ORDER NO. 12 277

ENTERED JUL 03 2012

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 903

In the Matter of CASCADE NATURAL GAS CORPORATION 2012 Spring Earnings Review.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on July 3, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.

BY THE COMMISSION:

Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

ORDER NO. 12 277

ITEM NO. CA10

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 3, 2012

REGULAR ____ **CONSENT** _X_ **EFFECTIVE DATE** N/A

DATE: June 5, 2012

TO: Public Utility Commission

FROM: Deborah Garcia DG

JE MG JJ

THROUGH: Jason Eisdorfer, Maury Galbraith and Judy Johnson

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 903) 2012 Spring Earnings Review.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Cascade Natural Gas's earnings for the 12 months ended December 31, 2011, exceed the earnings threshold established in UM 903 and $368,759 should be shared with customers.

DISCUSSION:

n Order Nos. 98-543[1] and 99-284 (Dockets UM 903 and AR 357), the Commission adopted Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies – Northwest Natural, Cascade Natural Gas (Cascade or Company), and Avista Utilities. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were originally scheduled to sunset in 2002 but were extended twice, first until 2006 by Order No. 03 198 (AR 449) and then through 2008 by Order No. 07-019 (AR 512). Commission Order No. 08-504 (UM 1286) that adopted revisions to the current PGA mechanism also eliminated the sunset provision.[2]

The Commission's findings, as they apply to earnings reviews, are summarized below:

Annual Election
Not later than August 1st of each year, each Local Distribution Company (LDC) shall make an annual election for the applicable gas year beginning November 1st whether to

[1] Amended by Order Nos. 99-272 and 04-203.
[2] The sunset provision was eliminated from OAR 860-022-0070 by Order No. 09-096 (AR 532).

choose 90/10[3] sharing or 80/20 sharing with a corresponding earnings review threshold. In its letter, Cascade elected a 90/10 sharing beginning November 1, 2010.

Spring Earnings Review
An earnings review will be performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review will apply to the sharing election made by the LDC the previous August (e.g., the 2010 election will apply to the 2011 Fiscal Year results of operations which are the subject of the 2012 Spring Earnings Review); if earnings are found to be above a specified return on equity (ROE) level, a portion of those revenues will be booked to a deferred account.

The ROE Earnings Threshold
An LDC that elects 90/10 sharing will be subject to an earnings threshold 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets. An LDC that elects 80/20 sharing is subject to an earnings threshold 150 basis points above its ROE, adjusted in the same manner.

Structure of Earnings Reviews
By May 1st of each year, the LDC will file results of operations for the twelve months ended the prior December 31st. Staff will complete its review and distribute summary conclusions by June 10th to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1st and the Commission would issue its decision on unresolved issues by August 15th. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.

Earnings Adjustments
Recorded results of operations will be adjusted for Type 1 adjustments as set forth in Order No. 99-272, Appendix B. Cascade made a one-time election not to include a weather normalization adjustment in its spring 1999 earnings review filing and each subsequent annual filing.

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[3] Sharing of the variance between the LDC's weighted average cost of gas (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. The earnings threshold is adjusted each year by 20 percent of any change in the risk free rate for the twelve-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c)).

Earnings Performance
If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold level will be shared with customers.

Effective Date of Rate Adjustment and Applicable Interest
Upon completion of the earnings review, any amount of earnings over the sharing dead band determined to be returned to customers will be booked to a deferred account. Interest shall apply beginning the previous January 1st. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.

Staff's Review of Cascade's Earnings
The earning threshold for Cascade for this 2012 Spring Earnings review (review of the 2011 results of operations) is 10.82 percent. Pursuant to the rules, Cascade submitted its 2011 Results of Operations report for the 12 months ending December 31, 2011. Cascade calculates its ROE as 12.77 percent after the application of its Type I adjustments, excluding weather normalization. Subsequently, Cascade filed a revised workpaper that corrects the calculation of the amount the Company will share with customers. The Company states that its report was developed in a manner consistent with Commission Order No. 98-543, as amended in Order No 04-203, and in accordance with OAR 860-022-0070.

In its filing, Cascade has included a Type I adjustment to reduce revenues that is related to its Conservation Alliance Plan (CAP) deferral.[4] As this is not a typical Type I adjustment, Staff requested that Cascade provide additional information in support. The Company provided a workpaper, and in an accompanying explanation stated that the adjustment is based on an inappropriate allocation of the margin per customer per month that was established for the 2010/2011 Purchased Gas Adjustment (PGA Year). The annual amount is correct; the error is in the monthly allocations which span part of two calendar years. Appropriately reallocating the deferral increases the 2010 earnings and reduces its 2011 earnings.

Using the revised allocation, Cascade recalculated its 2010 earnings and determined that the increase to earnings would not exceed the threshold where sharing would have been required. Natural Gas Rates and Planning (NGR&P) Staff agree that Cascade's reallocation more appropriately reflects how margin should have been allocated on a monthly basis for the 2010/2011 PGA Year. Based on a review of the information provided by Cascade and the NGR&P Staff, I agree that adjusting the 2010 and 2011

[4] The CAP is a mechanism that allows Cascade to collect margin lost due to conservation measures. See Cascade's Rule 19 for the details of the mechanism.

revenues as a Type I adjustment is appropriate. On this basis I conclude that Cascade's reported ROE has been calculated correctly and customers are entitled to a sharing in the amount of $368,759.

As required by OAR 860-022-0070(6), Staff submitted these findings to the parties in Docket No. UM 903 on June 10, 2012, and received no comments in response.

PROPOSED COMMISSION MOTION:

Accept Staff's finding that Cascade's 2011 earnings exceed the earnings threshold designated in UM 903, and that earnings in the amount of $368,759 should be returned to customers through the appropriate tariffs, coincident with the rate change implementing the 2012/2013 PGA.