looking-Projected Purchased Gas Costs 2014-2015 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. *Demand costs* are the cost of pipeline capacity and per unit of gas pipeline transport rates that allow Cascade to transport its gas purchases to its own system (city-gate) at the time it is needed.

Cascade's 2014 PGA proposes an increase of approximately three percent in gas commodity cost compared to that in its 2013 PGA. The increase is in the gas cost per therm (weighted average cost of gas OR WACOG) because calculation of the percent increase uses the 2014 PGA load forecast with the 2013 cost per therm and the 2014 WACOG to derive the change in total purchased gas cost. Based on the 2014 PGA load forecast, this increase in gas commodity cost is approximately $842,390 at $0.41321 per therm. An increase in demand cost from that in the 2013 PGA of approximately four percent or $516,871 is proposed. The combined gas commodity and demand cost change compared to the 2013 PGA is an increase of approximately three percent or $1,359,261 equivalent to $0.01854 per therm. These changes are approximate due to the use of forecasted loads and gas costs.

Natural Gas Portfolio Development Guidelines

Accepted "best practices" for the purchase of natural gas supply by a local distribution company (LDC) is through a portfolio that balances the objectives of reliability, cost, and price volatility using the tools of diversity, flexibility, and balance. The "Natural Gas Portfolio Development Guidelines"[1] (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.

Cascade's portfolio preparation and planning process meets the standards in Section III of the Portfolio Guidelines related to portfolio planning, as do Cascade's physical gas

[1] The "Natural Gas Portfolio Development Guidelines" and "PGA Filing Guidelines" were initially acknowledged by the Commission in Order No. 09-248 and later corrected in Order No. 09-263. The current Guidelines were acknowledged by the Commission in Order No.11-196.

contracts and financial transactions relating to natural gas pricing. Cascade has also demonstrated its adherence to the Portfolio Guidelines with regard to natural gas supplies and financial hedges. In addition, Cascade has provided all the information called for in Section IV (Information and Workpapers), and Section V (Supporting Data and Analysis) of the Portfolio Guidelines. Cascade's planned supply portfolio, both physical and financial, is presented in Table 1.

Table 1: Cascade Natural Gas Supply Portfolio for 2014-2015 PGA Year

Resource	Percentage in Portfolio (appx.)
Pipeline deliveries of natural gas	94%
Storage deliveries of natural gas	6%

Cascade's gas purchasing strategy for the 2014-2015 period is to hedge the prices of approximately 33 percent of the expected purchases. The 33 percent hedging target is planned to include all fixed price physical contracts, and no financial hedges. The remaining 67 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 whether to choose 90/10[2] sharing or 80/20 sharing with a corresponding earnings review threshold. For the 2014-2015 PGA year Cascade elected a 90/10 sharing on October 16, 2013.[3]

Backward Looking-True Up of Gas Commodity Costs for 2013-2014 PGA Year

Just as natural gas prices and demand are projected for the 2014-15 gas year in this year's PGA to determine rates, they were projected in the previous year's 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 that actual revenues collected did not equal those that were estimated.

Cascade's application proposes to true-up its commodity and non-commodity deferred account balance, which has been under amortization since November 1, 2013, and the amount projected for the 2014-2015 PGA period. The commodity gas cost portion of the true-up is an increase of $842,390 to customers. The removal of the prior year

[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.

amortization (which was a credit) is an increase to customers of $810,865 and application of the proposed year amortization is a decrease to customers of $202,350. The prior year amortization was projected and included in the 2013 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, 2014.

Staff has reviewed Cascade'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 Cascade's primary rate schedules.

Overall Rate and Revenue Impact

A summary of the proposed tariff changes for Cascade's major rate schedules is shown in Attachment A. Table 2 shows the rates the Commission has approved for Cascade's residential customers on Rate Schedule 101 between 2007 and 2013, and the current proposal.

Table 2: Residential Rates 2007–2014 (Proposed)

Date	Customer Charge	Rate Per Therm[4]	Percentage Change[5]
November 2007	$3.00	$1.209	0.8%
November 2008	$3.00	$1.277	5.62%
November 2009	$3.00	$1.112	-12.92%
November 2010	$3.00	$1.047	-5.85%
November 2011	$3.00	$0.975	-6.88%
November 2012	$3.00	$0.796	-18.36%
November 2013	$3.00	$0.900	13.07%
November 2014	$3.00	$0.907	0.78%

With these changes, the monthly bill of a typical residential customer using 54 therms per month will increase by $0.37, or 0.72 percent, from $51.61 to $51.99.

[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.

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

Table 3: Change in Annual Revenues

PGA Gas Cost Change	$1,359,259
Gas Cost-related Amortizations	$608,515
Non Gas Cost-related Amortizations	-$1,424,465
Total Proposed Change[6]	$543,309

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, Cascade is requesting to amortize a **reduction** of $1,987,100. During the last calendar year Cascade's gross revenues were $65,973,538. Therefore, Cascade is seeking to amortize amounts equal to minus 3.01 percent of the previous year's gross revenues (i.e. a credit). This amortization does not exceed the three percent threshold. See Attachment C for a more detailed accounting of amortizations and the three percent test.

Future PGA Filings

To aid in review of future PGA filings, Cascade was advised that readily apparent supporting information must be provided for inputs in rows 12, 29, and 44 of Exhibit 1 Schedule 1 Oregon Summary of Gas Cost Deferrals, for the inputs in the Deferral column of Exhibit 1 Schedule 4 Core Market Commodity Costs, and the inputs in the Deferral column of Exhibit 1 Schedule 6 Core Market Demand & Gas Storage Mitigation Costs. This readily apparent information is required for future PGA filings to be considered complete.

PROPOSED COMMISSION MOTION:

Cascade's request for base gas cost changes for commodity and transportation, as proposed in Docket No. UG 279/Advice No. 14-08-01, be allowed to go into effect on November 1, 2014, along with the associated tariff sheets related to Docket No. UG 283/Advice No. 14-08-05.

[6] See Attachment B and CA10, CA11, and CA12 for details.

Cascade Natural Gas
2014 PGA
Incremental Revenue Change by Customer Rate Schedule
Attachment A

Customer Rate Schedule	Description	Gas Cost & Adjustment Schedule Total Revenue at Current[1]	Gas Cost & Adjustment Schedule Total Revenue at Proposed	Total Incremental Change in Revenue	Incremental Percentage Change by Rate Schedule	Percent Contribution to Total Incremental Change
101	Residential	34,854,642	35,122,176	267,535	0.77%	49.24%
104	Commercial	21,912,957	21,982,781	69,824	0.32%	12.85%
105	Industrial	2,194,239	2,276,012	81,773	3.73%	15.05%
111	Large Volume	974,822	1,012,938	38,116	3.91%	7.02%
112	Compressed Natural Gas					0.00%
126	Emergency Institution					0.00%
170	Interruptible	1,879,774	1,955,800	76,027	4.04%	13.99%
163	Distribution	1,063,391	1,069,197	5,807	0.55%	1.07%
164	Distribution	543,883	548,116	4,233	0.78%	0.78%
						0.00%
						0.00%
						0.00%
						0.00%
						0.00%
						0.00%
		63,423,707	63,967,021	543,314		100.00%

Revised

Notes:

[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 therms). There will be small differences with the Advice filings.

Cascade Natural Gas
2014 PGA
Incremental Revenue Change by Adjustment Schedule
Attachment B

Adjustment Schedule No. & Description		Gas Cost & Adjustment Schedule Revenue at Current [1]	Gas Cost & Adjustment Revenue at Proposed	Total Incremental Change in Revenue	% Contribution to Total Incremental Change
177-A	PGA	$41,008,779	$42,368,038	$1,359,259	250.18%
191	Temporary Gas Cost Adj	($810,865)	($202,350)	$608,515	112.00%
192	Intervenor Funding	$45,811	$60,566	$14,755	2.72%
193	CAP	($458,066)	($1,909,601)	($1,451,535)	-267.17%
194-B	Other Residual	($13,075)	$3,170	$16,245	2.99%
195	Public Purpose				0.00%
196	Earnings Sharing				0.00%
	Margin	$23,651,124	$23,647,194	($3,930)	-0.72%
					0.00%
				$0	0.00%
				$0	0.00%
	Total	$63,423,708	$63,967,017	$543,309	100.00%

Revised

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 therms). There will be small differences with the Advice filings.

Cascade Natural Gas
2014-2015 PGA
Three Percent Test
Attachment C

Revised

	Surcharge	Credit	
Prior Period Gas Cost Deferral True-Up	(202,146)		
Non-Gas Cost Amortizations			
Intervenor Funding	$60,887	$0	
Other Residuals	$3,170	$0	
Decoupling		(1,909,898)	
		$0	
		$0	
		$0	
		0	
Subtotal	64,057	(1,909,898)	
Total	(138,089)	(1,909,898)	
Total Proposed Amortization			($2,047,987)
Less: Intervenor Funding[1]			$60,887
Net Proposed Amortizations (subject to the 3% test)			($1,987,100)
Utility Gross Revenues (2013)			$65,973,538
3% of Utility Gross Revenues[2]			$1,979,206
Allowed Amortization			($1,987,100)
Allowed Amortization as % of Gross Revenues			**-3.01%**

[1] Intervenor Funding is excluded from the result of the 3% test pursuant to ORS 757.259(4)

[2] Unadusted general revenues as shown in the most recent Results of Operation.