

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: October 17, 2023**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** November 1, 2023

**DATE:** September 27, 2023

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Bryan Conway, Marc Hellman, and Rawleigh White **SIGNED**

**SUBJECT:** CASCADE NATURAL GAS:  
(Docket No. UM 1558(12))  
Reauthorization for Deferred Accounting Treatment of Gas Costs.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Cascade Natural Gas Company's (Cascade, CNG, or the Company) application for Reauthorization for Deferred Accounting Treatment of Gas Costs, for the 12-month period beginning November 1, 2023.

**DISCUSSION:**

Issue

Whether the Commission should approve Cascade's request for reauthorization to record and defer costs related to Accounting Treatment of Gas Costs for the 12-month period beginning November 1, 2023.

Applicable Law

Due to the fluctuation of the wholesale price of natural gas, the PGA mechanism was established by Commission Order No.89-1046 to enable utilities to pass on to customers actual gas costs while minimizing the frequency of rate changes and the fluctuation of rate levels in accordance with ORS 757.259(2)(e). Under the PGA mechanism and pursuant to ORS 757.259(4), the Commission may authorize utilities to defer actual purchased gas costs for a 12-month period. The difference between the

actual gas costs and the cost charged to ratepayers is amortized and passed through into rates if the utility's earnings are not excessive as defined by OAR 860-022-0070.

OAR 860-027-0300<sup>1</sup> specifies the required contents of an application for deferred accounting. This includes: a description of the expense or revenue for which deferral is requested, the basis for the request, the accounts proposed for recording the amounts to be deferred, an estimate of the amounts to be recorded in the deferred account, and a copy of the notice of the application for deferred accounting.<sup>2</sup>

### Analysis

#### *Background*

In accordance with ORS 757.259 and OAR 860-027-0300(4), the Company submitted this application on August 31, 2023, with the Public Utility Commission of Oregon ("Commission") for an order reauthorizing the Company to record and defer with interest the difference between actual and embedded commodity and non-commodity costs, in accordance with the parameters established in the Company's Schedule 177, Purchased Gas Adjustment Provision, for the 12-month period beginning November 1, 2023, and ending October 31, 2024.

#### *Reason for Deferral*

Due to the volatility of the price of gas purchased for customer use, the associated costs are difficult to establish with any degree of certainty. This volatility makes the use of deferral accounting necessary.

#### *Description of Expense*

The Amount deferred last year through July 31, 2023, is shown on the following table.

	<b>Commodity</b>	<b>Demand</b>
	<u>Acct 01272</u>	<u>Acct 01273</u>
Deferral balances through July 31, 2023	\$29,355,721.26	(\$1,215,048.90)

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<sup>1</sup> OAR 860-027-0300.

<sup>2</sup> OAR 860-027-0300(3).

*Current Deferral Activity*

On this application the Company provides a description and explanation for entries into the deferred accounts over the last three years.<sup>3</sup> A reauthorization of the deferred accounting treatment for gas cost differences is justified as they are ongoing in nature.

*Amortization and Interest Rate Applied to Accounts*

The deferred balance accrues interest at the rate of 7.071 percent.<sup>4</sup> The balance to be amortized will accrue interest at the rate of 1.82 percent through October 2023. Beginning November 2023, the amortized balance will accrue interest at the rate of 5.13 percent.<sup>5</sup>

*Estimate of Upcoming PGA-period Deferral and/or Amortization*

The Company is unable to estimate the amount it will defer during the Next PGA cycle.

*Amount Amortized Last Year*

	<b>Consolidated</b>
	<u>Acct 01287</u>
Amortized amounts with interest from November 1, 2022, through July 31, 2023	(\$11,750,609.21)

*Proposed Accounting*

The Company proposes to continue deferring gas cost differences into Account No. 191 for distribution to or collection from customers at a later date consistent with the established PGA methodology. Gas cost differences will be separated between demand-related cost differences and commodity-related cost differences.

*Information Related to Future Amortization*

- Earnings Review – An earnings review applies to this category of costs.
- Prudence Review – For amortization, a prudence review will be conducted relating to the purchase price and timing of natural gas purchases.
- Sharing – Due to the Company’s sharing election related to the 2022-2023 PGA year, 90 percent of the difference between actual commodity costs and the commodity costs collected from customers will be deferred. Cascade will absorb

<sup>3</sup> Appendix A, point D, Estimate of Amounts OAR 860-027-0300(3)(d), [um1558haq114520.pdf](#).

<sup>4</sup> Authorized Rate of Return as approved by Commission Order No. 21-001 in Docket No. UG 390.

<sup>5</sup> Modified Blended Treasury (MBT) rates per annual staff calculation authorized in Docket Nos. UM 1147 and UG 221.

the other ten percent. The commodity portion of purchased gas costs differences include purchasing natural gas, the variable cost of transporting the gas from the supply basin to the city gate, the benefits received from storage optimization, off-system sales, and other miscellaneous costs or benefits. One hundred percent of the demand portion of purchased gas cost differences will be deferred. The demand portion includes fixed pipeline costs, capacity releases, and miscellaneous pipeline related refunds or surcharges.

- Rate Spread/Design – Prudently incurred gas costs differences that have been correctly accounted for should be developed into a rate per therm based on estimated usage for the upcoming PGA year.
- Three Percent Test (ORS 757.259(6)) – The three percent test applies for amounts subject to amortization.

### Conclusion

Staff recommends the Commission authorize Cascade's application for Reauthorization for Deferred Accounting Treatment of Gas Costs for the 12-month period beginning November 1, 2023.

Cascade has reviewed this memo and agrees with its contents.

### **PROPOSED COMMISSION MOTION:**

Approve Cascade Natural Gas's Application for Reauthorization for Deferred Accounting Treatment of Gas Costs for the 12-month period beginning November 1, 2023, through October 31, 2024.