ITEM NO. 5 & 6

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

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** __**November 1, 2016**__

DATE: October 5, 2016

TO: Public Utility Commission

FROM: Scott Gibbens SG

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 319/Advice No. O16-07-01) 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 322/Advice No. O16-07-04) 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 319/Advice No. O16-07-01 and Docket No. UG 322/ Advice No. O16-07-04, with an effective date of November 1, 2016.

DISCUSSION:

Issue

Whether the Commission should approve Cascade's 2016 annual Purchased Gas Adjustment (PGA) along with the tariff sheet revisions proposed by the Company in Docket No. UG 319/Advice No. O16-07-01 and in Docket No. UG 322/ Advice No. O16-07-04.

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 provides additional deferral requirements and procedures.

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.

Discussion and Analysis
On July 27, 2016, Cascade filed its annual PGA 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, 2016, Cascade 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.

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. *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 2016 PGA proposes a decrease of approximately 14 percent in gas commodity cost compared to that in its 2015 PGA. The decrease is in the gas cost per therm (weighted average cost of gas OR WACOG) because calculation of the percent change 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. Based on the 2016 PGA load forecast, this decrease in gas commodity cost is approximately $3,269,224. Cascade proposes a decrease in demand cost from that in the 2015 PGA of approximately 11 percent or $1,576,541. The combined gas commodity and demand cost change compared to the 2015 PGA is a decrease of approximately 13 percent or $4,845,765. These changes are approximate due to the use of forecasted loads and gas costs.

Staff reviewed Cascade's forecasted commodity and demand costs to determine whether Cascade complied with the Commission's Natural Gas Portfolio Development Guidelines (Portfolio Guidelines).[1]

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 Portfolio Guidelines implement these "best practices" for Oregon local distribution companies (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 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 2016-2017 PGA Year

Resource	Percentage in Portfolio (appx.)
Pipeline deliveries of natural gas	98%
Storage deliveries of natural gas	2%

Cascade's gas purchasing strategy for the 2016-2017 period is to hedge the prices of approximately 31 percent of the expected purchases. The 31 percent hedging target is

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

planned to include all fixed price physical contracts, and no financial hedges. The remaining 69 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 share any variance between forecasted and actual gas commodity costs at 90/10[2] percent or 80/20 percent, with a corresponding earnings review threshold. For the 2016-2017 PGA year Cascade elected a 90/10 sharing on July 27, 2016.[3]

<u>Backward Looking-True Up of Gas Commodity Costs for 2015-2016 PGA Year</u>

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 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, 2015, and the amount projected for the 2016-2017 PGA period. The commodity gas cost portion of the true-up is a decrease of $4,265,019 to customers. After removal of prior year amortization and addition of current year amortization, the total impact of the true-up is a decrease to customers of $4,683,165. The prior year amortization was projected and included in the 2014 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 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.

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[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.

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 2008 and 2016, the current proposal.

Table 2: Residential Rates 2008–2016 (Proposed)

Date	Customer Charge	Rate Per Therm[4]	Percentage Change[5]
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%
November 2015	$3.00	$0.844	-7.0%
November 2016	$3.00	$0.792	-7.2%

With these changes, the monthly bill of a typical residential customer using 51 therms per month will decrease by $3.13, or 6.74 percent, from $46.50 to $43.37.

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

Table 3: Change in Annual Revenues

PGA Gas Cost Change	-$4,845,765
Gas Cost-related Amortizations	-$260,009
Non Gas Cost-related Amortizations	$-260,829
Total Proposed Change[6]	-$5,627,432

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

[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.
[6] *See* Attachment B and CA11, CA12, CA 13, and CA14 for details.

natural gas utility's gross revenues for the preceding calendar year. For the upcoming gas year, Cascade is requesting to amortize a reduction of $5,361,342. During the last calendar year Cascade's gross revenues were $67,650,226. Therefore, Cascade is seeking to amortize amounts equal to (-7.9) 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.

Conclusion
This 2016 PGA Filing reflects a revenue decrease of $9.53 million, or approximately 14.1 percent[7] effective November 1, 2016, due to gas costs (Purchased Gas Cost Adjustment Provision; Schedule 177-A) and amortization of previous deferrals (Temporary Gas Cost Adjustment; Schedule 191). Combining the impact of this filing with the two other regulatory filings filed on July 29, 2016 (Schedule 192, Intervenor Funding; and Schedule 192, Conservation Alliance Plan), results in a revenue decrease of $9.05 million,[8] or approximately 15 percent of last year's gas costs.

PROPOSED COMMISSION MOTION:

Approve Cascade's request for base gas cost changes for commodity and transportation, as proposed in Docket No. UG 319/Advice No. O16-07-01, be allowed to go into effect on November 1, 2016, along with the associated tariff sheets related to Docket No. UG 322/Advice No. O16-07-04.

CNG UG 319/Advice No. O16-07-01 and UG 322/Advice No. O16-07-04

[7] See page 10 of 10 in Cascade's Exhibit 1 filed with its Supplemental 2016 PGA Filing
[8] See Attachment B of the Company's Supplemental 2016 PGA Filing

Cascade Natural Gas
2016 PGA
Incremental Revenue Change by Customer Rate Schedule
Attachment A

			REVISED			
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	33,936,333	29,144,273	(4,792,060)	-14.12%	52.95%
104	Commercial	20,558,229	17,213,278	(3,344,951)	-16.27%	36.96%
105	Industrial	1,711,218	1,386,852	(324,366)	-18.96%	3.58%
111	Large Volume	1,374,653	1,098,899	(275,754)	-20.06%	3.05%
112	Compressed Natural Gas					0.00%
126	Emergency Institution					0.00%
170	Interruptible	1,673,072	1,319,517	(353,556)	-21.13%	3.91%
163	Transportation	1,980,680	2,021,763	41,083	2.07%	-0.45%
		61,234,186	52,184,582	(9,049,605)	-14.78%	100.00%

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
2016 PGA
Incremental Revenue Change by Adjustment Schedule
Attachment B

REVISED

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	$37,190,329	$32,344,565	($4,845,764)	53.55%
191	Temporary Gas Cost Adj	($1,769,113)	($6,452,279)	($4,683,166)	51.75%
192	Intervenor Funding	$43,010	$128,971	$85,961	-0.95%
193	CAP	$697,145	$1,090,510	$393,365	-4.35%
194-B	Other Residual	$0	$0	$0	0.00%
	Margin	$25,072,815	$25,072,815	$0	0.00%
					0.00%
				$0	0.00%
				$0	0.00%
	Total	$61,234,186	$52,184,582	($9,049,604)	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 therms). There will be small differences with the Advice filings.

Cascade Natural Gas
2016-2017 PGA
Three Percent Test
Attachment C

	REVISED Surcharge	Credit	
Prior Period Gas Cost Deferral True-Up	(6,451,986)		
<u>Non-Gas Cost Amortizations</u>			
Intervenor Funding	$128,999		
Other Residuals			
Decoupling		1,090,644	
		$0	
		$0	
		0	
Subtotal	128,999	1,090,644	
Total	(6,322,987)	1,090,644	
Total Proposed Amortization			($5,232,343)
Less: Intervenor Funding[1]			$128,999
Net Proposed Amortizations (subject to the 3% test)			($5,361,342)
Utility Gross Revenues (2015)			$67,650,226
3% of Utility Gross Revenues[2]			$2,029,507
Allowed Amortization			($5,361,342)
Allowed Amortization as % of Gross Revenues			-7.93%

[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.