ITEM NO. CA16

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 12, 2017

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** **November 1, 2017**

DATE: September 28, 2017

TO: Public Utility Commission

FROM: Max St. Brown MSB

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 337/Advice No. O17-07-03) 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 O17-07-03, effective for service on and after November 1, 2017.

DISCUSSION:

Issue

Whether to approve Cascade's proposed Schedule 193 tariff changes. Cascade seeks to credit residential Schedule 101 and commercial Schedule 104 customers for $4,683,740 associated with conservation and weather variance deferred decoupling balances. This credit, if approved, would be distributed to customers via a $0.08194 decrease per therm to the Schedule 193 rate. The current Schedule 193 rate is $0.01619 per therm and the proposed rate is ($0.06575).

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 rates 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, modified in Order No. 10-279, 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; (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; or (c) A utility may request amortization as soon as practical but no later than in its next rate case.

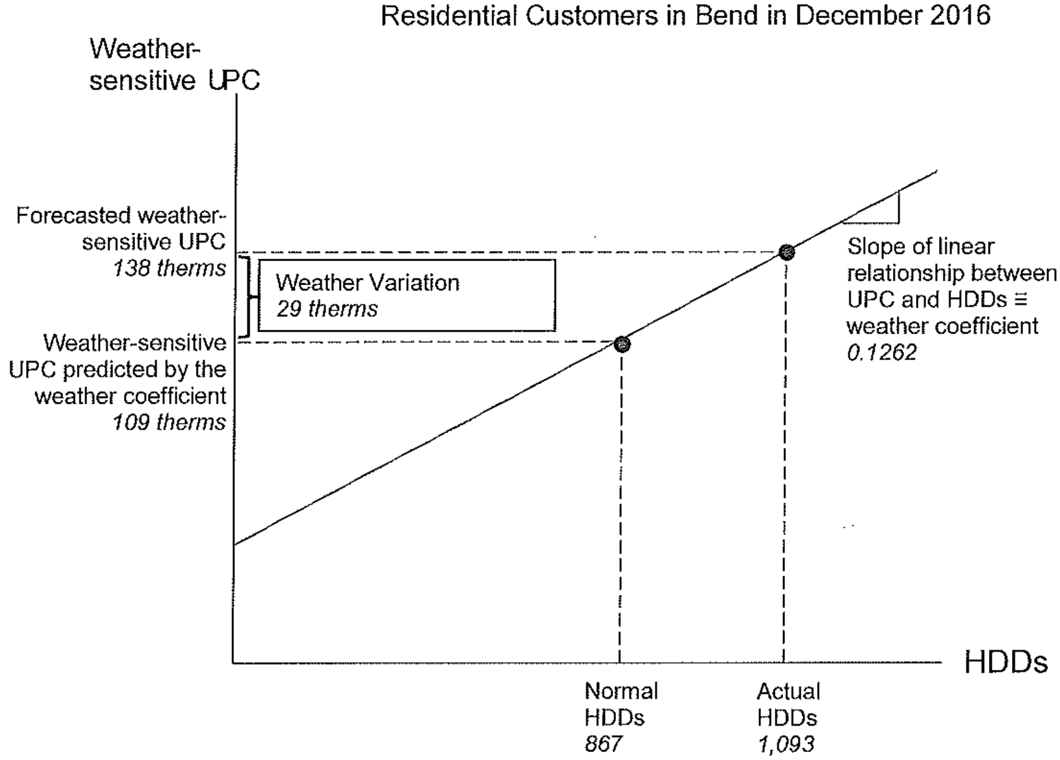
<u>Analysis</u>

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 ($3,175,742) and the Weather Variance deferral balance is ($1,044,478). The sum of weather, conservation and residual balances plus a gross up for revenue sensitive cost percentages gives a total balance to be credited back to customers of $4,683,740, for the upcoming PGA year.

The credit back to customers due to Weather Variance reflects colder than historical average weather. Because the last PGA year was colder than average (July 2016 – June 2017), customers purchased more natural gas as compared to normal weather, and thereby provided more than average revenue to the Company and via the decoupling mechanism, customers are owed a rate credit.

The Company computes Weather Variances using 72 unique weather coefficients. Each weather coefficient represents the modeled relationship between heating degree days and gas usage for each of three weather regions (Bend, Baker, Pendleton), two rate Schedules (residential 101 and commercial 104), and 12 months (July 2016 – June 2017), where 3*2*12 = 72. The computation pattern is identical for each of the 72 combinations, so this memo will walk through just one of the computations in detail. The detailed computation is provided for Bend, Schedule 101, and December 2016. The figure below depicts the weather variation for December 2016 for an average residential customer in Bend, OR:

Figure 1: Cascade's CAP Decoupling Mechanism: Weather Variance for Residential Customers in Bend in December 2016



The figure above can be used to describe how Cascade computes the Weather Variation in a given month for a given class. First, the 29 therm UPC difference versus normal weather for Bend is multiplied by 43,556, the number of Bend residential customers. This provides 1,242,658 therms of additional residential usage beyond that predicted under normal weather in Bend. That is summed with the comparable figures for Baker and Pendleton to arrive at a 1,682,923 therms weather normalization adjustment for residential customers in December 2016. That weather normalization adjustment is multiplied by the residential commodity margin of $0.36884 to arrive at a $620,729 margin change due to weather normalization. Because this is revenue in excess of forecasted revenue, it was added as a credit to the weather variance deferred decoupling balance for December 2016. The December 2016 conservation[1] variance deferred decoupling balance for December 2016 is equal to the actual margin net of the forecasted margin and the margin change due to weather normalization. In this case, that is $3,560,937 – $2,537,885 – $620,729 = $402,322. Because this is revenue in excess of forecasted revenue, it was added as a credit to the conservation variance deferred decoupling balance for December 2016. Cascade repeated this computation process 24 times for each of 12 months and two rate Schedules.

Each of the entries in the weather variation and conservation variation deferral accounts are subject to interest accruals. The sum of weather, conservation and residual balances plus a gross up for revenue sensitive cost percentages gives a total balance to be credited back to customers of $4,683,740, for the upcoming PGA year. The forecasted residential and commercial usage from November 2017 through October 2018 is 71,237,898 therms. Per forecasted therm, the amortization balance is the proposed Schedule 193 rate of $0.06575.[2]

Staff found the workpapers provided by the Company sufficient and did not ask any information requests. Staff confirmed the accuracy of the data sources in the Company's workpapers. 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 amortization of ($4,683,740) found in the filing.

<u>Conclusion</u>

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. Staff did not conduct an earnings test for the decoupling amounts, given that these amounts are subject to an annual earnings

[1] All non-weather variation in UPC is referred to as conservation, while in fact, factors other than conservation, such as the economy, will impact UPC.
[2] $4,683,740 ÷ 71,237,898 therms = $0.06575 per therm.

review with a sharing mechanism. Pursuant to ORS 757.259(6), this filing does not impose a rate increase greater than three percent of Cascade's gross revenues.

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

PROPOSED COMMISSION MOTION:

Approve Cascade Natural Gas Company's proposed Schedule 193 rates, as described in the Advice filing O17-07-03, effective with service rendered on and after November 1, 2017.

Cascade CAP