

ORDER NO. 24-222

ENTERED Jul 10 2024

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903

In the Matter of

CASCADE NATURAL GAS
CORPORATION,

2024 Spring Earnings Review.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on July 9, 2024, 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:



Alison Lackey
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.

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PGAs and rules through the years.² The purpose of the PGA is to permit each natural gas Utility to adjust revenues annually to reflect actual increases or decreases in gas costs.

The PGA has two components. The first component is prospective and resets base gas costs each year to reflect changes in the utility's cost of purchased gas.³ 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 as well as a portion of the differences between actual commodity-related costs and the base level in rates.⁴

To ensure that earnings of a natural gas utility are not excessive prior to passing through prudently incurred base gas costs, the Commission by rule (OAR 860-022-0070), requires that an earnings review be conducted on an annual basis.⁵

Components of the Spring Earnings Review are as follows.

Annual Election

Not later than September 15 of each year, each Local Distribution Company (LDC) must make an annual sharing election for the applicable gas year, which begins November 1.⁶ 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.⁷ Cascade elected a 90/10 WACOG sharing for the 2023 Fiscal Year in Docket No. UM 1286.

Spring Earnings Review

An earnings review shall be performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review will apply to the WACOG sharing election previously made by the Company (e.g., the 2022 election will apply to the 2023 Fiscal Year results of operations that are the subject of the 2023 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.

² See e.g., Order Nos. 07-019 and 08-504 (Docket Nos. AR 512 and UM 1286).

³ See e.g., Order No. 03-198 at 1 (Docket No. AR 449).

⁴ Id.

⁵ Id.

⁶ Order No. 08-504 at 17; Order No. 11-196, Appendix at 4; Order No. 14-238, Appendix A at 8.

⁷ 90/10 or 80/20 WACOG Sharing means that 90 or 80 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 or 20 percent will be absorbed or retained by the LDC.

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The Earnings Threshold

An LDC that elects 90/10 WACOG sharing will be subject to an Earnings Threshold of 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets.⁸ An LDC that elects 80/20 WACOG sharing is subject to an Earnings Threshold of 150 basis points above its ROE, adjusted in the same manner.⁹

Structure of Earnings Reviews

By May 1 of each year, the LDC will file results of operations for the 12 months ended the prior December 31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission would issue its decision on unresolved issues by August 15. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.¹⁰

Earnings Adjustments

Recorded results of operations will include retained WACOG variance earnings and will be adjusted for Type 1 adjustments as set forth in Order No. 99-272, Appendix B. Cascade made a one-time election not to include a weather normalization adjustment in its spring 1999 earnings review filing and each subsequent filing.

Earnings Performance

If adjusted earnings (including any retained WACOG variance) are below the Earnings Threshold, there will be no rate adjustment.¹¹ 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 will be shared with customers (Earnings Sharing).¹²

Effective Date of Rate Adjustment and Applicable Interest

Upon completion of the earnings review, any amount of earnings over the sharing deadband determined to be returned to customers will be booked to a deferred account. Interest shall apply beginning the previous January 1. The rate adjustment and amortization will be effective with the date of subsequent base gas cost changes.¹³

⁸ The Earnings Threshold is adjusted each year by 20 percent of any change in the risk-free rate for the 12-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c)).

⁹ Id.

¹⁰ OAR 860-022-0070(6).

¹¹ OAR 860-022-0070(5)(c).

¹² Order No. 98-543.

¹³ OAR 860-022-0070(5)(e).

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Analysis

Cascade's Earnings

The Gas Earnings Threshold (GET) for Cascade for this 2023 Spring Earnings review (review of the 2023 results of operations is 10.96 percent).¹⁴ Cascade elected a 90/10 WACOG sharing for the 2023 fiscal year in Docket No. UM 1286.¹⁵ Accordingly, the calculation of Cascade's Earnings Threshold began with the Company's authorized ROE for 2023.¹⁶ Then 100 basis points (based on a 90/10 WACOG Sharing Election) were added to Cascade's ROE. Finally, an adjustment of 20 percent of the change in the United States Treasury Risk Free Rate for the 12-month period preceding the annual earnings review and the Company's most recent general rate case order was applied. For the 2023 Fiscal Year, Cascade's adjusted risk-free rate increased by 56 basis points.

Pursuant to OAR 860-022-0070, Cascade submitted its 2023 Results of Operations (ROO) report for the 12 months ended December 31, 2023.¹⁷ Cascade calculates its ROE as 6.19 percent after the application of its Type 1 adjustments, excluding weather normalization.

Staff reviewed Cascade's ROO report, including supporting workpapers, and had a meeting with the Cascade staff regarding the ROO Report on May 20, 2023. After review, Staff did not identify any items of concern in Cascade's reported ROE calculation. Because Cascade's adjusted ROE is below the GET of 10.96 percent, no Earnings Sharing is required.

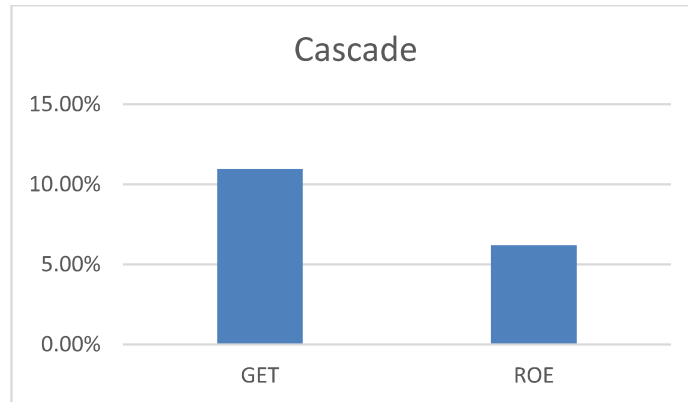
¹⁴ Gas Earning Thresholds and supporting calculations are posted on the Commission's website here: <https://www.oregon.gov/puc/forms/Forms%20and%20Reports/Gas-Earnings-Threshold-GET.pdf>.

¹⁵ Company's Annual PGA Sharing Election (2022-2023), Docket No. UM 1286 filed July 29, 2022.

¹⁶ Cascade's 2023 authorized ROE is 9.40 percent, per Docket No. UG 390, Order No. 21-001, Appendix A at page 2.

¹⁷ In the Matter of Cascade Natural Gas Corporation, Annual Results Operations Report, Docket No. RG 36, submitted April 26, 2024.

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Conclusion

OAR 860-022-0070(6) requires Staff to submit its conclusions to parties by June 10. Staff reports above its calculations of (1) the Company's adjusted return on equity ("Earnings Threshold"), and (2) adjusted revenues for the 2023 Fiscal Year, both of which are used to determine whether Cascade must share a portion of its 2023 Fiscal Year earnings with customers under Cascade's PGA mechanism. Based on these calculations, Staff concludes that Cascade should not be required to share its 2023 earnings with customers in connection with its PGA.

The Company has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve Staff's finding that Cascade's 2023 earnings are below the Earnings Threshold designated in Docket No. UM 903, and no Earnings Sharing applies to the 2023 Fiscal Year.

CNG UM 903, 2024 ROO Spring Earnings Review