ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 21, 2021

REGULAR ____ CONSENT X EFFECTIVE DATE November 1, 2021

DATE: October 12, 2021

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Bryan Conway, John Crider, and Matt Muldoon **SIGNED**

SUBJECT: CASCADE NATURAL GAS:
(Docket No. ADV 1289/Advice No. O21-07-01)
Requests approval of Special Contract to provide services to PacifiCorp and Hermiston Generating Company.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Cascade Natural Gas's (Cascade or Company) Advice No. O21-07-01, which contains two Special Contracts with PacifiCorp and Hermiston Generating Company, LP (Hermiston), both with an effective date of November 1, 2021.

DISCUSSION:

Issue

Whether the Commission should approve Cascade's proposed Special Contracts between Cascade and PacifiCorp and Cascade and Hermiston for gas delivery services to Hermiston Generating Plant, for service rendered on and after November 1, 2021.

Applicable Law

ORS 757.230 governs the Commission's ability to establish customer classifications that consider the quantity used, time when used, the purpose for which used, the existence of price competition or a service alternative, the services being provided, the conditions of service and any other reasonable consideration. A classification or schedule of rates may be applicable to individual customers or groups of customers. For rate classifications that primarily relate to price competition or a service alternative, the

Commission must consider: (a) whether the rate generates revenues at least sufficient to cover relevant short and long run costs of the utility during the term of the rates; (b) Whether the rate generates revenues sufficient to insure that just and reasonable rates are established for remaining customers of the utility; and (c) for electric and natural gas utilities: whether it is appropriate to incorporate interruption of service in the utility's rate agreement with the customer and whether the rate agreement requires the utility to acquire new resources to serve the load. .

ORS 757.210 requires the Commission to ensure that a rate or schedule is fair, just and reasonable.

OAR 860-022-0035(1) provides that energy utilities within Oregon entering into special contracts with certain customers prescribing and providing rates, services, and practices not covered by or permitted in the general tariffs, schedules, and rules filed by such utilities are in legal effect tariffs and are subject to supervision, regulation, and control as such. Subsection (2) provides that all special agreements designating service to be furnished at rates other than those shown in tariffs now on file in the Commission's office shall be classified as rate schedules and that true and certified copies shall be filed subject to review and approval pursuant to the requirements of OARs 860-022-0005 through 860-022-0030.

Background

The Hermiston Generating Plant is jointly owned by Hermiston and PacifiCorp. Cascade delivers natural gas distribution transportation services to the plant though its pipeline. In 1994, Cascade agreed to construct the Cascade Pipeline to serve the generating plant. In 1996, Cascade entered into an agreement to provide distribution transportation services to the generating plant under a 20-year term. That original contract has since expired, and the parties wish to enter into new agreements.

<u>Analysis</u>

In its filing, Cascade explains that PacifiCorp and Hermiston are capable of building their own pipeline to connect the generating plant to the interstate natural gas pipeline and bypass Cascade facilities, and that it would be economical for them to do so under the current transportation rate schedule. In order to retain PacifiCorp and Hermiston as rate-paying customers, and avoid the cost-shifting of the existing facilities onto other customers, Cascade negotiated two separate special contracts with PacifiCorp and Hermiston for the service.

With the filing, Cascade updates its P.U.C. OR. No. 10 tariff sheet 201.7 which provides the general terms and conditions of the contract with PacifiCorp. Tariff sheet 201.3 provides similar terms and conditions of the contract with Hermiston.

General Contract Terms
Both contracts have a minimum primary contract term of 15 years with a provision to terminate the contract with at least one-year written notice. The PacifiCorp contract is effective June 7, 2021 and the Hermiston contract is effective August 16, 2021. Each contract includes a monthly demand charge of $11,250, a monthly service charge of $625, and an initial commodity charge of $0.0278 per MMBtu. The commodity charge shall annually adjust with the Consumer Price Index.

Considerations Required by ORS 757.230
Cascade argues that there are service alternatives to its provision of service to the Hermiston Generating Plant – namely, that PacifiCorp and Cascade could choose to construct their own pipeline to connect the generating plant to the interstate natural gas pipeline and bypass Cascade facilities, and that it would be economical for them to do so under the current transportation rate schedule. As such, the justification for its proposal special contracts with PacifiCorp and Hermiston Generating Company is related to a service alternative. In such a circumstance, the Commission is required to consider the following:

- Whether the rate generates enough revenue sufficient to cover relevant short and long run costs of the utility during the term of the rates.

  Cascade explains in the filing that without the Special Contract, the customers could bypass Cascade's facilities and contribute nothing towards the fixed costs of the existing pipeline. The contract rate is designed to recover all costs associated with the net book value of the distribution facilities and all allocated costs per Cascade's last cost of service study, and includes a margin above these costs based on the expected cost of constructing bypass facilities.

- Whether the rate generates revenues sufficient to ensure that just and reasonable rates are established for remaining customers of the utility.

  With the contracts in place, Cascade asserts that its customers are held harmless from the cost-shifting that would otherwise occur. The contract rates recover an average of the net book value and estimated bypass construction cost plus cost of servicing PacifiCorp and Hermiston.

- Whether it is appropriate to incorporate interruption of service in the utility's agreement with the customer.

  PacifiCorp and Hermiston are capable of constructing and operating their own service line directly to the interstate pipeline facilities to establish firm distribution deliverability. Cascade states that these circumstances require Cascade to provide firm distribution service as the minimum level of service in order to compete effectively to retain the customer.

- Whether the rate agreement requires the utility to acquire new resources to serve the load.

  Cascade states that the customers covered in this filing will continue to receive firm distribution transportation services through the use of existing facilities. No new resources are required to provide service.

Conclusion

Staff reviewed the Company's filing, which includes confidential copies of the Special Contracts with PacifiCorp and Hermiston, and workpapers demonstrating how the contract rate was derived and how it represents recovery of a weighted average cost of the net book value of the existing pipeline and the cost to construct new facilities. Given that the customers have the option to build bypass facilities that would shift the remaining fixed costs of the pipeline to existing customers, Staff concludes that this Special Contract represents just and reasonable rates and is in the public interest for the remainder of Cascade rate payers.

PROPOSED COMMISSION MOTION:

Approve Cascade's Advice No. O21-07-01, which contains two Special Contracts with PacifiCorp and Hermiston Generating Company, LP, both with an effective date of November 1, 2021.