ORDER NO. 02-670

ENTERED SEP 27 2002

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 149/ UM 1059

In the Matter of	)	
	)	ORDER
CASCADE NATURAL GAS	)	
	)	
Application for Tariff Revisions Related to Purchased Gas Technical Adjustments. **UG 149**	)	
	)	
Application for the Reauthorization of Deferral Accounting. **UM 1059**	)	

DISPOSITION: APPLICATIONS APPROVED

On August 15, 2002, the Public Utility Commission of Oregon (Commission) received two applications from the Cascade Natural Gas Corporation proposing: (1) a rate decrease, effective October 1, 2002; and (2) authorization to use deferred accounting pursuant to its Purchased Gas Adjustment balancing account. The filing decreases the company's annual revenues by $1.6 million, or 2.7 percent.

Based on a review of the applications and the Commission’s records, the Commission finds that the applications satisfy applicable statutes and administrative rules. At its special public meeting on September 26, 2002, the Commission adopted Staff’s recommendation to approve the applications. Staff’s recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that:

1. Amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 149 is approved.

2. The associated tariff sheets of Advice No. CNG/O02-08-01 are allowed to go into effect October 1, 2002.

3. The Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2002, is approved.

Made, entered and effective ______________________________.

____
Roy Hemmingway
Chairman

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Lee Beyer
Commissioner

____
Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ITEM NO. 1 and 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 26, 2002

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** ______**October 1, 2002**______

DATE: September 27, 2002

TO: John Savage through Lee Sparling, Ed Busch and Bonnie Tatom

FROM: Reed Harris and Judy Johnson

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 149/Advice No. O02-08-01) Reflects the changes in the cost of purchased gas and technical adjustments resulting in a decrease of $1,579,725, or 2.7 percent. (Docket No. UM 1059) Requests reauthorization of the PGA deferral mechanism.

STAFF RECOMMENDATION:

We recommend that the Commission allow Cascade Natural Gas Corporation's (Cascade or company) proposed tariff sheets in Advice No. CNG/O02-08-01 to become effective with service on and after October 1, 2002. This filing decreases the company's annual revenues by $1.6 million, or 2.7 percent.

We also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its Purchased Gas Adjustment (PGA) balancing account.

DISCUSSION:

On August 15, 2002, Cascade submitted its annual gas cost tracking and technical adjustment filing, commonly known as its PGA filing. This filing consisted of a proposed decrease in annual revenues in Advice No. CNG/O02-08-01 (docketed as UG 149), effective October 1, 2002. In a concurrent filing docketed as UM 1059, Cascade requested reauthorization of deferrals under the company's PGA mechanism.

UG 149

This application requests authority to decrease rates to: (1) track decreases in purchased gas costs, and (2) make technical adjustments to amortize Cascade's deferred revenue and gas cost accounts. The change in annual revenues is summarized below, and shown in Attachment A.

PGA Base Gas Cost Change	$ (1,765,764)
Removal of Prior Year Temporary Increment	1,625,819
Adding New Temporary Increment	(1,439,780)
Total Proposed Decrease	$ (1,579,725)

Summary of Bill Effects

With these changes, the monthly bill of a typical residential customer using 62 therms per month will decrease by $1.51, or 2.5 percent, from $59.44 to $57.93. A typical customer's January bill would decrease from $111.33 to $108.44 for usage of 119 therms.

A summary of the proposed tariff and revenue changes for Cascade's major rate schedules is shown in Attachment A. A summary of the impact of the rate changes on Cascade's customers on both an annual and January basis is shown in Attachment B, along with the current rates and rate and bill impacts on Avista and NW Natural customers of their PGA filings.

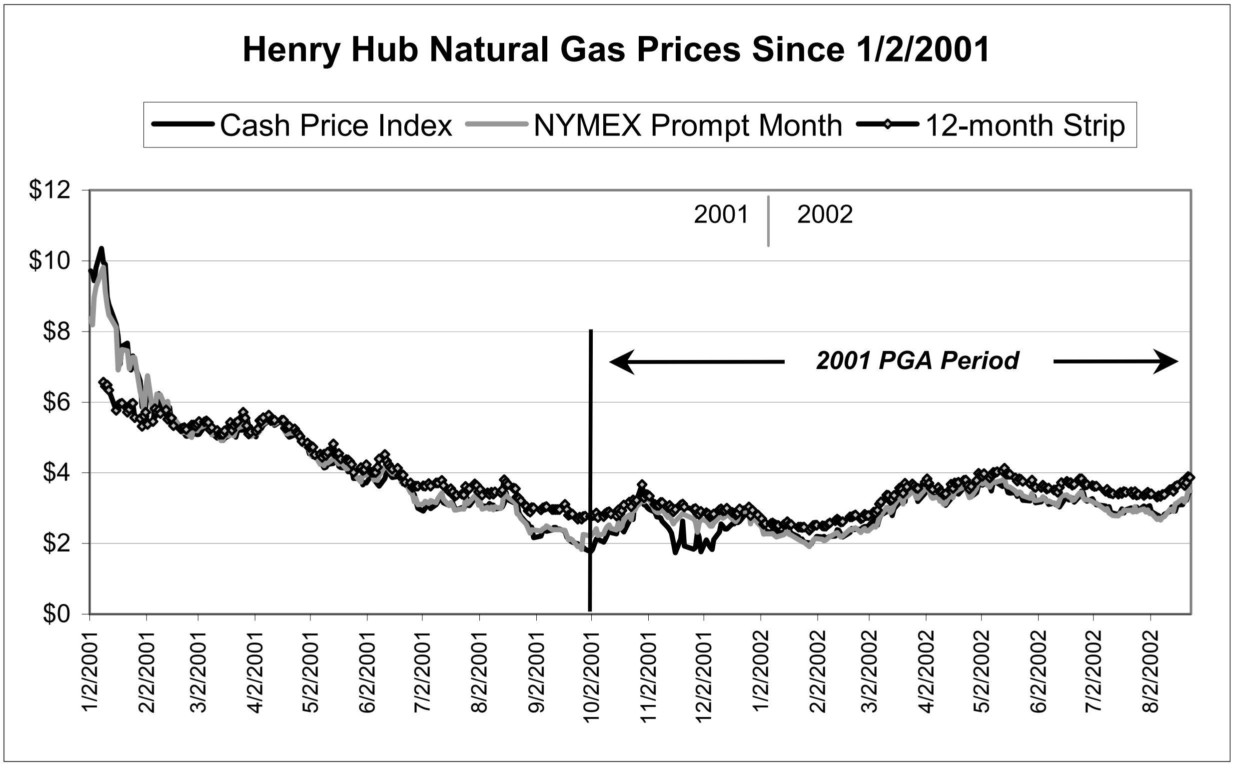
Staff Review of Gas Costs

National/Regional/Local Trends

Wholesale prices for natural gas did not exhibit the extreme volatility this past year that was experienced in the winter of 2000-2001, when cash prices for delivery at Sumas were bouncing around $50.00/MMbtu. In contrast, wholesale prices last heating season reflected a relatively mild winter, record storage inventories and an absence of industrial gas demand in a floundering economy. Supplies outpaced demand and the unprecedented storage inventory compressed wholesale natural gas prices. At the same time, many wholesale customers acted on lessons learned the previous winter and entered into longer-term contracts to hedge the risk of cash market volatility. By effectively removing those loads from active trading in both cash and futures markets, the increase in long-term pre-purchasing actually exacerbated the deteriorating demand picture and weakened support for natural gas prices.

The $5.00/MMbtu to $7.00/MMbtu cash prices for the 2001–2002 heating season that were predicted by several trading houses as late as July 2001, never materialized. At the same time, storage volumes remained high, as cash prices undercut the withdrawal price of much of the huge volume in storage. (Consequently, almost 1.5 Trillion cubic feet of that expensive gas remains in storage going into the 2002-2003 heating season.)

Within West Coast markets, the implementation of electric price-caps in December of 2001 further pulled the rug out from under prices for Northwest delivery of natural gas, by eliminating the motivation for electric generators to bid natural gas up to the exorbitant levels seen in the winter of 2000-2001.



Since October 1, 2001, cash prices for Northwest delivery have ranged from a nickel shy of $3.50/MMbtu at Stanfield down to a one-time low of $0.53/MMbtu for NW Domestic gas. In a complete reversal from traditional trends, wholesale natural gas prices bottomed in January, and have been progressively increasing since. Meanwhile, the failure of industrial loads to return to the marketplace as predicted has enabled the diversion of large volumes of gas into storage facilities.

Yet despite this continuing absence of industrial load, the federal Energy Information Administration (EIA) projects that U.S. demand for natural gas will increase by 3% during 2002. At the same time, the EIA projects that domestic gas production will have fallen by 2.3% by year's end, and some industry analysts estimate that decline in production is now between 3% and 4%. The increasing demand and declining production are currently on a collision course, with that huge mountain of gas in storage serving to both obscure and delay the point of impact.

On September 3, 2002, the price for the twelve-month strip for natural gas futures at NYMEX settled at $3.695/MMbtu, and the winter strip for 2002–2003 delivery settled at $3.768/MMbtu, after topping $4.00/MMbtu the previous week.

Cascade's Gas Cost Situation

Cascade's natural gas supply for Oregon is delivered by two pipelines. PG&E GT-NW serves the portion of Cascade's service area in Central Oregon with gas supplied primarily from Alberta, Canada. Williams' Northwest Pipeline serves the Eastern Oregon portion of Cascade's territory with domestic gas flowing from the Rockies area. The majority of Cascade's Oregon base loads supply is purchased using long-term contracts. These are supplemented with additional "short strip" contracts for delivery in specific time frames to balance the supply to the load.

These delivery fixed contracts are complemented with storage resources consisting of both underground storage capacity and liquefied natural gas (LNG), and the capability of supplementing with proposed judicious spot market purchases, primarily to re-inject into storage during shoulder months. Cascade continues to expand and redefine how it uses its natural gas storage resources, mainly at Jackson Prairie, but also limited "needle-peaking" LNG capabilities. Cascade's storage plans include mid-season refills into storage, consistent with satisfactory supply and pricing, to better use the storage resource as an economic hedging tool as well as a peaking reserve.

Following the 2000–2001 natural gas price stampede on the West Coast, Cascade locked in long-term contracts in the spring of 2001 for most of their core load purchases. This was done to assure that customers would have a stable price base in an increasingly volatile market. The $4.50 to $4.70/MMbtu prices negotiated for these contracts were reasonable at the time and well within the price predictions of both the federal EIA and the major trading houses for gas prices three years out. At the end of March 2001, a 36-month strip of NYMEX futures for April 2001 through March of 2004 ran $4.565/MMbtu. At that same time, delivery at Sumas and Kingsgate were running an average 6.5-cent premium to the Henry Hub index, putting Northwest delivery in the $4.80/MMbtu range for a three-year contract.

Staff urges Cascade to fully utilize its storage options and additional prudent financial instruments to mitigate and hedge the costs of its fixed contract purchases as opportunities arise.

Staff's Review of Cascade's Gas Costs

Cascade, together with the other two regulated gas utilities, is required to file for rate changes related to purchased gas costs each year. In work papers submitted to Staff, Cascade shows a projected annualized gas cost of $34,709,750, which represents a 4% decrease from the current annual cost. The annual gas cost includes both natural gas commodity and transportation costs.

Staff closely examined Cascade's gas supply portfolio and gas cost tracking application. The company's roll-up of commodity contract costs was free of errors or defects. Cascade's filing indicates, and Staff has confirmed, that the company continues to contract with many of the same entities for its Oregon gas supply. Cascade is also replacing several contracts in its portfolio as they expire with alternative supplies that allow the company to take advantage of options that become available within current markets. Staff also verified that Cascade used accurate pipeline tariff rates in computing annual transportation costs.

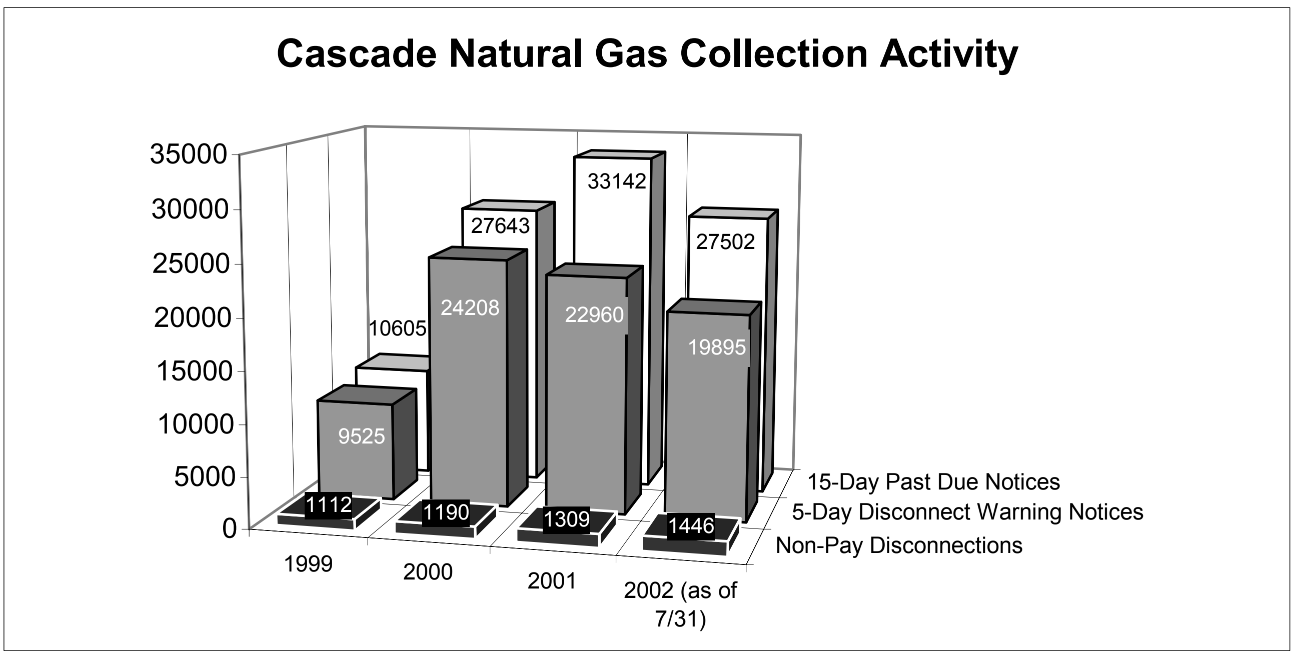
Last year, Cascade contracted for volumes totaling 60,268,433 therms at a weighted average cost of gas of $0.51769. The weighted average cost of gas, or WACOG, is the annual commodity cost per therm. This year, the company has contracted with these suppliers for volumes totaling 60,676,506 therms at a weighted average cost of gas of $0.49723. The number of therms increased by 0.6%, while the WACOG decreased by 4%. Overall, Cascade's annual commodity costs decreased by $1,241,250. This number, when added to the adjustments for uncollectibles, city franchise fees, gross revenue fees and demand charges, results in the decrease in the base gas cost shown in Attachment A.

Following is a table of Cascade's Weighted Average Cost of Gas since 1993. These numbers are unadjusted for the effects of inflation. Staff concludes that Cascade's proposed WACOG of $0.49723 is an accurate reflection of the company's annual commodity cost. Staff has inspected Cascade's proposed tariff sheets and verified their accuracy.

Cascade Natural Gas		
Year	WACOG	Change
1993	$0.19647	
1994	$0.18469	-6%
1995	$0.14024	-24%
1996	$0.12013	-14%
1997	$0.17771	48%
1998	$0.19751	11%
1999	$0.24576	24%
2000	$0.42807	74%
2001	$0.51769	21%
2002	$0.49723	-4%

How does Cascade expect to work with its customers in the next year?

Given elevated gas costs and a deteriorated economy, collection activity at Cascade has remained high.



To assist customers in controlling costs and meeting payment obligations, Cascade has continued several existing programs, and has initiated one new program, as follows:

- The company will continue mandated energy audits under its Residential Energy Conservation (Schedule 1005) and Commercial Energy Conservation Services (Schedule 1011) Programs. Performance and customer participation in these programs declined until 2001, when the volume of requests for new energy audits and the volume of actual work increased. In 2001, audits completed increased to 187 from 128 in 2000 and actual jobs completed increased to 57 from the 2000 level of 42. Inexplicably, low-income jobs decreased from 16 to 9.

- The company will continue to promote its *Winter Help* program, a below-the-line program that helps low-income customers pay their winter gas bills. Customers can contribute to this fund, which the company matches with shareholder dollars.

- The company will continue to offer its customers the required equal payment plans and a *Budget Payment Plan* designed to average the monthly payments for gas service of any residential customer. Participation in the company's Budget Payment Plan increased 1.7% in 2001, after posting a 62% increase in 2000. Participation in 2002, as of July 31, is 2.6% below the 2001 levels.

- Cascade introduced a high efficiency furnace and water heater promotion earlier this year. Customer participation so far has been encouraging and is anticipated to increase with the heating season.

- Cascade will also provide customers the required 12-month payment arrangements on arrearages. As of July 31, 2002 customer participation in arrearage Time Payment Agreements was 35% above 2001 levels.

- Cascade will continue its gift certificate program that allows a customer to pay for another customer’s bill.

Technical Adjustments - Deferred Accounts

Cascade’s application proposes to make technical adjustments in amortizing credit and debit balances in its deferred accounts. This activity consists of the following components, as shown on Attachment A:

- Removal of the temporary credit increments currently in place, increasing revenues by approximately $1,625,819.

- Addition of new temporary increments to refund $1,439,780 in net credit balances in the company’s deferred revenue and gas cost accounts. The Commission previously authorized all of the deferred amounts subject to amortization.

Cascade has proposed amortization of its deferred accounts over a two-year period instead of a one-year period, as is normally done. Cascade states that because its gas costs are locked into the second year of a three-year agreement, its rates would fluctuate too widely if the larger balances currently in the deferred accounts were amortized over one year. By spreading the amortization out over two years, the company hopes to be able to continue to offer price decreases to its customers as it renegotiates a new contract upon the expiration of its current three-year commitment. Staff agrees that price stability, coupled with a reduction in rates, is a good outcome for both the company and its customers. The balances in the deferred accounts will continue to accrue interest at the company's authorized rate of return until the balances are fully amortized.

Staff has reviewed the company's technical adjustments and determined that the proposed amortizations are appropriate. The revised amortization increments are incorporated in the energy charge component of the company's primary rate schedules. The net revenue effect of adding the new temporary increments and removing the current increments is an increase of $186,039 on an annual basis.

Rate History

The following table shows the rates the Commission has approved for Cascade's residential customers on Schedule 101 between 1994 and 2001, and the current proposal.

Date	Customer Charge	Rate	+/-%
December 1, 1994	$3.00	$0.65733	
December 1, 1995	$3.00	$0.61337	-6.7%
December 1, 1996	$3.00	$0.55559	-9.4%
December 1, 1997	$3.00	$0.61116	10.0%
December 1, 1998	$3.00	$0.63797	4.4%
December 1, 1999	$3.00	$0.67706	6.1%
October 1, 2000	$3.00	$0.85827	26.8%
October 1, 2001	$3.00	$0.91034	6.1%
October 1, 2002 (Proposed)	**$3.00**	**$0.88603**	**-2.7%**

Earnings Review and Three Percent Test

As a matter of policy, in past years the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. In 1999, the Commission concluded its PGA Investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes[1]. In addition, Section (8) of this rule states: "An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism." In 1997, Cascade adopted a 33 percent sharing level and thus is exempt from an earnings review associated with this PGA filing.

ORS 757.259 (5) and (6) (as amended by House Bill 2630) states that the overall annual average rate impact of the amortizations authorized under the statute may not exceed three percent of the utility's gross revenues for the proceeding calendar year, unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. Cascade's proposed amortizations are below the 3 percent cap and may be implemented as proposed.

UM 1059

In this filing, Cascade requests reauthorization of deferrals pursuant to its automatic adjustment clause, the Purchased Gas Adjustment (PGA) mechanism. The PGA allows Cascade to adjust tariffs annually for known and measurable changes in purchased base gas costs and for changes in amortization rates relating to the PGA balancing account.

The information contained in the application is consistent with the requirements of ORS 757.259, 757.210 and OAR 860-027-0300. The application states that continued deferral of these cost and revenue differences minimizes the frequency of rate changes and appropriately matches costs borne and benefits received by ratepayers, consistent with ORS 757.259(2)(e). The reasons cited for reauthorization are still valid. Staff recommends the Commission approve the request for reauthorizing the PGA, effective October 1, 2002.

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Corporation's request for: 1) amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 149 be approved; 2) the associated tariff sheets of Advice No. CNG/O02-08-01 be allowed to go into effect October 1, 2002; and 3) reauthorization of deferred accounting for Cascade's Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2002, be approved.

[1] OAR 860-022-0070(7) states that the earnings review mechanism will be effective for four years, and that the mechanism will be reviewed for potential extension after the fourth year. The spring 2002 review was the fourth year the mechanism was applied. Accordingly, staff will contact interested parties to discuss whether the earnings reviews should be continued.

Attachments