ORDER NO. 17 241

ENTERED JUL 11 2017

# BEFORE THE PUBLIC UTILITY COMMISSION

# OF OREGON

UM 903

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| In the Matter of<br><br>CASCADE NATURAL GAS CORPORATION,<br><br>2017 Spring Earnings Review. | ORDER |

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on July 11, 2017, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

**Michael Dougherty**
Chief Operating Officer

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

**ITEM NO. CA12**

**PUBLIC UTILITY COMMISSION OF OREGON**
**STAFF REPORT**
**PUBLIC MEETING DATE: July 11, 2017**

**REGULAR** ____ **CONSENT** X **EFFECTIVE DATE** N/A

**DATE:** June 27, 2017

**TO:** Public Utility Commission

**FROM:** Marianne Gardner MG

**THROUGH:** Jason Eisdorfer and Marc Hellman

**SUBJECT:** CASCADE NATURAL GAS: (Docket No. UM 903) 2017 Spring Earnings Review.

## STAFF RECOMMENDATION:

Staff recommends the Commission accept Staff's finding that Cascade Natural Gas's (Cascade or Company) earnings for the 12 months ended December 31, 2016, are below the earnings threshold established in UM 903 and that no Earnings Sharing should apply to the 2016 Fiscal Year.

## DISCUSSION:

### Issue

Whether the Commission should approve Staff's finding that Cascade's earnings for the 12 months ended December 31, 2016, are below the earnings threshold established in UM 903, and that no Earnings Sharing applies to the 2016 Fiscal Year.

### Applicable Law

Cascade makes this filing in accordance with OAR 860-022-0070. Each Oregon-regulated natural gas distribution company recovers gas costs under an automatic adjustment clause known as the Purchased Gas Adjustment (PGA). The Commission adopted the PGA in 1998 and the implementing rules in 1999.[1] The Commission has modified the PGAs and rules through the years.[2] The purpose of the PGA is to permit each natural gas utility to adjust revenue annually to reflect actual increases or decreases in gas costs.

[1] Order Nos. 98-503 and 99-272 (Dockets UM 903 and AR 357).
[2] *See e,g.*, Order Nos. 07-019, 08-504 (Docket Nos. AR 512 and UM 1286).

The PGA has two components.[3] The first component is prospective and resets base gas costs each year to reflect changes in the utility's cost of purchased gas.[4] The second component is retroactive and allows the utility to defer, for later inclusion in rates, differences between actual fixed costs and the base level in rates and a portion of the differences between actual commodity-related costs and the base level in rates.[5] To ensure that earnings of a natural gas utility are not excessive prior to passing through prudently incurred base gas costs, Commission rule OAR 860-022-0070 requires that an earnings review be conducted on an annual basis.[6]

Components of the PGA are as follows:

*Annual Election*
Not later than September 15th of each year, each Local Distribution Company (LDC) must make an annual sharing election for the applicable gas year, which begins November 1st.[7] The LDC must choose either 90/10 Weighted Average Cost of Gas (WACOG) sharing or 80/20 (WACOG) sharing with a corresponding earnings review threshold.[8]

*Spring Earnings Review*
An earnings review is performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review applies to the sharing election previously made by the LDC (e.g., the 2015 election will apply to the 2016 Fiscal Year results of operations which are the subject of the 2017 Spring Earnings Review). If earnings are found to be above a specified return on equity (ROE) level (Earnings Threshold), a portion of those revenues will be booked to a deferred account.

*The Earnings Threshold*
An LDC that elects 90/10 sharing will be subject to an Earnings Threshold of 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets.[9] An

[3] *See e.g.*, Order No. 03-198 at 1 (Docket No. AR 449).
[4] Order No. 03-198 at 1.
[5] Order No. 03-198 at 1.
[6] Order No. 03-198 at 1.
[7] Order No. 08-504 at 17, Order No. 11-196, Appendix at 4, Order No. 14-238, Appendix A at 8.
[8] Sharing of the variance between the LDC's weighted average cost of gas (WACOG) included in its rates and its actual WACOG. For example, 90/10 designates 90 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 percent is absorbed or retained by the LDC. *See* Order 08-504 at 17.
[9] The Earnings Threshold is adjusted each year by 20 percent of any change in the risk free rate for the twelve-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c)).

LDC that elects 80/20 sharing is subject to an Earnings Threshold of 150 basis points above its ROE, adjusted in the same manner.[10]

*Structure of Earnings Reviews*
By May 1st of each year, the LDC files results of operations for the twelve months ended the prior December 31st. Staff completes its review and distributes summary conclusions by June 10th to all parties. At the first regular public meeting in July, Staff presents the results of the earnings review. If there are unresolved issues, a settlement conference is held. If there are still outstanding issues, parties file position statements by August 1st and the Commission issues its decision on unresolved issues by August 15th. These rate changes include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.[11]

*Earnings Adjustments*
Recorded results of operations are adjusted for Type 1 adjustments as set forth in Order No. 99-272, Appendix B. Cascade made a one-time election to not include a weather normalization adjustment in its Spring 1999 earnings review filing and each subsequent annual filing.

*Earnings Performance*
If adjusted earnings are below the Earnings Threshold, there will be no rate adjustment.[12] If adjusted earnings are above the Earnings Threshold, the amount of revenue in the test year representing 33 percent of the earnings (including WACOG earnings) exceeding the threshold level will be shared with customers.[13]

*Effective Date of Rate Adjustment and Applicable Interest*
Upon completion of the earnings review, any amount of earnings over the sharing dead band determined to be returned to customers is booked to a deferred account. Interest is applied beginning the previous January 1st. The rate adjustment and amortization are effective with the date of the subsequent base gas cost change.[14]

Analysis of Cascade's Earnings:

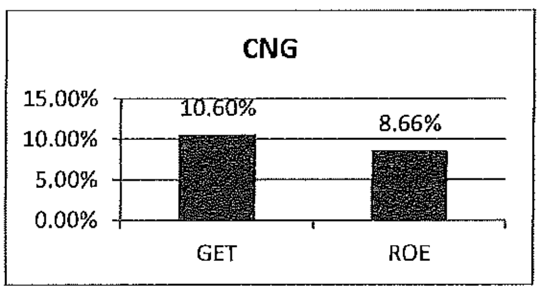
The Earnings Threshold for the Company for this 2017 Spring Earnings Review (review of the 2016 results of operations) is 10.60 percent.[15] Cascade elected 90/10 WACOG

[10] *Id.*
[11] OAR 860-022-0070(6).
[12] OAR 860-022-0070(5)(c).
[13] Order 98-543.
[14] OAR 860-022-0070(5)(e).
[15] Gas Earning Thresholds and supporting calculations are posted on the Commission's website at the following address: http://www.puc.state.or.us/Pages/electric_gas/Natural_Gas.aspx.

Sharing for the 2016 Fiscal Year. Accordingly, the calculation of Cascade's Earnings Threshold began with Cascade's authorized ROE for 2016. Then 100 basis points (based on a 90/10 WACOG sharing election) were added to Cascade's ROE. For the 2016 Fiscal Year, there was no change in the risk free rate.

Cascade submitted its 2016 Results of Operations (ROO) report for the 12 months ended December 31, 2016, in accordance with OAR 860-022-0070. The Company states that its report is meant to satisfy the reporting requirements associated with the UM 903 investigation (Order No. 98-543), as amended in Order No. 04-203, and the adjustments required in Order No. 99-272, appendix B.[16] Cascade calculates its ROE as 8.66 percent after the application of its Type I adjustments, excluding weather normalization.

Staff reviewed the Company's revised earnings report and concludes that Cascade's reported ROE has been calculated correctly. Because the Company's adjusted ROE is below the Gas Earnings Threshold (GET) of 10.60 percent, earnings sharing are not required.




Staff is required by OAR 860-022-0070(6), to submit summary conclusions to the parties in Docket No. UM 903 on June 10, 2017. However, Staff submitted its findings to the parties on June 27, 2017.

Conclusion:

In this public meeting memorandum, Staff reports its calculations of: (1) Cascade's adjusted return on equity ("Earnings Threshold"), and (2) adjusted revenues for the 2016 Fiscal Year used to determine whether Cascade must share a portion of its 2016 Fiscal Year earnings with customers under Cascade's Purchased Gas Adjustment mechanism. Based on these calculations, Staff concludes that Cascade should not be required to share its 2016 earnings with customers in connection with its PGA.

[16] UM 903 Results of Operations, Docket RG 36, submitted April 21, 2017.

**PROPOSED COMMISSION MOTION:**

Accept Staff's finding that Cascade's 2016 earnings are below the Earnings Threshold designated in UM 903, and that there is no earnings sharing for the 2016 Fiscal Year.

Cascade UM 903 2017 Spring Earnings Review