e-FILING REPORT COVER SHEET

COMPANY NAME: Cascade Natural Gas Corporation

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Cascade Natural Gas Corporation, CAP Mechanism Review Compliance Filing, Rule 19

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CASCADE NATURAL GAS CORPORATION
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November 27, 2019 **CNG/O19-11-02**

Oregon Public Utility Commission
Attn: Filing Center
P.O. Box 1088
Salem, OR 97308-1088

Re: Rule 19, Conservation Alliance Plan Mechanism

Cascade Natural Gas Corporation (Cascade or the Company) herewith submits the following revisions to its Tariff P.U.C. Or. No. 10, stated to become effective with service on and after January 1, 2020:

First Revision of Sheet No. 19.1
First Revision of Sheet No. 19.2

Overview

The Conservation Alliance Plan (CAP) mechanism is Cascade Natural Gas Corporation's (Cascade or the Company) current revenue decoupling mechanism. It was established by the Public Utility Commission of Oregon (OPUC) via Order No. 06-191[1]. In docket UG 287, the parties agreed to continue Cascade's current decoupling mechanism and to initiate a review of the mechanism on September 30, 2019 with any proposed changes to be effective January 1, 2020.[2]

On September 30, 2019 Cascade submitted a compliance filing to formally begin the decoupling review process and reintroduce issues pertaining to the decoupling mechanism that had been raised by OPUC staff in the Company's preceding rate cases.[3] The Company notified the parties to UG 287 about the review process and facilitated a series of meetings to discuss possible changes to the decoupling mechanism. The meetings occurred October 18th, November 1st, and November 15, 2019, as well as by electronic communications in which the parties proposed CAP modifications. Based on these discussions the company proposes the following changes to the decoupling mechanism:

- Annual 3% CAP surcharge limit, excess surcharge is deferred to the next period
- No limits to customer refunds
- CAP deferrals will accrue at Modified Blended Treasury (MBT) rate; deferred amounts in excess of a 3% limit will accrue interest at Cascade's Authorized Rate of Return (AROR).

Background

The CAP mechanism allows the Company to track changes in customer usage and revenues due to conservation and weather. The Company therefore maintains two deferral accounts within the CAP mechanism, with the combined activities of Schedules 101 (residential) and 104 (commercial) recorded.

[1] UG 167, Order No. 06-191
[2] UG 287, Order No. 15-412 at E (Dec. 28, 2015).
[3] UG 287, Compliance Filing, Decoupling Mechanism Review (Sept. 30, 2019).

The first deferral account, related to conservation, records the difference of non-weather-related margin from expected commodity margin. The second deferral account, related to weather, tracks differences in margin due to natural variances from normalized weather.

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

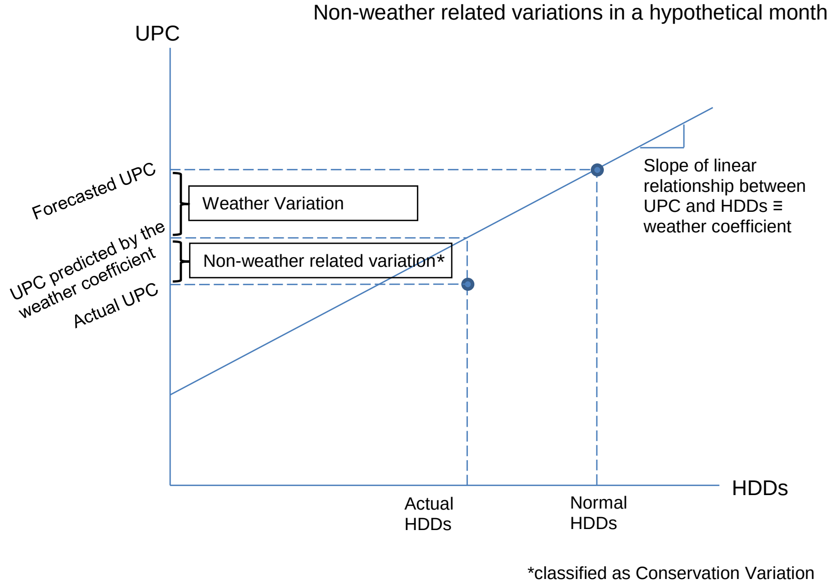

Figure 1 illustrates the Company's decoupling mechanism. The figure shows a hypothetical month in which Cascade would compute Weather and non-weather related (Conservation) revenue variations for deferral.

To arrive at the Weather variation deferral, the Company multiplies a weather coefficient (which is calculated for each calendar month by Oregon weather zone) by the difference between weather-normalized Heating Degree Days (HDDs) and Actual HDDs and by the number of customers. The product is a therm value that is then multiplied by the Company's commodity margin rate (shown on the Company's tariff sheet as the delivery charge) to arrive at the weather variation deferral in dollars.

The Conservation deferral is simply the difference between the expected commodity margin (number of customers multiplied by the baseline margin per customer) and Weather variation deferral.

Historically, the Company has imputed interest on its CAP deferral accounts at its authorized rate of return, whereas Cascade's amortization accounts accrue interest at MBT interest rates. Each year the deferral balances are transferred to an amortization account and returned to customers at an annual rate based on forecasted therm values for Schedules 101 and 104.

Cascade's CAP Modifications Proposal

- *3 percent CAP surcharge limit*

Cascade proposes implementing an annual 3% limit to CAP surcharges to customers. The 3% threshold will be determined by dividing proposed annual incremental surcharge revenue by the total weather normalized revenue for customer Schedules 101 and 104 for the most recent January through December time period prior to filing. Normalized revenue is determined by multiplying the weather corrected usage for the period by the present CAP billing rates. If the proposed CAP surcharge in a given year exceeds the 3% threshold the proposed amortization amount will be limited to 3%. Any excess surcharge revenue will be deferred for recovery in the following year and will be subject to the same 3% test for that time period.

- *No limit to customer rebates*

There will be no limitation to a customer credit or rebate and the Company will endeavor to distribute such rebate over a one-year time period. In the event of a reversal of a customer decoupling rebate, the rebate reversal will not be included in the annual 3% test.

- *Interest accrued at MBT rate for first 3 percent, excess deferral interest accrued at AROR*

The Company proposes accruing interest at the MBT rate for deferral balances less than or equal to 3% of weather normalized revenue of customer Schedules 101 and 104 for the most recent January through December time period prior to filing. Any deferral amounts in excess of the 3% limit will accrue interest at a rate equal to the Company's AROR.

- *Future Review Period*

The Company proposes a new term for the CAP mechanism and agrees to initiate the next review of the mechanism on September 30, 2024, with any proposed changes to be effective January 1, 2025. This time period does not preclude the possibility of parties to future rate proceedings proposing additional modifications to the Company's decoupling mechanism.

If you have any questions regarding this filing, please contact me at (509) 734-4593.

Sincerely,

/s/ Michael Parvinen

Michael Parvinen
Director, Regulatory Affairs

Attachments

RULE 19
CONSERVATION ALLIANCE PLAN MECHANISM

APPLICABLE
The Conservation Alliance Plan (CAP) mechanism described in this rule applies to customers served on Residential General Service Rate Schedule 101 and Commercial General Service Rate Schedule 104.

TERM
The Company shall initiate a review of this mechanism on September 30, 2024, with any proposed changes to be effective January 1, 2025. (C) (C)

PURPOSE
The purpose of this provision is to (a) define the procedures for the annual tracking revisions in rates due to changes in the weather-normalized use per customer associated with Rate Schedule 101 & Rate Schedule 104; and (b) to define the procedures for the deferral of differences experienced between the actual average use per customer and the amount estimated at the time the Margin Rates were established.

REVISIONS TO COMMODITY MARGIN RATES DUE TO CHANGES IN THE WEATHER-NORMALIZED USE/CUSTOMER

1. The Company shall use the baseline weather normalized average commodity margin per customer for Rate Schedule 101 and Rate Schedule 104 as reflected in its General Rate Case, docketed as UG 347. That application was based upon the weather-normalized, twelve months ending December 31, 2017. (T) (T)

2. For each subsequent year for the term of this provision, the Company shall file annually (CAP Filing) with the Commission to update the Commodity Margin Rate for Rate Schedule 101 and Rate Schedule 104 based upon the weather normalized usage for the twelve months ending June 30th divided into the margin requirement of each rate schedule.

3. Weather-normalized usage is calculated using the approach to weather normalization adopted in the Company's Spring Earnings Review filings, PGA Applications and other weather normalized report submittals.

4. The Total Commodity Margin Requirement of Rate Schedule 101 and Rate Schedule 104 shall be calculated by multiplying the baseline average commodity margin per customer per Rate Schedule, excluding any margin collected through the monthly Basic Service Charge, by the current twelve months ended June 30 average customer count based upon the average of the monthly bills issued.

5. The Margin Commodity Rate is calculated by dividing the Total Commodity Margin Requirement by the Total Weather Normalized Usage.

RULE 19
CONSERVATION ALLIANCE PLAN MECHANISM

DEFERRAL OF MARGIN COLLECTION DIFFERENCES

1. The Company will maintain Conservation Variance and Weather Variance deferral accounts as Regulatory Assets or Liabilities. Each month, the Company will calculate the difference between the weather-normalized actual margin and the expected margin for rate schedules 101 and 104. Expected margin shall be the baseline average commodity per customer multiplied by the current customer count. The resulting dollar amount difference will be recorded in the Conservation Variance deferral account. The Company will also calculate the difference between non-weather normalized actual margin and the expected margin for rate schedules 101 and 104. The resulting dollar amount difference will be reduced by subtracting the dollar amount recorded in the Conservation Variance deferral account with the remainder recorded in the Weather Variance deferral account.

2. The Company shall impute interest on the deferred balances on a monthly basis utilizing the Commission established Modified Blended Treasury Rate on deferral balances less or equal to 3% of the total normalized revenues of schedules 101 and 104 for the most recent twelve months prior to the time of filing. For deferral amounts in excess of 3% of total normalized revenues for schedules 101 and 104, the Company shall utilize an interest rate equal to its Commission authorized rate of return. (C) (C)

3. The Company will include in the annual CAP filing a temporary adjustment amount designed to amortize any balance in the Conservation Variance and the Weather Variance deferral accounts. Temporary surcharges and/or refund increments will be applied to the Margin Commodity Rate over the following twelve months or any other appropriate amortization period.

3% DECOUPLING RATE SURCHARGE LIMITATION (N)

1. The amount of any proposed incremental adjustment under this Schedule is subject to a 3% rate surcharge limit. To determine the limit the Company shall divide the proposed incremental surcharge revenue by the total "normalized" revenues of rate schedules 101 and 104 over the most recent January through December time period prior to the filing. Normalized revenue is determined by multiplying the weather corrected usage for the period by the present billing rates. If incremental surcharge revenues exceed 3%, then the proposed surcharge will be limited to 3% with additional revenues deferred for collection until the following year. There shall be no limitation to a proposed credit to customers under this Schedule in a given year. Any reversal of a customer rebate will not be subject to the 3% incremental surcharge test. (N)

RULE 19
CONSERVATION ALLIANCE PLAN MECHANISM

APPLICABLE
The Conservation Alliance Plan (CAP) mechanism described in this rule applies to customers served on Residential General Service Rate Schedule 101 and Commercial General Service Rate Schedule 104.

TERM
The Company shall initiate a review of this mechanism on September 30, ~~2019~~2024, with any proposed changes to be effective January 1, ~~2020~~2025. (C) (C)

PURPOSE
The purpose of this provision is to (a) define the procedures for the annual tracking revisions in rates due to changes in the weather-normalized use per customer associated with Rate Schedule 101 & Rate Schedule 104; and (b) to define the procedures for the deferral of differences experienced between the actual average use per customer and the amount estimated at the time the Margin Rates were established.

REVISIONS TO COMMODITY MARGIN RATES DUE TO CHANGES IN THE WEATHER-NORMALIZED USE/CUSTOMER

1. The Company shall use the baseline weather normalized average commodity margin per customer for Rate Schedule 101 and Rate Schedule 104 as reflected in its General Rate Case, docketed as UG ~~305~~347. That application was based upon the weather-normalized, twelve months ending December 31, ~~2016~~2017. (T) (T)

2. For each subsequent year for the term of this provision, the Company shall file annually (CAP Filing) with the Commission to update the Commodity Margin Rate for Rate Schedule 101 and Rate Schedule 104 based upon the weather normalized usage for the twelve months ending June 30th divided into the margin requirement of each rate schedule.

3. Weather-normalized usage is calculated using the approach to weather normalization adopted in the Company's Spring Earnings Review filings, PGA Applications and other weather normalized report submittals.

4. The Total Commodity Margin Requirement of Rate Schedule 101 and Rate Schedule 104 shall be calculated by multiplying the baseline average commodity margin per customer per Rate Schedule, excluding any margin collected through the monthly Basic Service Charge, by the current twelve months ended June 30 average customer count based upon the average of the monthly bills issued.

5. The Margin Commodity Rate is calculated by dividing the Total Commodity Margin Requirement by the Total Weather Normalized Usage.

RULE 19
CONSERVATION ALLIANCE PLAN MECHANISM

DEFERRAL OF MARGIN COLLECTION DIFFERENCES

1. The Company will maintain Conservation Variance and Weather Variance deferral accounts as Regulatory Assets or Liabilities. Each month, the Company will calculate the difference between the weather-normalized actual margin and the expected margin for rate schedules 101 and 104. Expected margin shall be the baseline average commodity per customer multiplied by the current customer count. The resulting dollar amount difference will be recorded in the Conservation Variance deferral account. The Company will also calculate the difference between non-weather normalized actual margin and the expected margin for rate schedules 101 and 104. The resulting dollar amount difference will be reduced by subtracting the dollar amount recorded in the Conservation Variance deferral account with the remainder recorded in the Weather Variance deferral account.

2. The Company shall impute interest on the deferred balances on a monthly basis utilizing the Commission established ~~deferral account interest rate.~~ Modified Blended Treasury Rate on deferral balances less or equal to 3% of the total normalized revenues of schedules 101 and 104 for the most recent twelve months prior to the time of filing. For deferral amounts in excess of 3% of total normalized revenues for schedules 101 and 104, the Company shall utilize an interest rate equal to its Commission authorized rate of return. (C)

3. The Company will include in the annual CAP filing a temporary adjustment amount designed to amortize any balance in the Conservation Variance and the Weather Variance deferral accounts. Temporary surcharges and/or refund increments will be applied to the Margin Commodity Rate over the following twelve months or any other appropriate amortization period.

3% DECOUPLING RATE SURCHARGE LIMITATION (N)

1. The amount of any proposed incremental adjustment under this Schedule is subject to a 3% rate surcharge limit. To determine the limit the Company shall divide the proposed incremental surcharge revenue by the total "normalized" revenues of rate schedules 101 and 104 over the most recent January through December time period prior to the filing. Normalized revenue is determined by multiplying the weather corrected usage for the period by the present billing rates. If incremental surcharge revenues exceed 3%, then the proposed surcharge will be limited to 3% with additional revenues deferred for collection until the following year. There shall be no limitation to a proposed credit to customers under this Schedule in a given year. Any reversal of a customer rebate will not be subject to the 3% incremental surcharge test. (N)