ORDER NO. 18 384

ENTERED OCT 15 2018

# BEFORE THE PUBLIC UTILITY COMMISSION

# OF OREGON

UG 356

| | |
|---|---|
| In the Matter of<br><br>CASCADE NATURAL GAS CORPORATION,<br><br>Reflects changes to the Purchased Gas Adjustment (PGA) Tariff, Schedule 177 and Schedule 191 Temporary Gas Cost Rate Adjustment. | ORDER |

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Special Public Meeting on October 11, 2018, 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 Grant**
Chief Administrative Law Judge

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. 4 & 5

# PUBLIC UTILITY COMMISSION OF OREGON
# STAFF REPORT
# PUBLIC MEETING DATE: October 11, 2018

**REGULAR** X **CONSENT** ____ **EFFECTIVE DATE** November 1, 2018

**DATE:** September 14, 2018

**TO:** Public Utility Commission

**FROM:** Brian Fjeldheim BF

JE JC

**THROUGH:** Jason Eisdorfer and John Crider

**SUBJECT:** CASCADE NATURAL GAS:
(Docket No. UG 356/Advice No. O18-07-01) 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 359/Advice No. O18-07-04) Revises multiple schedules to reflect the changes resulting from annual updates.

## STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas' (Cascade) Advice No. O18-07-01 (PGA) and Advice No. O18-07-04 (annual updates) for service rendered on and after November 1, 2018.

## DISCUSSION:

Issue

Whether the Commission should approve Cascade's 2018 annual Purchased Gas Adjustment (PGA), as reflected in its Advice No. O18-07-01, and revisions to multiple schedules to reflect changes resulting from annual updates, as reflected in its Advice No. O18-07-04.

Applicable Rule or Law

ORS 757.205 requires public utilities to file all rates, rules, and charges with the Commission. ORS 757.210 provides that the Commission may approve tariff changes if they are fair, just, and reasonable. Filings that make any change in rates, tolls, charges, rules, or regulations must be filed with the Commission at least 30 days before the effective date of the changes.

ORS 757.259(5) states that unless subject to an automatic adjustment clause, amounts deferred under ORS 757.259 shall be allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon review of the utility's earnings at the time of application to amortize the deferral. The Commission may require that amortization of deferred amounts be subject to refund. The Commission's final determination on the amount of deferrals allowable in the rates of the utility is subject to a finding by the Commission that the amount was prudently incurred by the utility.

ORS 757.259(6) states that the overall average rate impact of the amortizations authorized under this section in any one year may not exceed three percent of the utility's gross revenues for the preceding calendar year. ORS 757.259(7) allows the Commission to consider an overall average rate impact greater than that specified in subsection (6) for natural gas commodity and pipeline transportation costs incurred by a natural gas utility, if the Commission finds that allowing a higher amortization rate is reasonable under the circumstances.

OAR 860-022-0025 requires that revised tariff filings include statements showing the change in rates, the number of customers affected and resulting change in annual revenue, and the reasons for the tariff revision.

OAR 860-022-0030 requires that tariff filings which result in increased rates include statements showing the number of customers affected, the annual revenue under existing schedules, the annual revenue under proposed schedules, the average monthly bills under existing and proposed schedules, and the reasons supporting the proposed tariff.

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.

Analysis

On July 31, 2018, Cascade filed its annual PGA (Advice No. O18-07-01) along with revisions to multiple schedules to reflect changes resulting from annual updates (Advice No. O18-07-04). In its PGA filing, the Company is 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 Projection: 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) An Annual Spring Earnings Review: In the event of over collections from ratepayers in the prior gas year, a portion of over collections is returned to rate payers in the form of reduced rates.

(3) A Backward Looking True-up: 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 Spring Earnings Review; (3) the backward looking portion; and (4) the overall revenue and rate impacts of combining these three segments with non-gas cost components for the 2018-19 gas year.

*Forward Looking - Projected Purchased Gas Costs 2018-2019 PGA Year*
There are two main components that together make up the purchased cost of gas: (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 2018 PGA proposes a decrease of approximately $ 0.04386 per therm in gas commodity cost compared to that in its 2017 PGA ($0.23589 per therm used in 2017 rates versus the proposed WACOG[1] of $0.19203 to be used in 2018 rates). 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.

[1] Weighted Average Cost of Gas.

Cascade proposes a small decrease in demand cost from that in the 2017 PGA of approximately $0.00563 per therm (currently $0.17071 versus the proposed $0.16508). These changes are approximate due to the use of forecasted loads and gas costs.

**Table 1: Projected Purchased Gas Cost for 2018-2019**
(in $/Therm or as noted otherwise)

| Item | | Current Rate 2017-2018 Gas Year[2] | Proposed Rate 2018-2019 Gas Year | Change |
|---|---|---|---|---|
| Commodity | (A) | 0.23589 | 0.19203 | -0.04386 |
| Demand (Firm) | (B) | 0.17071 | 0.16508 | -0.00563 |
| **Total Gas Cost** | **(C = A+B)** | **0.40660** | **0.35711[3]** | **-0.04949** |

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).[4]

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 2.

---

[2] See Supplemental First Revision, Sheet 177.2 and Sheet 191.1; issued on September 15, 2017, "Rate" section approved by the Public Utility Commission of Oregon in Order No. 17-417 of Docket No. UG 335.
[3] Supplemental 2018 PGA Filing at Schedules 177.2 and 191.1.
[4] The "Natural Gas Portfolio Development Guidelines" and "PGA Filing Guidelines" were initially acknowledged by the Commission in Order No. 09-248, initially corrected in Order No. 09-263, and revised in Order No.11-196. The "PGA Filing Guidelines" were further updated by Commission Order No.14-238 in Docket No. UM 1286.

**Table 2: Cascade Natural Gas Supply Portfolio for 2018-2019 PGA Year**

| Resource | Percentage in Portfolio (appx.) |
|---|---|
| Pipeline deliveries of natural gas | 94.06% |
| Storage deliveries of natural gas | 5.94% |

Cascade's gas purchasing strategy for the 2018-2019 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[5] between forecasted and actual gas commodity costs at 90/10 percent or 80/20 percent, with a corresponding earnings review threshold. For the 2018-2019 PGA year Cascade elected a 90/10 sharing[6] on July 31, 2018.

*Backward Looking-True Up of Gas Commodity Costs for 2017-2018 PGA Year*
Just as natural gas prices and demand are projected for the 2018-19 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 proposed rates include a true-up of its commodity and non-commodity deferred account balances, which has been under amortization since November 1, 2017, and the amount projected for the 2018-2019 PGA period. The proposed change is illustrated in Table 3.

**Table 3: Schedule 191 PGA Temporary Gas Cost Rate Adjustment Amortization**

| Rate Schedules | Present | Proposed | Change |
|---|---|---|---|
| 101, 104, 105, 111, 170 | ($0.01950) | ($0.037040) | ($0.017540) |

[5] If earnings are found to be above the LDC's authorized return on equity (ROE) level (Earnings Threshold), a portion of those revenues will be booked to a deferred account.
[6] 90/10 WACOG Sharing means that 90 percent of the variance above the LDC's Earnings Threshold will be deferred for subsequent charge or credit to customers, with the remaining 10 percent to be absorbed or retained by the LDC.

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.[7] Table 4 shows the rates the Commission has approved for Cascade's residential customers on Rate Schedule 101 between 2009 and 2018, the current proposal.

**Table 4: Residential Rates 2009–2018 (Proposed)**

| Date | Customer Charge | Rate Per Therm[8] | Percentage Change[9] |
|---|---|---|---|
| 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[10] | $0.687 | -5.18% |
| November, 2018 | $4.00 | $0.668 | -2.75% |

With these changes, the monthly bill of a typical residential customer using 60 therms per month will decrease 2.5 percent, from $45.22 to $44.09.

*Three Percent Test*
The deferral 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

[7] Attachment A was submitted by Cascade in its workpapers along with its Supplemental filing to Docket No. UG 356/Advice No. O18-07-01 on September 10, 2018.
[8] 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.
[9] 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.
[10] The Customer Charge increased as a result of the Company's last General Rate Case, Docket No. UG 305.

year, Cascade is requesting to amortize a reduction of $4,267,898. During the last calendar year Cascade's gross revenues were $64,274,782. Therefore, Cascade is seeking to amortize amounts equal to negative 6.64 percent of the previous year's gross revenues (i.e. a credit). Although this amortization exceeds the three percent threshold, the Commission has the discretion to allow amortization of greater than three percent under ORS 757.259(7) upon a finding that the higher amortization rate is reasonable under the circumstances. Staff finds that the amortization rate is reasonable under the circumstances as it results in a credit to Cascade's customers, and the Company has requested to pass the full credit back to customers. See Attachment C for a more detailed accounting of amortizations and the three percent test. [11]

Conclusion

The 2018 PGA Filing reflects a revenue decrease of $5.4 million, or approximately 8.45 percent[12], effective November 1, 2018, 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 31, 2018 (Schedule 192, Intervenor Funding; and Schedule 193, Conservation Alliance Plan), results in a revenue decrease of $1.9 million,[13] or approximately 3.03 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 Advice No. O18-07-01 (PGA) and Advice No. O18-07-04 (annual updates) for service rendered on and after November 1, 2018.

Cascade Docket No. UG 356/Advice No. O18-07-01, and
Cascade Docket No. UG 359/Advice No. O18-07-04

[11] Attachment C was submitted by Cascade along with its Supplemental filing to Docket No. UG 356/Advice No. O18-07-01 on September 10, 2018.
[12] See Supplemental 2018 PGA Filing, Cascade Exhibit 1, page 9 of 9, lines 17 & 18.
[13] See Attachment B of the Company's Supplemental 2018 PGA Filing.