

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 21, 2019

REGULAR CONSENT EFFECTIVE DATE November 1, 2019

DATE: May 9, 2019

TO: Public Utility Commission

FROM: Brian Fjeldheim *BF*

THROUGH: *EP* Jason Eisdorfer and *MB* Marianne Gardner

SUBJECT: NORTHWEST NATURAL: (Docket ADV No. 948/Advice No. 19-04)
Revision to the calculation of the Monthly Incremental Cost of Gas (MICOG) for the Pacific Northwest gas market.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (OPUC or Commission) approve Northwest Natural's (NWN or Company) Advice No. 19-04, which proposes to revise the calculation of the Monthly Incremental Cost of Gas (MICOG) for the Pacific Northwest gas market, effective for service on and after November 1, 2019.

DISCUSSION:

Issue

Whether the Commission should approve NWN's request to revise the MICOG calculation to include two additional gas basins in the Company's city gate pricing.

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.

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

Analysis

Background

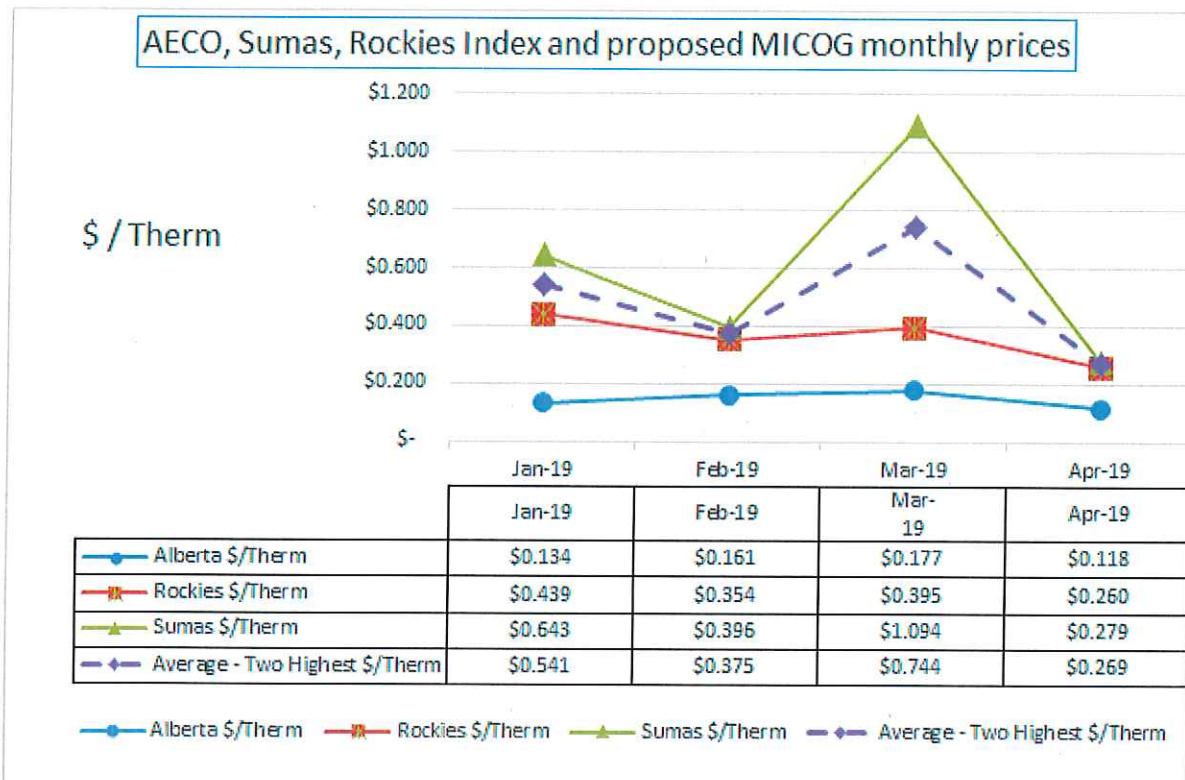
NWN submitted this filing to the Commission on April 3, 2019, pursuant to ORS 757.205, ORS 757.210, and OAR 860-022-0025, with a requested effective date of November 1, 2019. Non-residential customers that switch from transportation service to sales service outside of the Annual Service Election Period or that are sales service customers that have selected the Winter Weighted Average Cost of Gas (WACOG) commodity option elect to do so prior to August 1, for a contract period beginning November 1. The Company has requested the Commission review and render a decision on this application prior to November 1, 2019, so that the Company may begin communicating the change in MICO pricing to affected customers in advance of a Company required election date of July 31. The Company's intent is to allow customers ample time to consider whether they still want to elect to pay MICO under the new definition for the next contracting period.

Since 2006, NWN has used a single gas basin to price MICO. In the current formula, the Company only considers Alberta gas using a calendar one month spot price average for AECO/NIT transactions published in the Canadian Gas Price Reporter Natural Gas Market Report (AECO Index) during the billing month. The Company then adjusts the monthly AECO Index price for relevant fuel-in-kind, line loss, and variable pipeline transportation charges, resulting in AECO Index city gate gas price in US dollars per therm.

Revised MICO

Pacific Northwest gas supplies have experienced increased volatility this past year, largely due to the Enbridge explosion in October 2018. Repair and inspection efforts on the affected Enbridge pipelines have materially reduced gas flows from British Columbia. Due to changing price trends in natural gas commodity markets serving the Pacific Northwest, the Company requests to add two more natural gas basins to the MICO calculation. The Company states this change will better reflect diverging price and volatility trends amongst the three basins providing the Company's gas supply. Using the same methodology used for the AECO Index city gate pricing, the Company will also price natural gas from British Columbia (Sumas Index) and the US Rockies (Rockies Index) to derive Sumas Index and Rockies Index city gate prices. The Company would then compare the three city gate prices, with the lowest price (historically, AECO Index) used for base load supply pricing and the average of the two highest prices used for MICO pricing. Per a conference call on April 6, 2019, with the

Company, the Alliance of Western Energy Consumers (AWEC) and Staff, the Company elaborated that its gas supply is generally procured equally amongst the three basins. So long as there is no significant change in NWN's procurement strategy, i.e., significant and/or sustained changes in purchasing volume from one or more supply basins, using an average of the two highest priced basins to compute MICOOG appears reasonable. Please see below for an example of the proposed MICOOG using 2019 pricing from AECO, Sumas, and Rockies Indexes.¹



Staff reviewed the Company's calculations for accuracy and finds them to be accurate and supportable. Additionally, Staff reviewed 2019 monthly gas pricing for the Alberta, Rockies, and Sumas gas basins² and corroborated that, independent of one another, each gas basin experienced increased volatility this past year.

¹ Data provided in Company Excel work paper "MolncreCostofGasforSalesCust.revision for Nov19".

² Natural Gas Intelligence (NGI) accessed May 7, 2019 at

https://www.naturalgasintel.com/data/data_products/bidweek?region_id=rocky-mountains&location_id=RMTSUMAS.

Affected Customers

Non-residential customers that switch from transportation service to sales service outside of the Annual Service Election Period (Out-of-Cycle Transfers) as well as sales service customers that have elected the Winter WACOG commodity option are subject to MICOOG. Due to customers' ability to make an out-of-cycle-transfer or a Winter WACOG election, the number of affected customers and the impact to Company revenues is unknown.

Staff reviewed rate Schedule 150 and finds the proposed language changes to be accurate and supportable.

Housekeeping item

The Company replaced a one word typographical error in the Applicability section of Schedule 150.

Staff reviewed the affected tariff sheet and finds the proposed language to be accurate and supportable.

Other Affected Schedules

This filing does not directly affect any other schedules, but it may impact non-residential customers subject to MICOOG or Winter WACOG elections.

Effects of Filing

The Company is not proposing a change in rates, but is proposing a change in the MICOOG methodology that may lead to increased costs for non-residential customers subject to MICOOG. It is unknown how many customers will make an out-of-cycle-transfer or Winter WACOG election, therefore the number of customers and the effect on Company revenue is unknown at the time of filing. By requesting the Commission review and approve the filing in May, the Company will have approximately 10 weeks to communicate the proposed changes to NWN customers ahead of the July 31 annual elections date.

Conclusion

Based on analysis of NWN's application, the workpapers associated with the filing, and phone conversations with the Company and AWEC, Staff finds the proposed revisions to the tariff language, including NWN's revised MICOOG methodology, to be accurate, consistent, and better aligns the price charged to customers for incremental costs of gas. Staff recommends the Commission approve NWN's application.

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PROPOSED COMMISSION MOTION:

Approve NWN's application to revise the calculation of the MICOG for the Pacific Northwest gas market, effective for service on and after November 1, 2019.

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