ITEM NO. CA1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 13, 2023

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ______July 1, 2023______

DATE: May 24, 2023

TO: Public Utility Commission

FROM: Ishraq Ahmed

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: CASCADE NATURAL GAS COMPANY:
(Docket No. ADV 1499/Advice No. O23-04-01)
Cascade's Pandemic Cost Recovery.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas Company's (Cascade, CNG, or Company) Advice No. O23-04-01 filing, withdrawing Schedule 35 that was implemented to prevent bad debt accumulation on customer accounts as per Commission Order No. 20-401, and proposing the addition of Schedule 38 to recover costs deferred per Commission orders issued in UM 2072, effective July 1, 2023.

DISCUSSION:

Issue

Whether the Commission should approve 1) Cascade's proposed withdrawal of Schedule 35, the temporary COVID-19 Residential Bill Assistance Program, and 2) the addition of Schedule 38, Pandemic Cost Recovery to recover deferred costs effective July 1, 2023.

Applicable Rule or Law

Under ORS 757.259 (identifiable utility expenses or revenues), the recovery or refund, of which the Commission finds, should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to appropriately match the costs borne by and benefits received by ratepayers.

Under OAR 860-027-0300 (electric companies, gas utilities, and steam heat utilities): a current expense or revenue associated with current service, as allowed by ORS 757.259 (amounts includable in rate schedule); or large telecommunications utilities: an amount allowed by ORS 759.200 (Inclusion of amortizations in rates).

Analysis

Background
Governor Kate Brown declared a statewide state of emergency on March 8, 2020, due to the public health threat posed by the coronavirus, COVID-19. Since that time, Cascade has incurred costs in its response, including the waiving of late payment fees and implementation of bill assistance programs to assist customers facing economic pressures. Other costs included the purchase of additional cleaning supplies, contract tracing, medical testing, forgone fees, and the provision of personal protective equipment for both remote and on-site employees.

However, in addition to these costs, Cascade experienced a reduction in employee travel and training expenses along with a reduction in bad debt expenses—these have been applied as an offset to the deferred COVID-19-related expenses. These items and more, are described in the Stipulated Agreement in Order 20-401 and Term Sheet in Order 20-324, both adopted by the Commission in Docket No. UM 2114.

Deferral Determination
As of March 26, 2023, the Company has deferred the costs and benefits associated with the COVID-19 pandemic resulting in an Oregon net asset balance of $1,191,530 before revenue-sensitive cost adjustment. After adding the interest accruals (with the application of the modified blended treasury rate) and using the revenue-sensitive cost adjustment, the total amount to be amortized is $1,268,405. The allowed amortization is 1.3149 percent of 2021 Gross Revenues and will be amortized from July 1,2023 through June 30, 2024.

Bill Assistance Program (“Big Heart Customer Assistance Awards/Grants”)
The Company filed Schedule 35 In February 2022, to implement its Temporary COVID-19 Residential Bill Assistance Program, as per Commission Order 20-401, which established the program costs of "at least one percent of the Company's retail revenues” or approximately $707,517 for Cascade. Moreover, on March 8, 2022, ADV 1367 revised the program to increase funding to 1.5 percent of Cascade's UG 390 retail revenues of $1,061,276. By March 26, 2023, the program funding had been fully distributed to customers, amounting to a total of $1,061,276, plus 37,123 in carrying

costs to bring the total bill assistance recovery portion to $1,098,399. These bill payment assistance costs were then deferred to Regulatory Asset Account 182.3. The balance to be amortized with interest would be $1,134,118.

COVID-19 Extra Costs
The COVID-19 Extra Costs include past due interest, bad debt expense, reconnect fees/late payment fees along with other direct costs totalling $660,673. The balance to be amortized with interest would be $681,469.

The bad debt baseline was determined using the Company's UG 347 and UG 390 rate proceedings. The Bill Assistance Program resulted in a reduction in bad debt expense to pre-COVID-19 levels built into customer rates.

Beginning in March 2020, the Company waived the collection of late payment fees, past due interest, disconnect and reconnect fees for all residential customers through October 1, 2022. The lost revenues were deferred to account 182.3 Regulatory Assets.

Other direct costs as of March 26, 2023 included those charged directly to specific projects set up to capture costs incurred to protect health and safety of employees, provide personal protective equipment and to allow employees to work from home. Oregon's share of these direct costs were deferred to 182.3 Regulatory Assets.

COVID-19 Operational Savings
As of March 26, 2023, benefits that reduced costs associated with the pandemic included reduced employee expenses related to travel and training, as well as reduction in fuel fleet consumption. The CARES Act Tax benefit resulted in payroll taxes in 2020 being deferred, while Cascade also utilized a provision of the Family First Act which provided credits against payroll expenses resulting in a tax benefit. All of these benefits were applied as an offset to the deferred expenses of $585,487.

The breakdown of the COVID-19 amortized amounts is in Table 1 below.

Table 1 – COVID-19 Cost Recovery

Big Heart Customer Assistance Awards/Grants	$1,134,118
COVID-19 Extra Costs	$681,469
COVID-19 Operational Savings	$(585,487)
Plus: Revenue-sensitive cost percentages	3.02%
Total	**$1,268,405**

Earnings Test
Consistent with Staff practice in other COVID-19 related dockets, and adopted by the Commission, COVID-19 related costs associated with payments to customers, unrealized revenues from disconnect and reconnect charges, and changes in uncollectibles are all exempt from the earnings test. Other Company COVID-19-related costs such as extra cleaning and masks are recoverable net of any savings. In reviewing Cascade's Results of Operations Reports for 2020, 2021 and 2022, Cascade had Type 1 eanings of 7.95 percent, 9.55 percent and 5.03 percent, respectively. Therefore only in calendar 2021 did Cascade exceed its authorized ROE level of 9.4 percent.

In 2021, Cascade had other direct costs of $17,557 while Cascade recorded benefits of $260,715. Therefore, there are no net direct costs to be amortized associated with 2021. Similarly for 2023, while there is no results of operations report yet for calendar 2023, the direct costs equal $650 while benefits equalled $2618 for the January through March 2023 time period. Therefore, the earnings test does not result in any change in recoverable amounts.

Rate Spread
Cascade proposes to allocate each incremental cost and benefit itemized based on the percentage of billed revenue of the individual rate schedules. Company believes that as all costs and benefits were applicable to all customers before the pandemic, it is appropriate to assign an allocation to all customer classes.

The cost recovery would increase retail revenues by 1.31 percent. For revenue spread, Cascade used Staff's proposal for revenue distribution in Avista's COVID-19 recovery filing under Docket ADV 1392. Non-residential customer classes will be getting half of the overall system's revenue increase (0.66 percent) with the remaining amount going to the residential customer class (1.74 percent).

Table 2 - Annual Revenue Before and After Implementation of Schedule 38

Rate Schedule	Description	Current Revenues	Proposed Revenues	Revenue Change	% Change
101	Residential	$56,658,414	$57,646,871	$988,458	1.74%
104	Commercial	$32,771,746	$32,988,067	$216,321	0.66%
105	Industrial	$2,925,095	$2,944,393	$19,298	0.66%
111	Large Volume	$2,559,801	$2,576,664	$16,863	0.66%
163	Transport	$2,040,980	$2,054,690	$13,711	0.67%
170	Interruptible	$2,090,094	$2,103,850	$13,756	0.66%

Effective July 1, 2023, if approved, a residential customer using an average of 61 therms a month could expect their bill to increase by $1.18 or 1.60 percent for a revised monthly bill of $74.98.

Staff inquired in a workshop on May 5, 2023 whether Company had discussed the cost recovery with other stakeholders. Cascade had met to create the COVID-19 term sheet a few months ago and conveyed to the intervenors that cost recovery was to be expected.

In addition, since all authorized funds under the bill assistance program had been distributed to customers, Cascade had asked for the COVID-19-related monthly and quarterly reporting requirements to end. Staff will continue to work with the Company to determine what information Staff needs to assist in its Environmental Justice efforts.

AWEC, CUB, and SBUA had the opportunity to review the memo. Staff did not receive any comments from AWEC and SBUA.

The Commission did receive a comment from Janet Cole, a Cascade residential customer in eastern Oregon who questioned why Cascade should be approved a rate increase when it is difficult for customers to make ends meet given that there are price increases for “every aspect of my budget.” From the comments, it is unclear whether Cascade has clearly communicated that its rate increase is associated with it supporting various residential bill discounts and other programs approved by the Commission to ease the burden of energy costs and COVID-19-related hardship for its customers. The commenter did not seem aware of these programs/efforts. Staff did try and contact the commenter but to date has not been successful.

The Company has reviewed the memo and agrees with its contents.

PROPOSED COMMISSION MOTION:

Approve Cascade Natural Gas Company’s Advice No. O23-04-01 filing proposing the addition of Schedule 38 to recover costs deferred per Commission orders issued in UM 2072, effective July 1, 2023.