

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 17, 2019**

REGULAR  CONSENT  EFFECTIVE DATE January 1, 2020

**DATE:** December 9, 2019

**TO:** Public Utility Commission

**FROM:** Sabrinna Soldavini

**THROUGH:** Michael Dougherty and Marianne Gardner **SIGNED**

**SUBJECT:** CASCADE NATURAL GAS:  
(Docket No. ADV 1071/Advice No. CNG O19-11-02)  
Updates Rule 19, Conservation Alliance Plan Mechanism.

**STAFF RECOMMENDATION:**

Staff recommends the Public Utility Commission of Oregon (Commission) approve Cascade Natural Gas's (Cascade or Company) request to update its decoupling mechanism, as outlined in the Company's Rule 19, Conservation Alliance Plan Mechanism, effective with service rendered on and after January 1, 2020.

**DISCUSSION:**

Issue

Whether the Commission should approve Cascade's request to updates Rule 19, Conservation Alliance Plan Mechanism.

Applicable Law

ORS 757.205(1) states that a public utility must file schedules showing all rates, tolls, and charges for service that have been established and are in force at the time.

OAR 860-022-0025 requires that new tariff filings include statements showing the new rates, the number of customers affected, the impact on annual revenue, and the reasons supporting the proposed tariff. Filings that make any change in rates, tolls, charges, rules or regulations must be filed with the Commission at least 30 days before the effective date of the changes. ORS 757.220.

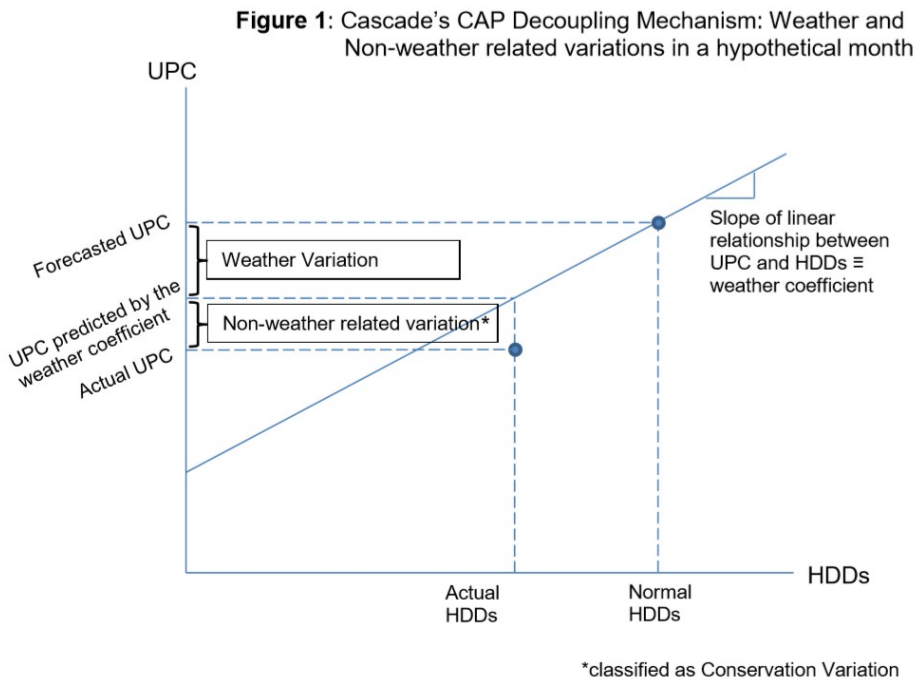
The Commission reviews tariffs filed under ORS 757.205 and 757.210 to determine whether they are fair, just and reasonable.

### Analysis

#### *Background*

Cascade's Conservation Alliance Plan (CAP) mechanism is the company's revenue decoupling mechanism.<sup>1</sup> The CAP mechanism is applicable to customers on Schedule 101 (Residential) and Schedule 104 (Commercial). The CAP mechanism is designed to allow the Company to track changes in customer usage and revenues due to conservation and weather. To do so, the CAP mechanism consists of two deferral accounts: a conservation related deferral account, which records the difference in non-weather related margin from expected commodity margin, and a weather related deferral account, which tracks the differences in margin due to variances from normalized weather.

The following Figure from Cascade's filing illustrates how the decoupling mechanism works.



<sup>1</sup> Cascade's CAP mechanism was first approved by the Commission in Order No. 06-191.

To calculate the weather variation deferral, a weather coefficient is multiplied by the difference between weather-normalized Heating Degree Days (HDDs) and Actual HDDs and the number of customers. This resulting therm value is multiplied by a commodity margin rate, to arrive at a dollar amount for the weather variation deferral. Similarly, the conservation deferral is the dollar amount of the difference in weather coefficient forecasted customer usage and actual customer usage.

In Docket No. UG 287, the parties' stipulation, approved by the Commission in Order No. 15-412, stated that the parties agreed to continue Cascade's current decoupling mechanism and to initiate a review of the CAP mechanism on September 30, 2019, with any proposed changes going to be effective January 1, 2020.

On September 30, 2019, Cascade submitted a compliance filing in Docket No. UG 287 to initiate the decoupling review process. In Cascade's initial compliance filing, the only modification to the CAP mechanism proposed by the Company was to change the amortization period of any CAP deferral balances from one to two years to lessen the potential rate impact of decoupling on customers in any one period.

#### *CAP Mechanism Review*

As noted above, Order No. 15-412 required that parties to UG 287 commence a review of Cascade's decoupling mechanism beginning September 30, 2019, with proposed changes going into effect January 1, 2020. Accordingly, after submitting its initial compliance filing, Cascade invited the parties of UG 287 to participate in a conference call on October 18, 2019, to begin the collaborative review process.

Two additional, follow-up, conference calls were held during the review process. The first on November 1, 2019, and the second on November 15, 2019. On November 27, 2019, the Company submitted this filing, requesting to implement the parties proposed changes to the CAP mechanism.

Throughout the review process, parties discussed various potential changes to the proposed mechanism, including implementing a real time decoupling mechanism, adjustments for new customer usage, a cap on the surcharge, and interest accrual rates. Ultimately, participating parties agreed that large methodological changes such as implementing adjustments to new customer usage and a implementing a real time decoupling mechanism were outside the scope of this limited time frame review, and are more appropriately explored in the context of a general rate case.

Parties who participated in the review process were the Alliance of Western Energy Consumers (AWEC), the Oregon Citizens' Utility Board (CUB), Staff, and Cascade. Staff additionally notes that the Company maintained electronic communication with the

UG 287 parties, including the sharing of requested data, throughout the review process, up to and including the final proposed changes as outlined in this filing.

#### *Proposed Rule 19 Changes*

During the review process, modifications to the Company's CAP Mechanism were identified as possible changes that could feasibly be made to go into effect on January 1, 2020.

Cascade submitted this advice filing on November 27, 2019, proposing changes to its Rule 19, Conservation Alliance Plan Mechanism, as discussed by parties during the review period. Cascade proposes to:

1. Implement an annual three percent CAP surcharge limit, with amounts in excess of three percent to be deferred to the next period;
2. Change the interest rate applied to CAP deferral balances from the Company's Authorized Rate of Return to the Modified Blended Treasury (MBT) Rate, with any deferral amounts in excess of the three percent limit accruing interest at a rate equal to the Company's AROR;<sup>2</sup> and
3. Include language stating the Company will initiate a review of the CAP mechanism on September 30, 2024, with any proposed changes to be effective January 1, 2025.

#### *Three Percent Surcharge Cap & Customer Rebates*

Cascade's Advice No. O19-11-02 proposes to implement a three percent limit to CAP surcharges to customers. The three percent threshold will be determined by dividing the proposed incremental surcharge revenue by the total normalized revenues of rate Schedules 101 and 104. If incremental surcharge revenues exceed three percent, additional revenues above three percent will be deferred until the following year.

During the review process, Staff noticed that the Company does not currently have in place a cap on the level of the surcharge for its decoupling mechanism. In practice, this means customers would be subject to any level of surcharge the CAP mechanism calculates. So, for example, in a particularly warm winter, in which customers used significantly less gas than forecast (and significantly fewer HDD days than normal), customers could conceivably be subject to a large monthly surcharge in the following period, to compensate the Company for this reduced revenue.

Therefore, Staff suggested that one way to mitigate large rate increases to customers in such instances, rather than to amortize the entire deferral balance over a two-year period as mentioned in the Company's initial compliance filing, would be to implement a

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<sup>2</sup> The Company's current AROR is 7.270 percent. The 2019 MBT is 3.74 percent Staff notes the MBT is updated by the Commission each year.

limit of three percent to any proposed incremental surcharge resulting from the decoupling mechanism.

In addition to limiting the incremental surcharge, the Company's proposed tariff changes include language stating that the three percent surcharge limit does not limit a proposed customer credit under this Schedule (i.e., the cap only applies to surcharges). This way, customers would be able to receive the full credit in any period, but be shielded from large surcharges above the baseline level in the event that conservation efforts or weather events caused a higher than expected surcharge.

Staff finds the surcharge cap will help mitigate large increases in customer rates resulting from the decoupling mechanism, while not limiting the size of any potential bill credit, and recommends the proposed surcharge cap go into effect.

Staff further supports the Company's language that a customer rebate reversal not be subject to the three percent incremental surcharge test. That is, a credit in one period is allowed to be removed in the next period, even if the removal of the credit results in an increase to rates that is greater than three percent. Staff agrees that a credit to customers should be allowed to be removed in full from one period to the next.

#### *CAP Mechanism Interest Accrual*

At present, the Company's CAP mechanism deferral accounts accrue interest at the Company's AROR. Through the review process, parties proposed that the Company instead accrue interest at the MBT to reflect a decreased level of risk associated with the decoupling mechanism.

In its advice filing, the Company has proposed that for CAP deferral balances less than or equal to three percent of the total normalized revenues the interest accrual rate will be the MBT, with balances in excess of the three percent surcharge limit being deferred until the following year and accruing interest at the Company's AROR. Staff finds these terms reasonable.

As it is unlikely that the Company will not be allowed to amortize a well-established deferral, such as decoupling, Staff supports lowering the interest accrual rate from the Company's AROR to the lower MBT for the first three percent of weather normalized revenue is commensurate with a lower level of risk in the short term.

Again, recall this filing proposed that the three percent incremental surcharge cap on the amount allowed to be amortized in any one period. In this instance, amounts in excess of the surcharge limit are not recoverable for a period of at least twelve additional months. In this case, Staff finds it reasonable to continue to allow the

Company to accrue interest at the AROR for amounts in excess of the three percent surcharge cap, to compensate the Company for the time value of money, and potentially increased risk associated with delaying amortization of deferred revenue for past service provided to customers.

Additionally, Staff notes that this condition is consistent with Commission policy, as traditionally, deferrals accrue interest at the AROR until amortization, at which point the deferral account typically begins accruing interest at the MBT.

#### *Future Review Period*

This filing proposes to initiate a review of the Company's CAP mechanism September 30, 2024, with proposed changes to go into effect January 1, 2020.

Staff notes that this future review period provision does not preclude any party to future rate proceedings, between now and the future review period, from proposing modifications to the Company's decoupling mechanism.

Staff supports the inclusion of this provision in the Rule 19 tariff. While the review process resulting in this proposal has been short, Staff has appreciated the collaboration between parties and the opportunity to implement agreed upon changes that parties believe are likely to benefit customers, and finds that similar beneficial changes to the mechanism may be identified in a future review process.

#### *Effects of Filing*

Cascade's Advice No. CNG O19-11-02 updates the language of Rule 19, related to its decoupling mechanism. The Company's proposed changes will effect customers on Schedule 101 and Schedule 104.

This filing does not propose a change to rates at this time. However, this filing proposes changes that will have a future impact on customer's rates through proposed limits to potential decoupling mechanism surcharges, and lowering interest accrual rates. The exact effect to customer rebates and surcharges related to Cascade's decoupling mechanism cannot be known at this time, as it is unknown how weather and customer usage will fluctuate in the future.

#### Conclusion

Based on Staff's participation in the Commission Ordered CAP mechanism review process, and its analysis of the Cascade's advice filing, Staff finds the update to Rule 19 results in rates that are fair, just, and reasonable. Therefore, Staff recommends Cascade's updated Rule 19 go into effect.

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**PROPOSED COMMISSION MOTION:**

Approve Cascade's request to update Rule 19, Conservation Alliance Plan Mechanism, effective with service rendered on and after January 1, 2020.

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