ORDER NO. 17 417

ENTERED OCT 16 2017

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 335, UG 338

In the Matters of	
CASCADE NATURAL GAS CORPORATION,	ORDER
Reflects changes to the Purchased Gas Adjustment (PGA) Tariff, Schedule 177 and Schedule 191 Temporary Gas Cost Rate Adjustment (UG 335), and	
Revises Multiple Schedules Reflecting Changes Resulting from PGA Adjustments and Non-Gas Cost Adjustments (UG 338).	

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

This order memorializes our decision, made and effective at our October 12, 2017 Special Public Meeting, to adopt Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

Dated this 14 day of October, 2017, at Salem, Oregon.

Lisa D. Hardie

Lisa D. Hardie
Chair

Stephen M. Bloom

Stephen M. Bloom
Commissioner

Megan Decker

Megan W. Decker
Commissioner

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 NOS. 5 & 6

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 12, 2017

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **November 1, 2017**

DATE: October 12, 2017

TO: Public Utility Commission

AY for DD AM

FROM: Deborah Glosser and Lisa Gorsuch

JE JPB

THROUGH: Jason Eisdorfer and JP Batmale

SUBJECT: CASCADE NATURAL GAS:
(Docket No. UG 335/Advice No. O17-07-01) Reflects changes in the cost of purchased gas and the amortization rate for the Purchased Gas Adjustment (PGA) balancing account.

CASCADE NATURAL GAS:
(Docket No. UG 338/Advice No. O17-07-04) Revises multiple schedules reflecting changes resulting from annual updates.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas' (Cascade) proposed tariff sheets in Docket No. UG 335/Advice No. O17-07-01 and Docket No. UG 338/ Advice No. O17-07-04, with an effective date of November 1, 2017.

DISCUSSION:

Issue

Whether the Commission should approve Cascade's 2017 annual Purchased Gas Adjustment (PGA) along with the tariff sheet revisions proposed by the Company in Docket No. UG 335/Advice No. O17-07-01 and in UG 338/Advice No. O17-07-04.

Applicable Rule or Law

ORS 757.210 authorizes the Commission to establish the rates charged by public utilities. ORS 757.259(5) authorizes the Commission to allow a utility to amortize costs deferred under an automatic adjustment clause. The amortization is subject to the

Commission's determination the costs were prudently incurred. Under ORS 757.259(6), the overall average rate impact of the amortizations authorized under ORS 757.259 in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year. OAR 860-027-0300 sets forth additional requirements and procedures related to deferred accounting.

The Purchase Gas Adjustment (PGA) mechanism was established by the Commission in 1989 and guidelines were first set forth in Order No. 09-248 (Docket UM 1286) (PGA Guidelines). Since then, in Order No. 11-196, the Commission adopted Natural Gas Portfolio Development Guidelines (Portfolio Guidelines) and in Order No. 14-238 the Commission adopted its most recent version of the PGA Guidelines.

To determine prudence the Commission reviews the Company's actions, based on all that the Company knew or should have known at the time, to determine whether the actions were reasonable and prudent in light of the circumstances, which then existed.[1]

<u>Analysis</u>

On July 28, 2017, Cascade filed its annual PGA requesting rate changes related to natural gas commodity purchases and the costs to deliver this gas to Cascade's system for the upcoming gas year (a "gas year" runs from November 1 to October 31 of the following calendar year). The PGA is filed to adjust rates yearly based upon:

(1) A Forward Looking Portion: An estimate of the commodity, pipeline, and storage costs – collectively referred to as the purchased cost of gas – for the upcoming gas year using projections for the price of natural gas and customer usage; and

(2) A Backward Looking Portion: A true-up of balances in deferral accounts due to the inevitable imperfect projection of costs and usage in last year's PGA filing that resulted in over/under-collection relative to those projections.

This Staff memorandum discusses: (1) the forward looking portion; (2) the backward looking portion; and (3) the overall revenue and rate impacts of combining these two segments with non-gas cost components for the 2017-18 gas year.

Forward Looking-Projected Purchased Gas Costs 2017-2018 PGA Year

There are two main components that together make up the purchased cost of gas:

[1] *In re PacifiCorp*, Order No. 12-493.

(a) commodity costs and (b) demand costs. Commodity costs are the cost of the natural gas itself for delivery at specified trading hubs at specific times. Demand costs are the cost of pipeline capacity and per unit of gas pipeline transport rates that allow Cascade to transport its gas purchases to its own system (city-gate) at the time it is needed.

Cascade's 2017 PGA proposes a decrease of approximately $ 0.02703 per therm in gas commodity cost compared to that in its 2016 PGA ($0.26292 per therm used in rates, versus the proposed WACOG of $0.23589). The price forecast is per guidance in Docket No. UM 1286, and is driven primarily by weather and customer use forecasts. Based on the review of the Company's filing and accompanying workpapers, Staff finds the proposed rate decrease reasonable.

Cascade proposes a small increase in demand cost from that in the 2016 PGA of approximately $0.001970 per therm ($0.16874 versus the proposed $0.17071). These changes are approximate due to the use of forecasted loads and gas costs.

Staff reviewed Cascade's forecasted commodity and demand costs to determine whether Cascade complied with the Commission's Natural Gas Portfolio Development Guidelines (Portfolio Guidelines).[2]

Accepted "best practices" for the purchase of natural gas supply by a local distribution company (LDC) is through a portfolio that balances the objectives of reliability, cost, and price volatility using the tools of diversity, flexibility, and balance. The Portfolio Guidelines implement these "best practices" for Oregon local distribution companies (LDCs). The Portfolio Guidelines also require each gas utility to include certain information related to its gas supply portfolio with its annual PGA filing. This information assists the Commission in determining the prudence of the LDC's costs.

Cascade's portfolio preparation and planning process meets the standards in Section III of the Portfolio Guidelines related to portfolio planning, as do Cascade's physical gas contracts and financial transactions relating to natural gas pricing. Cascade has also demonstrated its adherence to the Portfolio Guidelines with regard to natural gas supplies and financial hedges. In addition, Cascade has provided all the information called for in Section IV (Information and Workpapers), and Section V (Supporting Data and Analysis) of the Portfolio Guidelines. Cascade's planned supply portfolio, both physical and financial, is presented in Table 1.

[2] The "Natural Gas Portfolio Development Guidelines" and "PGA Filing Guidelines" were initially acknowledged by the Commission in Order No. 09-248 and initially corrected in Order No. 09-263. The current Guidelines were acknowledged by the Commission in Order No.11-196.

Table 1: Cascade Natural Gas Supply Portfolio for 2017-2018 PGA Year

Resource	Percentage in Portfolio (appx.)
Pipeline deliveries of natural gas	93.98%
Storage deliveries of natural gas	06.02%

Cascade's gas purchasing strategy for the 2017-2018 period is to hedge at a fixed price, approximately 37 percent of the expected annual load requirements. The remaining 63 percent of expected purchases will come from spot market purchases.

Spring Earnings Review

Each year, Oregon LDCs make an annual election for the upcoming PGA Year whether to share any variance between forecasted and actual gas commodity costs at 90/10 percent or 80/20 percent, with a corresponding earnings review threshold. For the 2017-2018 PGA year Cascade elected a 90/10 sharing on July 28, 2017.

Backward Looking-True Up of Gas Commodity Costs for 2016-2017 PGA Year

Just as natural gas prices and demand are projected for the 2017-18 gas year in this year's PGA to determine rates, they were projected in the previous year's PGAs to determine rates in those gas years as well. Due to a number of factors, including natural gas price volatility, weather, and the overall economy, these projections did not match exactly actual experience so that actual revenues collected did not equal those that were estimated.

Cascade's application proposes to true-up its commodity and non-commodity deferred account balance, which has been under amortization since November 1, 2016, and the amount projected for the 2017-2018 PGA period. The proposed change is illustrated in Table 2.

Table 2: Schedule 191 PGA Temporary Gas Cost Rate Adjustment Amortization

Rate Schedules	Present	Proposed	Change
101, 104, 105, 111, 170	($0.08611)	($0.01950)	$0.06661

Staff has reviewed Cascade's proposed gas cost deferral and determined that the proposed amortization is appropriate. The resulting revised rate increment is incorporated in the energy charge component of Cascade's primary rate schedules.

Overall Rate and Revenue Impact

A summary of the proposed tariff changes for Cascade's major rate schedules is shown in Attachment A.[3] Table 2 shows the rates the Commission has approved for Cascade's residential customers on Rate Schedule 101 between 2008 and 2017, the current proposal.

Table 3: Residential Rates 2008–2017 (Proposed)

Date	Customer Charge	Rate Per Therm[4]	Percentage Change[5]
November 2008	$3.00	$1.277	5.62%
November 2009	$3.00	$1.112	-12.92%
November 2010	$3.00	$1.047	-5.85%
November 2011	$3.00	$0.975	-6.88%
November 2012	$3.00	$0.796	-18.36%
November 2013	$3.00	$0.900	13.07%
November 2014	$3.00	$0.907	0.78%
November 2015	$3.00	$0.844	-7.0%
November 2016	$3.00	$0.792	-7.2%
November 2017	$4.00[6]	$0.687054	-5.18%

[3] Attachment A was submitted by Cascade in its workpapers along with its Supplemental filing to Docket No. UG 335/Advice No. O17-07-01 on September 15, 2017.
[4] This rate does not include pass-through charges included on customer bills that utilities are required to collect and distribute such as franchise fees or the Public Purposes Charge.
[5] The percentage change reflects only the change in the rate per therm, and does not include the effect of the monthly customer charge on the bill.
[6] The Customer Charge increased as a result of the Company's last General Rate Case, Docket No. UG 305.

With these changes, the monthly bill of a typical residential customer using 60 therms per month will decrease 5.18 percent, from $47.69 to $45.22.

Three Percent Test

The gas cost related amortizations in this filing are included in the calculation of the three percent test pursuant to ORS 757.259(6), which restricts the overall annual average rate impact of amortizations authorized under the statute to three percent of the natural gas utility's gross revenues for the preceding calendar year. For the upcoming gas year, Cascade is requesting to amortize a reduction of $6,231,084. During the last calendar year Cascade's gross revenues were $63,881,403. Therefore, Cascade is seeking to amortize amounts equal to (-9.75) percent of the previous year's gross revenues (i.e. a credit). This amortization does not exceed the three percent threshold. See Attachment C[7] for a more detailed accounting of amortizations and the three percent test.

Conclusion

The 2017 PGA Filing reflects a revenue increase of $3.3 million, or approximately 5.16 percent[8] effective November 1, 2016, due to gas costs (Purchased Gas Cost Adjustment Provision; Schedule 177-A) and amortization of previous deferrals (Temporary Gas Cost Adjustment; Schedule 191). Combining the impact of this filing with the two other regulatory filings filed on July 29, 2016 (Schedule 192, Intervenor Funding; and Schedule 192, Conservation Alliance Plan), results in a revenue decrease of $2.6 million,[9] or approximately 4.07 percent of last year's gas costs. After reviewing Cascade's filing, Staff recommends approval of the updates to the multiple schedules to reflect approved changes in rates.

PROPOSED COMMISSION MOTION:

Approve Cascade's request for base gas cost changes for commodity and transportation, as proposed in Docket No. UG 335/Advice No. O17-07-01, be allowed to go into effect on November 1, 2017, along with the associated tariff sheets related to Docket No. UG 338/Advice No. O17-07-04.

Cascade Docket No. UG 335/Advice No. O17-07-01, and
Cascade Docket No. UG 338/Advice No. O17-07-04

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[7] Attachment C was submitted by Cascade along with its Supplemental filing to Docket No. UG 335/Advice No. O17-07-01 on September 15, 2017.
[8] See page 9 of 9 in Cascade's Exhibit 1 filed with its Supplemental 2017 PGA Filing.
[9] See Attachment B of the Company's Supplemental 2017 PGA Filing.

Cascade Natural Gas
2017 PGA
Incremental Revenue Change by Customer Rate Schedule
Attachment A

REVISED

Customer Rate Schedule	Description	Gas Cost & Adjustment Schedule Total Revenue at Current[1]	Gas Cost & Adjustment Schedule Total Revenue at Proposed	Total Incremental Change in Revenue	Incremental Percentage Change by Rate Schedule	Percent Contribution to Total Incremental Change
101	Residential	30,813,996	29,070,303	(1,743,693)	-5.66%	67.10%
104	Commercial	18,040,980	16,873,923	(1,167,057)	-6.47%	44.91%
105	Industrial	1,609,820	1,729,210	119,389	7.42%	-4.59%
111	Large Volume	1,191,800	1,287,022	95,222	7.99%	-3.66%
112	Compressed Natural Gas					0.00%
126	Emergency Institution					0.00%
170	Interruptible	1,344,290	1,461,484	117,194	8.72%	-4.51%
163	Transportation	2,142,575	2,122,916	(19,658)	-0.92%	0.76%
		55,143,461	52,544,859	(2,598,602)	-4.71%	100.00%

Notes:

[1] Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted therms). There will be small differences with the Advice filings.

Cascade Natural Gas
2017 PGA
Incremental Revenue Change by Adjustment Schedule
Attachment B

REVISED

Adjustment Schedule No. & Description		Gas Cost & Adjustment Schedule Revenue at Current [1]	Gas Cost & Adjustment Revenue at Proposed	Total Incremental Change in Revenue	% Contribution to Total Incremental Change
177-A	PGA	$34,246,462	$32,258,285	($1,988,177)	76.51%
191	Temporary Gas Cost Adj	($6,831,679)	($1,547,065)	$5,284,614	-203.36%
192	Intervenor Funding	$135,884	$78,078	($57,806)	2.22%
193	CAP	$1,153,341	($4,683,892)	($5,837,233)	224.63%
194-B	Other Residual	$0	$0	$0	0.00%
	Margin	$26,439,451	$26,439,451	$0	0.00%
					0.00%
				$0	0.00%
				$0	0.00%
	Total	$55,143,459	$52,544,857	($2,598,602)	100.00%

Note:

[1] Revenue at "Current" does not reflect current revenues, but rather what the revenues would be if existing rates continued to be in effect during the upcoming year (i.e. current rates times forecasted therms). There will be small differences with the Advice filings.

Cascade Natural Gas
2017-2018 PGA
Three Percent Test
Attachment C

REVISED	Surcharge	Credit	
Prior Period Gas Cost Deferral True-Up	(1,547,344)		
Non-Gas Cost Amortizations			
Intervenor Funding	$77,785		
Other Residuals			
Decoupling		(4,683,740)	
		$0	
		$0	
		0	
Subtotal	77,785	(4,683,740)	
Total	(1,469,559)	(4,683,740)	
Total Proposed Amortization			($6,153,299)
Less: Intervenor Funding[1]			$77,785
Net Proposed Amortizations (subject to the 3% test)			($6,231,084)
Utility Gross Revenues (2016)			$63,881,403
3% of Utility Gross Revenues[2]			$1,916,442
Allowed Amortization			($6,231,084)
Allowed Amortization as % of Gross Revenues			-9.75%

[1] Intervenor Funding is excluded from the result of the 3% test pursuant to ORS 757.259(4)

[2] Unadjusted general revenues as shown in the most recent Results of Operation.