ITEM NO. CA16

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

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** November 1, 2015

DATE: October 6, 2016

TO: Public Utility Commission

FROM: Max St. Brown MSB

THROUGH: Jason Eisdorfer and Marc Hellman

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 321/Advice No. O16-07-03) Updates Schedule 193, Conservation Alliance Plan Temporary Adjustments.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas Company's (Cascade or Company) proposed Schedule 193 tariff, as described in the filing of Advice O16-07-03, effective on and after November 1, 2016.

DISCUSSION:

Issue:

Cascade seeks to amortize conservation and weather variance deferred balances for residential Schedule 101 and commercial Schedule 104. The total proposed balance for amortization is $1,090,644. To amortize this balance, Cascade requests a temporary rate increase of $0.01619 per therm for Schedules 101 and 104 customers.

Applicable Law:

I. ORS 757.259(5) states that unless subject to an automatic adjustment clause amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund. The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility.

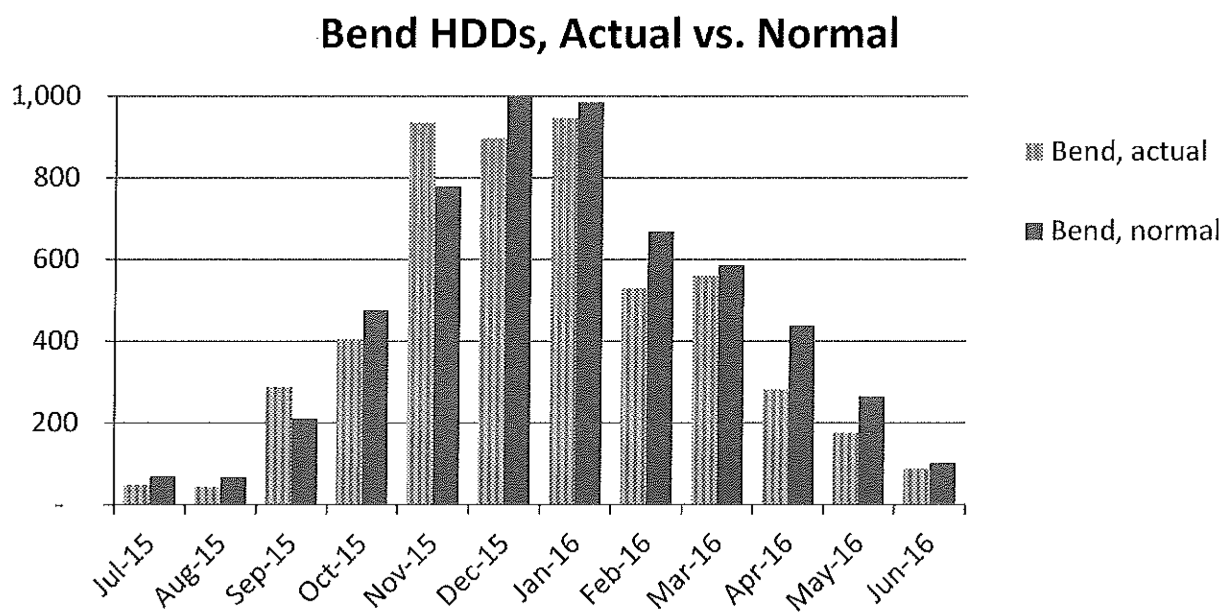
II. ORS 757.259(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year.

III. Commission Order No. 08-263 sets out the applicable interest rates to use for deferral accounts and to use when such amounts are amortized.

IV. OAR 860-027-0300(9) states that amortization in rates of a deferred amount is allowed only as authorized by the Commission. The Commission may authorize amortization of such amounts only for utility expenses or revenues for which the Commission previously has authorized deferred accounting. Upon request for amortization of a deferred account, the energy or large telecommunications utility must provide the Commission with its financial results for a 12-month period or for multiple 12-month periods to allow the Commission to perform an earnings review. The period selected for the earnings review will encompass all or part of the period during which the deferral took place or must be reasonably representative of the deferral period. Unless authorized by the Commission to do otherwise: (a) An energy utility may request that amortizations of deferred accounts commence no later than one year from the date that deferrals cease for that particular account; and, (b) In the case of ongoing balancing accounts, the energy utility may request amortization at least annually, unless amortization of the balancing account is then in effect.

Analysis:
The Conservation Alliance Plan (CAP) mechanism established by the Commission in Order No. 06-191 is a decoupling mechanism that allows Cascade to separately track changes in usage due to conservation and weather. Specifically, the mechanism consists of two deferral accounts, one to record changes in the margin due to weather-normalized usage (Conservation Variance) and another to track changes in the margin due to weather that varies from normal (Weather Variance). Including interest, the Conservation Variance deferral balance is ($482,576) and the Weather Variance deferral balance is $1,516,226. The sum of weather, conservation and residual balances plus a gross up for revenue sensitive cost percentages gives a total amortization balance of $1,090,644, for the upcoming PGA year.

The upwards adjustment in rates due to Weather Variance reflects that weather from July 2015 to June 2016 was warmer than historical average weather. For example, Bend, Cascade's largest weather station area by number of residential customers, had warmer than average weather in every month except September and November, as shown in the following graph:

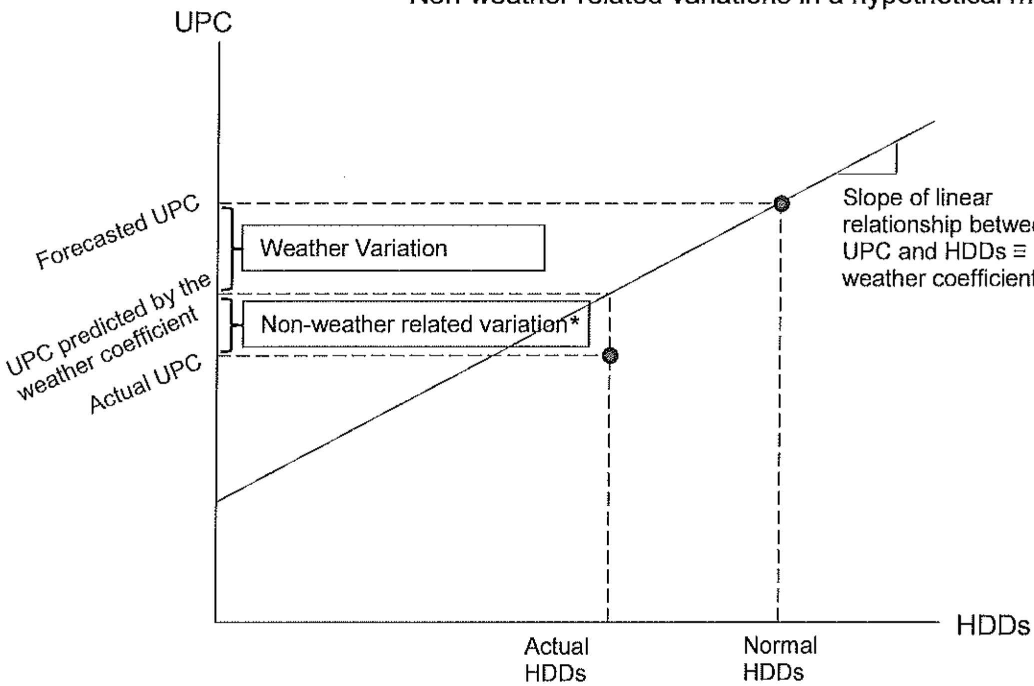


Data source: Cascade's 2016 PGA worksheet: *CNGC 9/16 Non Gas Cost Worksheet.xlsx*

Cascade's decoupling worksheet uses three weather stations: Bend, Baker, and Pendleton. For each weather station, the Company used monthly historical usage and weather data from July 2009 to June 2014 as inputs to ordinary least squares regression models in order to produce weather coefficient outputs. The weather coefficient outputs allow the Company to split variations from forecasted use-per-customer into Weather Variation and non-weather related variation. Cascade classifies non-weather related variation as Conservation Variation, however, CUB convincingly argued in UG 287 that this variation can be capturing other factors, for example economic conditions.[1] The figure below depicts one possible outcome of the variations for a hypothetical month:

[1] See UG 287 – CUB/100, Jenks-McGovern/12-13, available at: http://edocs.puc.state.or.us/efdocs/HTB/ug287htb9257.pdf

Figure 1: Cascade's CAP Decoupling Mechanism: Weather and Non-weather related variations in a hypothetical month



*classified as Conservation Variation

The figure above can be used to describe how Cascade computes the Weather Variation. For each month, in order to arrive at the Weather Variation adjustment in therms, the Company multiplies the weather coefficient by the difference between normal HDDs and Actual HDDs and by the number of customers. This therms value is multiplied by the commodity margin (listed as the delivery charge in the Company's tariff sheet) in order to arrive at the Weather Variation adjustment in dollars. Each monthly variation is added to the deferral account subject to interest accruals. The resulting account balance on June 30, 2016, was $1,465,736. On September 15, 2016, the Company made an updated filing in order to reflect a revised accrual interest rate. This revision has been reflected in Cascade's workpapers.

The Company uses the baseline commodity margin per customer to compute the Conservation Variance. The baseline commodity margin per customer multiplied by the number of customers provides the expected commodity margin. In each month, the expected commodity margin less the Weather Variance provides the Conservation Variance. Each monthly variation is added to the deferral account subject to interest accruals. The resulting account balance on June 30, 2106, was ($466,506) (a credit to customers).

In this filing, Cascade reports that the balance in the Weather Variance deferral account for amounts deferred July 2015 through June 2016 was $1,465,736. Interest accruals estimated through October 2016, at a 7.468 percent deferral interest rate, are $37,236, while interest accruals during the amortization period from November 1, 2016, through October 31, 2017, are $13,253, at a 2.2 percent interest rate. The sum of the balance and interest gives the total estimated Weather Variance deferral balance of $1,516,226.

The same procedure is used to calculate the total Conservation Variance deferral amount. The estimated balance due to conservation variance from July 2014 through June 2015 was ($466,506). Interest accruals through October 2016 are ($11,851) and interest accruals estimated during the amortization period from November 1, 2016, through October 31, 2017, are ($4,218). The total amortization balance is a credit of ($482,576). The remaining unamortized balance of the previous weather, conservation, and residual balances is recorded in the Residual Balance and the estimated amount is ($28,441).

The sum of weather, conservation and residual balances plus a gross up for revenue sensitive cost percentages gives a total amortization balance of $1,090,644, for the upcoming PGA year. The forecasted residential and commercial usage from November 2016 through October 2017 is 67,356,981 therms. Per forecasted therm, the amortization balance is $0.01619, accordingly Cascade proposes to temporarily set Schedule 193 rates to $0.01619 per therm. Schedule 101 and Schedule 104 customers pay Schedule 193 and $0.01619 is a $0.00584 increase per therm versus the current rate of $0.01035.

Staff examined the workpapers provided by the Company and then asked clarifying data requests in order to obtain more detailed workpapers. Staff did not identify any computational errors in the workpapers' formulas. Staff confirmed that the monthly Weather Variance, traced back to the historical usage data, and the Conservation Variance found in the Company's workpapers match the aggregate CAP deferral of $1,090,644 found in the filing.

The filing satisfies the requirements of the law set forth above. ORS 757.259(5) and OAR 860-027-0300(9) authorize amortization of deferred utility expenses or revenues in rates to the extent authorized by the Commission. Staff finds that the deferral balances and amortization rate are properly calculated. Pursuant to ORS 757.259(6), this filing does not impose a rate increase greater than three percent of Cascade's 2015 gross revenues.

The Company has reviewed this memo and it has no areas of disagreement.

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Company's proposed Schedule 193 rates, as described in the Advice filing O16-07-03, effective with service on and after November 1, 2016, be approved.

Cascade CAP