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April 3, 2019 NWN OPUC Advice No. 19-04

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: Schedule 150—Monthly Incremental Cost of Gas

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith the following revisions to its Tariff P.U.C. Or. 25,[1] stated to become effective with service on and after **November 1, 2019**:

First Revision of Sheet 150-1	Schedule 150	Monthly Incremental Cost of Gas
Original Sheet 150-2	Schedule 150	Monthly Incremental Cost of Gas (continued)

Purpose

The purpose of this filing is to revise the calculation of the Monthly Incremental Cost of Gas (MICOG) to better reflect the Pacific Northwest gas market available to non-residential customers that switch from transportation service to sales service outside of the Annual Service Election Period (referred to as Out-of-Cycle Transfers) or that are sales service customers that have selected the Winter Weighted Average Cost of Gas (WACOG) commodity option.[2] In addition, a housekeeping change is being made to correct a typographical error in item 3 under the Applicability section, replacing “in” with “is” in the second word in that sentence.

The proposed effective date is November 1, 2019, to avoid affecting customers who are currently paying MICOG under the elections they made previously under the old definition. By making this filing now, the applicable customers will have ample time to evaluate whether they still want to elect to pay MICOG under the new definition for the next contracting period that starts November 1, which requires an election by the end of July.

[1] Tariff P.U.C. Or. 25 was filed pursuant to ORS 757.205 and OAR 860-022-0005 and originated November 1, 2012 with Docket UG 221; OPUC Order No. 12-408 as supplemented by Order No. 12-437.
[2] For details about these options, see sections “Annual Service Election – July 31 Election for November 1 Service” and “Out-of-Cycle Transfers for Certain Service Types” in Schedules 31 and 32.

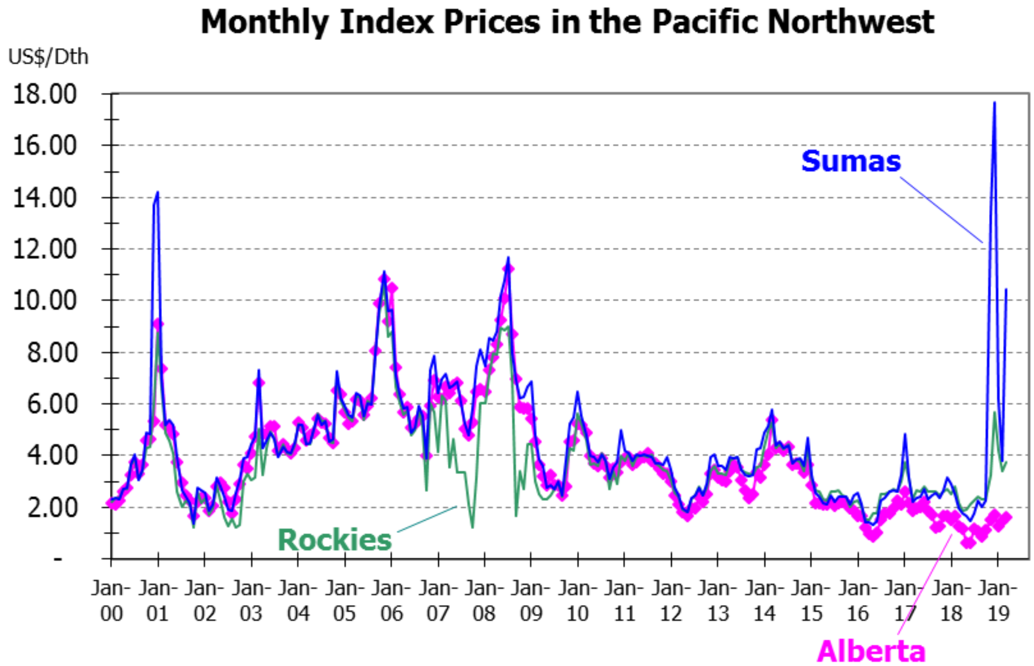
The Company respectfully requests approval of this filing by May 8, 2019. Approval in this timeframe will enable the Company to notify customers of this change and to provide information and assistance to customers making their annual elections by July 31, 2019. Consistent with current practice, NW Natural's Major Account Services team will hold its annual meetings with customers in May and distribute letters and communications to these customers in June in anticipation of the July 31, 2019 election date. If the proposal in this filing is approved, the Company will include additional information about these changes in the communications and interactions with customers that will occur in May and June.

Background

Schedule 150 Monthly Incremental Cost of Gas, first approved in 2006, establishes the calculation of MICOG.[3] MICOG represents the Company's incremental gas supply costs incurred to accommodate Out-of-Cycle Transfers as well as sales customers that have selected the Winter WACOG commodity option. MICOG is necessary to accommodate Out-of-Cycle Transfers and the Winter WACOG commodity option and mitigate the risk and potential for increased costs to all sales customers.

Since 2006, the Company's MICOG methodology has included using the calendar one-month spot price average for AECO/NIT transactions, i.e., gas purchased in Alberta, as published in the Canadian Gas Price Reporter Natural Gas Market Report in US dollars per million British thermal units (the AECO Index) during the Billing Month. In 2006, Alberta monthly gas purchase prices had been moving in tandem with prices in the US Rockies and from British Columbia at the Sumas border point. Since that time, the dynamics of the natural gas commodity market in the Pacific Northwest have evolved, and there have been the occasional large variations between Alberta, the US Rockies, and Sumas pricing. Until recently, such variations did not change the usage of the AECO Index as the MICOG. In recent years and to a greater extent in recent months, however, the regional dynamics have changed noticeably and now dramatically, to the point that Alberta gas is priced so favorably that it is no longer available as the Company's <u>incremental</u> source of gas purchases (see the chart below).

[3] *Northwest Natural Gas Company, dba NW Natural, Advice No. 06-10, Comprehensive Tariff Changes: Schedules 3, 31, 32, 33* (Jul. 10, 2006).



To reflect this trend and the fact that the Company's source of incremental gas purchases is not static, NW Natural proposes to adjust the MICOG methodology to take into account additional market indices in the region.

Proposed Changes

The Company proposes to modify the MICOG calculation to include the consideration of supplies in British Columbia and the US Rockies in addition to the supply in Alberta that is used in the current methodology. Currently, the MICOG reflects the AECO Index, adjusted for relevant fuel-in-kind, line loss charges and pipeline variable transportation charges, to derive an equivalent city gate price. In this filing, NW Natural proposes to follow this same methodology for supplies in British Columbia and the US Rockies, using the Sumas Index and Rockies Index, respectively, to derive equivalent city gate prices for those hubs. The resulting three equivalent city gate prices for AECO, Sumas and US Rockies then would be compared among each other, and the MICOG would be calculated as the average of the highest two of those three prices. The two highest prices are used because the lowest of the three prices is assumed to represent baseload supply, which would not be used for MICOG supply. In addition, it is appropriate to use an average of the two highest prices because use of the middle price alone may not reflect the entire portfolio from which MICOG supply would come, and use of the highest price alone may result in using a price stack that would not be realized.

As shown in the chart above, the three indices have grown increasingly diverse within the last year. Taking into account all of the indices will help alleviate the risk of setting the MICOG below what is prevailing in the regional market. The proposed tariff change better reflects the diversity of the economics of available supply in the Pacific Northwest region, thereby providing additional protection against potential increased costs to all sales customers.

In compliance with OAR 860-022-0025 the Company states that the tariff changes proposed in this filing will affect sales customers that elect the Winter WACOG commodity option and transportation customers that make an Out-of-Cycle Transfer; therefore the number of customers affected and the impact to annual revenues and cost of gas is not known at this time.

In accordance with ORS 757.205, copies of this letter and the filing made herewith are available in the Company's main office in Portland, Oregon and on its website at www.nwnatural.com.

Please address correspondence on this matter to me with copies to the following:

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Respectfully submitted,

/s/ Natasha Siores

Natasha Siores
Manager, Regulatory Compliance

Enclosures

SCHEDULE 150
MONTHLY INCREMENTAL COST OF GAS

APPLICABILITY:
This Schedule applies to Customers that have requested and been approved by the Company to change Rate Schedules and/or Service Types under the following situations:

1. Customer has requested and been approved to make a Service Type change from Transportation Service to Sales Service in accordance with the 'OUT-OF-CYCLE TRANSFERS" section of the applicable Rate Schedule.
2. Customer has requested and been approved to make a Service Type change from Transportation Service to Sales Service in accordance with the "ANNUAL SERVICE ELECTION DATE– JULY 31 ELECTION FOR NOVEMBER 1 SERVICE" section of the applicable Rate Schedule with an effective date for Sales Service that is prior to November 1,
3. Customer is on Sales Service at Winter Sales WACOG and Customer will pay for Sales Service at Monthly Incremental Cost of Gas effective April 1. (T)
4. Customer has requested and been approved to make a Rate Schedule and Service Type change from Transportation Service under **Rate Schedule 31**, **Rate Schedule 32** or **Rate Schedule 33** or under a special contract to Sales Service under **Rate Schedule 3** outside of the Annual Service Election.

APPLICATION TO RATE SCHEDULES:
For each of the applicable Billing Months, the Commodity Component of the volumetric charges shall be billed at Monthly Incremental Cost of Gas.

CALCULATION OF MONTHLY INCREMENTAL COST OF GAS:
Monthly Incremental Cost of Gas will be calculated as follows:

A. For each Billing Month, first calculate the monthly price for supplies in Alberta, British Columbia, and the US Rockies as follows. (C)
   1. For Alberta, start with the "One-month spot price average" for AECO/NIT transactions published in the Canadian Gas Price Reporter Natural Gas Market Report, as listed in US dollars per million Btu (the AECO Index) at the start of the Billing Month. To the AECO Index, add pipeline fuel-in-kind and line loss charges and pipeline variable transportation charges in effect on the pipeline systems of NOVA Gas Transmission, Foothills BC, Gas Transmission Northwest, and Northwest Pipeline (NWP) to derive an AECO equivalent city gate price. (C)
   2. For British Columbia, start with the "Northwest, Canadian border (Sumas)" monthly bidweek spot gas price published in Inside FERC's Gas Market Report in US dollars per MMBtu (the Sumas Index) at the start of the Billing Month. To the Sumas Index, add pipeline fuel-in-kind and line loss charges and pipeline variable transportation charges in effect on the pipeline system of NWP to derive a Sumas equivalent city gate price. (N)
   3. For US Rockies, start with the "Northwest, Rocky Mountains" monthly bidweek spot gas price published in Inside FERC's Gas Market Report in US dollars per MMBtu (the Rockies Index) at the start of the Billing Month. To the Rockies Index, add pipeline fuel-in-kind and line loss charges and pipeline variable transportation charges in effect on the pipeline system of NWP to derive a Rockies equivalent city gate price. (N)

(continue to Sheet 150-2)

SCHEDULE 150
MONTHLY INCREMENTAL COST OF GAS
(continued)

(N)

B. Compare the AECO, Sumas and Rockies city gate prices derived above and calculate the average of the highest two of those three prices. (N)
C. The city gate price calculated in step B is then adjusted for the Company's revenue-sensitive effects and is converted from million Btus to Therms to derive the Monthly Incremental Cost of Gas. (M)
D. The Company will post the Monthly Incremental Cost of Gas on its website as soon as it is available each month.

<u>GENERAL TERMS</u>:
Service under this Rate Schedule is governed by the terms of this Rate Schedule, the General Rules and Regulations contained in this Tariff, any other schedules that by their terms or by the terms of this Rate Schedule apply to service under this Rate Schedule, and by all rules and regulations prescribed by regulatory authorities, as amended from time to time. (M)