ORDER NO. 05-852

ENTERED JUL 14, 2005

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 73

In the Matter of an Investigation into Ratemaking Policies for Natural Gas Purchases by Local Distribution Companies.	)))	ORDER

DISPOSITION: STIPULATED MOTION ADOPTED; ORDER NO. 89-1046 AMENDED

On June 29, 2005, the Staff of the Public Utility Commission of Oregon (Commission) filed a Stipulated Motion and Memorandum to Amend Order No. 89-1046 (Order) pursuant to ORS 756.568. Staff explains that the requested changes are designed to ensure consistency among the Oregon natural gas Local Distribution Companies (LDCs) regarding the calculation and reporting of each LDC's expenses in its Purchased Gas Adjustment (PGA) filing. Staff adds that the changes are necessary to align the PGA filing requirements with current conditions in the natural gas market, which has changed considerably since the Order was issued. Finally, Staff states that the following parties support the Stipulated Motion: Avista Utilities, Cascade Natural Gas, Northwest Natural, and the Northwest Industrial Gas Users (NWIGU) (collectively referred to as the Stipulating Parties).

DISCUSSION

The Stipulating Parties ask the Commission to amend Order No. 89-1046 in two respects. First, they ask new ordering clauses be added to the Order to establish a formula to calculate the Weighted Average Cost of Gas (WACOG) and to add definitions used in annual PGA filings. Second, they ask certain language from the Order be deleted to avoid conflict with the new ordering clauses. The specific requests and reasons in support are set forth in the stipulated motion, which is attached as Appendix A and incorporated by reference. We summarize each request below.

Ordering Clauses

The Stipulating Parties note that Order No. 89-1046 contains no formula to calculate WACOG. Consequently, the Stipulating Parties propose a definition be added to ensure that the LDCs are calculating and reporting comparable WACOGs. They also propose new language to define and calculate certain WACOG components. Finally, the Stipulating Parties propose a new methodology be adopted to address the accounting treatment for upstream demand charges that are embedded in supply contracts. To accomplish this, the Stipulating Parties propose the following two ordering clauses be added to Order No. 89-1046:

1. *Weighted Average Cost of Gas (WACOG) Calculation and corresponding definitions used in PGA filing*

WACOG calculation: The WACOG is calculated by the following formula: [Normalized purchases @ adjusted contract prices] divided by [last year's (i.e. July 1 - June 30) actual sales, weather-normalized].

Definitions

a. "Normalized Purchases" means last year's (July 1 - June 30) actual sales, "weather normalized," plus a percentage for "distribution system unaccounted for gas."
b. "Weather normalized" means normalizing assumptions set at the utility's last rate case.
c. "Distribution system unaccounted for gas" means the 5-year average of actual unaccounted for gas, not to exceed 2%. In the case of a utility that did not record actual amounts for the last five years, the first year will be the utility's best estimate of actual loss, not to exceed 2%; the second year will be the first year's actual loss; the third year will be the average of the first and second year actual losses; and so on, until the utility has the data to calculate a 5-year average of actual losses.
d. "Adjusted contract prices" means contract prices that are adjusted by each associated Canadian pipeline's published (closest to Aug 1) fuel-in-kind and line loss amount provided for by tariff, and by each associated U.S. pipeline's tariffed rate.

2. *Canadian Toll Charges Embedded in Supply Contracts*

For supplies received at Sumas/Huntingdon that are under contracts that do not have embedded demand charges itemized within the contract, the demand charges will be identified as follows: The known and measurable demand charges will be limited to the non-variable Demand Tolls that can be identified in Duke Energy Gas Transmission's WestCoast Energy Tariff. These Demand Tolls will be subject to the same mitigation of transportation costs that the LDC uses on other pipeline transportation costs for capacity releases and off system sales.

Deletion of Language

To avoid conflict with the new ordering clauses, the Stipulating Parties propose the Commission delete: (1) the first two sentences from the Conclusions section at Paragraph 2; (2) the Conclusions section at Paragraph 3 in its entirety; and (3) the Conclusions section at Paragraph 6 in its entirety.

Commission Resolution

Staff served its Stipulated Motion and Memorandum on the service lists to docket UG 73, in which the Commission issued Order No. 89-1046, and docket UM 903, in which the Commission adopted PGA standards and policies for LDCs. *See* Order No 99-272. Under OAR 860-013-0050(2), parties generally have 15 days from the date of service to file a reply to a motion. However, because this motion was a stipulated request supported by Staff, all three LDCs and NWIGU, and given the time necessary to implement these changes prior to the LDCs' upcoming PGA filings, we find good cause exists to waive the response period and rule on the motion without further delay. *See* OAR 860-011-0000(6).

The Stipulating Parties' request to amend Order No. 89-1046 is granted. We agree with Staff that the proposed amendments will help ensure consistency between Oregon's three LDCs with regard to PGA filings. These changes will also better align the PGA filing requirements with current conditions in the natural gas market, which has changed considerably since the Order was issued.

We also agree with the Stipulating Parties' proposal that the LDCs amend and file their respective PGA tariffs no later than August 15, 2005, with an effective date of October 1, 2005, to implement the amendments to the Order.

ORDER

IT IS ORDERED that:

1. Staff's Motion to Amend Order No. 89-1046 is granted. The Order is amended to include the new ordering paragraphs set forth in this order, and to delete the specified language to avoid any conflicts. The remainder of the Order is unchanged.

2. The Oregon natural gas distribution companies must amend and file their respective purchased gas adjustment tariffs no later than August 15, 2005, with an effective date of October 1, 2005, to implement the amendments to the Order.

Made, entered, and effective JUL 14 2005.

Lee Beyer
Commissioner

John Savage
Commissioner

Ray Baum
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

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 in 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.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 73

In the Matter of an Investigation into Ratemaking Policies for Natural Gas Purchases by Local Distribution Companies	STIPULATED MOTION AND MEMORANDUM TO AMEND ORDER NO. 89-1046

MOTION

Staff of the Public Utility Commission of Oregon files this Stipulated Motion to request the Commission modify its Order No. 89-1046 (Order) in certain respects delineated in the following Memorandum In Support. The changes proposed in the Memorandum are designed to ensure consistency between the Oregon natural gas Local Distribution Companies (LDCs) regarding the calculation and reporting of each LDC's expenses in its Purchased Gas Adjustment (PGA) filing. The changes are necessary to align the requirements of the PGA filing with the current natural gas market which has changed considerably since the Order was issued. Staff is authorized to represent that the following parties support this Stipulated Motion: Avista Utilities, Cascade Natural Gas, Northwest Natural, and the Northwest Industrial Gas Users (NWIGU) (collectively, the Stipulating Parties).

This motion is brought pursuant to ORS 756.568 and the following supporting Memorandum.

MEMORANDUM IN SUPPORT

It is important to note that, due to the passage of time since the Order was issued, staff found it difficult to have its requested amendments directly correspond to or replace specific language in the now 16-year old Order. With that caveat, on behalf of the Stipulating Parties staff asks the Commission to use the following language to amend Order No. 89-1046:

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1. Partially revise the Order to add the following in the Ordering Clauses:

a. Weighted Average Cost of Gas (WACOG) Calculation and corresponding definitions used in PGA filing

WACOG calculation

The WACOG is calculated by the following formula: [Normalized purchases @ adjusted contract prices] divided by [last year's (i.e. July 1 - June 30) actual sales, weather-normalized].

Definitions

"Normalized Purchases" means last year's (July 1 - June 30) actual sales, "weather normalized" plus a percentage for "distribution system unaccounted for gas."

"Weather normalized" means normalizing assumptions set at the utility's last rate case.

"Distribution system unaccounted for gas" means the 5-year average of actual unaccounted for gas, not to exceed 2%. In the case of a utility that did not record actual amounts for the last five years, the first year will be the utility's best estimate of actual loss, not to exceed 2%, the second year will be the first year's actual loss, the third year will be the average of the first and second year actual losses, and so on, until the utility has the data to calculate a 5-year average of actual losses.

"Adjusted contract prices" means contract prices that are adjusted by each associated Canadian pipeline's published (closest to Aug 1) fuel-in-kind and line loss amount provided for by tariff, and by each associated U.S. pipeline's tariffed rate.

b. Canadian Toll Charges Embedded in Supply Contracts

For supplies received at Sumas/Huntingdon that are under contracts that do not have embedded demand charges itemized within the contract, the demand charges will be identified as follows: The known and measurable demand charges will be limited to the non-variable Demand Tolls that can be identified in Duke Energy Gas Transmission's WestCoast Energy Tariff. These Demand Tolls will be subject to the same mitigation of transportation costs that the LDC uses on other pipeline transportation costs for capacity releases and off system sales; and

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c. Tariff Amendments

The Stipulating Parties ask the Commission to order the Oregon LDCs to amend and file their Purchased Gas Cost Adjustment tariffs no later than August 15, 2005, with an effective date of October 1, 2005, to implement the revisions proposed in this motion.

2. Reasons for Adding the Suggested Language

a. The formula to calculate WACOG

The formula to calculate WACOG is not included in Order 89-1046. This Memorandum proposes new ways of calculating the components of gas costs, so the addition of the WACOG calculation ensures that the LDCs are calculating and reporting comparable WACOGs.

b. A definition of the origin of the therms used for the WACOG calculation

As the WACOG formula is an addition to the Order, it is necessary to include the definition of one of the components of the WACOG calculation. This new definition will result in a WACOG calculation that incorporates the elements of the current natural gas market. This approach is straightforward to verify for audit purposes.

c. Change the way that normalization of gas volumes is described or defined and allow the normalization of gas volumes as described in the proposed additions requested by this motion.

As the WACOG formula is an addition to the Order, the inclusion of how to calculate various components of the formula is necessary to eliminate confusion. In the Order, the Commission rejected staff's proposal to normalize the cost of gas used in the 80/20 PGA by applying volumes established in the utility's last rate case to the gas costs experienced by each LDC. In this Memorandum, "normalized volumes" is used in a slightly different manner and refers to the utility's last year's actual sales that are weather normalized by the application of the weather normalizing assumptions set at each LDC's last rate case.

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d. The methodology to calculate both transmission pipeline fuel-in-kind and line loss charges provided for in the pipeline tariffs, and distribution system lost and unaccounted for gas.

As the WACOG formula is an addition to the Order, the inclusion of how to calculate various components of the formula is necessary to eliminate confusion.

e. The methodology to address the accounting treatment for upstream demand charges that are embedded in supply contracts.

How upstream or Canadian demand charges are assessed and paid for is changing. Formerly, the charges were identified as line items in supply contracts. Now the charges may be embedded in supply contracts. In its Order, the Commission determined that demand charges, over which the LDCs have no control, are not subject to the sharing mechanism in the PGA filing. The addition of the proposed methodology provides a way for the LDCs and staff to easily identify and audit these embedded demand charges.

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3. To avoid conflict with the requirements proposed in this Motion and Memorandum, the Commission should delete the following language from the Order:

a. Delete the first two sentences from the Conclusions section at Paragraph 2;[1]

b. Delete the Conclusions section at Paragraph 3 in its entirety;[2]

c. Delete the Conclusions section at Paragraph 6 in its entirety;[3]

DATED this 29th day of June 2005.

Respectfully submitted,

HARDY MYERS
Attorney General

Michael T.

Michael T. Weirich, #82425
Assistant Attorney General
Of Attorneys for the Public Utility Commission of Oregon

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[1] Specifically, delete the following language: "The commodity cost of gas tracked in the Purchased Gas Cost Adjustment tariff is defined as the price for the commodity from a producer or wholesaler. It should include all costs, fixed or variable, associated with acquisition of natural gas itself from the producer or wholesaler and specifically include those costs described in this Order."

[2] Specifically, delete the following language: "The cost of gas should be based on calculations for twelve months ending June 30 of each year, adjusted for known and measurable changes in long term contracts which are reasonably related to gas costs. Spot gas costs for this period shall be the spot gas average costs for the twelve months ending June 30."

[3] Specifically, delete the following language: "Normalization of gas volumes should be eliminated from any Purchased Gas Cost Adjustment tariff."

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