ORDER NO. 00-597

ENTERED SEP 29 2000

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 141
UM 987

In the Matter of CASCADE NATURAL GAS CORPORATION's 2000 Gas Cost Tracking and Technical Adjustment Filing and Application for Reauthorization to Continue Deferring Certain Revenues and Expenses.	))))))	ORDER

DISPOSITION: APPLICATIONS APPROVED WITH CONDITIONS

On August 22, 2000, the Public Utility Commission (Commission) received Cascade Natural Gas Corporation's (Cascade or company) annual gas cost tracking and technical adjustment filing and an application for reauthorization to defer certain expenses or revenues related to its Purchased Gas Adjustment (PGA) balancing account. The Company requests a waiver of the statutory 30-day notice requirement on revised filings in both dockets.

Based on a review of the applications and the Commission's records, the Commission finds that the applications satisfy applicable statutes and administrative rules. At its public meeting on September 28, 2000 the Commission adopted Staff's recommendation to approve the applications. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED THAT the Cascade Natural Gas Corporation's 2000 Gas Cost Tracking and Technical Adjustment filing (UG 141) and application for reauthorization to continue deferring certain revenues and expenses (UM 987) to its Purchased Gas Adjustment balancing account on and after October 1, 2000, are approved, subject to conditions, as described in Appendix A.

Made, entered and effective ______________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 6 and 7

PUBLIC UTILITY COMMISSION OF OREGON 00-597
STAFF REPORT
PUBLIC MEETING DATE: September 28, 2000

REGULAR AGENDA X CONSENT AGENDA EFFECTIVE DATE October 1,2000

DATE: September 19, 2000

TO: Bill Warren through Lee Sparling, Ed Busch and Bonnie Tatom

FROM: Maury Galbarith and Judy Johnson

SUBJECT: - Cascade Natural Gas Corporation's 2000 Gas Cost Tracking and Technical Adjustment Filing (Docket No. UG 141, Advice Nos. CNG/000-08-01 and CNG/000-08-01A), and Application for Reauthorization of the PGA Deferred Account (UM 987)

SUMMARY RECOMMENDATION:

We recommend that the Commission approve Cascade Natural Gas Corporation's (Cascade or company) Application to Waive Statutory Notice and allow the proposed tariff sheets in Advice No. CNG/000-08-01A and the tariff sheets (Thirty-Second Revision of Sheet 193 and Twenty-Ninth Revision of Sheet 194) in Advice No. CNG/000-08-01 to become effective with service on and after October 1, 2000. This filing increases the company's annual revenues by $10.5 million, or 24.6 percent.

We also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its Purchased Gas Adjustment (PGA) balancing account.

DISCUSSION:

On August 22, 2000, Cascade submitted its annual gas cost tracking and technical adjustment filing. This filing consisted of a proposed increase in annual revenues in Advice No. CNG/000-08-01 (docketed as UG 141), effective October 1, 2000. In a concurrent filing docketed as UM 987, Cascade requested reauthorization of deferrals under the company's PGA mechanism. On September 11, 2000, in Advice No. CNG/000-08-O1A, Cascade submitted substitute sheets to reflect finalized contracts for its commodity costs.

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UG 141

This application requests authority to increase rates to: (1) track increases in purchased gas costs, and (2) make technical adjustments to amortize Cascade's deferred revenue and gas cost accounts. The change in annual revenues is summarized below and shown in **Attachment A.**

PGA Base Gas Cost Change	$ 10,985,634
Removal of 12/1/99 Temporary Increment	618,245)
Addin New Temporary Increment	97,241
Total Proposed Increase -$	10,464,630

<u>Staff Review of Gas Costs</u>

<u>National/Regional/Local Trends</u>

Natural gas prices in the Northwest have increased steadily over the last couple of years, primarily due to greater demand for natural gas in the Midwest region of the United States-Canadian gas that once served the Northwest fairly inexpensively can now be sent to those markets that are willing and able to pay a higher price. Recently, however, the steady increase has metamorphosed into a huge run up in prices with a greater degree of volatility.

At a Special Public Meeting held on August 14, 2000, a panel of Oregon local distribution companies (LDCs), provided the Commission, Staff, media and other interested persons with some of the reasons for the large increases in gas prices that are reflected in the PGA filings:

- Increased use of gas-fired electric generating power plants
- Strong demand growth nationally
- Fairly flat production levels combined with a labor shortage
- High oil prices
- Continued concern over availability of gas from storage this coming winter
- Increased pipeline use from the Rockies and Canada to the Midwest and South

Most energy analysts agree that these large increases will not be sustainable over the long run (two years or more)-production is already up, oil prices are poised to drop, and at least for the near-term no one is predicting that storage facilities won't be refilled in time for this winter's heating season. These factors may alleviate some of the influence of the increased pipeline use in the Midwest. In addition, the in-service date for the Alliance Pipeline [stretching from Alberta, Canada to Chicago, Illinois] has now been delayed one month, from October 1 to November 1, 2000. The panel of LDC representatives predicted that the price increases might endure for a two-year period, but are expected to stabilize.

Cascade's Gas Cost Situation

Cascade's supply portfolio for Oregon flows entirely from Alberta, Canada. The supply is purchased using two long-term contracts. A large year-round contract accounts for 81 % of Oregon's purchased gas. A smaller winter-only contract accounts for 19 % of the portfolio. These contracts are renegotiated on an annual basis. The negotiated prices for the year-round contract are based on a weighted average of Alberta Canada, Sumas Washington, and Rocky Mountain price indices. The negotiated price for the winter-only contract is based on the Kingsgate Idaho price index.

With Staff's approval, Cascade delayed locking-in contract prices in anticipation of a downward correction in the natural gas market. While the company was able to fix prices near daily lows an overall market downturn did not materialize. Final contract prices are higher than those estimated in the company's original draft filing. Cascade's September 11, 2000, filing reflects these higher fixed prices. Cascade was able to refill available storage at Jackson Prairie with natural gas purchased under a favorable fixed price contract negotiated in October 1999.

Staffs *Review of Cascade's Gas Costs*

Cascade, as well as the other two regulated gas utilities, are required to file for rate changes related to purchased gas costs with an effective date of December 1 of each year. Cascade's tariff allows an "out of cycle" filing to adjust the base gas cost component of rates if, "lacking such an adjustment, the projected annualized gas cost would exceed 10% or more of the company's annual gas cost." In workpapers submitted to Staff, Cascade shows a projected annualized gas cost of **$29,868,249,** which represents a 53% increase over the current annual cost. The annual gas cost includes both natural gas commodity and transportation costs.

Staff closely examined Cascade's gas supply portfolio and gas cost tracking application. The company's roll-up of commodity contract costs was free of errors or defects.

Cascade's filing indicates, and Staff has confirmed, that the company continues to contract with the same entities for its Oregon gas supply. Staff also verified that Cascade used accurate pipeline tariff rates in computing annual transportation costs.

Last year, Cascade contracted for volumes totaling 58,139,376 therms at a weighted average cost of gas of $0.24576. The weighted average cost of gas, or **WACOG,** is the annual commodity cost per therm. This year, the company has contracted with the same suppliers for volumes totaling 56,899,309 therms at a weighted average cost of gas of $0.42807. The number of therms decreased by 2 %, while the WACOG increased by 74 %. Overall, Cascade's annual commodity cost increased by $10,373,173. Given Cascade's stable supply mix, it is reasonable to attribute this increase in cost to inflated prices in natural gas commodity markets.

Following is a table of Cascade's Weighted Average Cost of Gas since 1991. These numbers are unadjusted for the effects of inflation:

Year	WACOG
1991	.17842
1992	.17842
1993	.19647
1994	.18469
1995	.14024
1996	.12013
1997	.17771
1998	.19751
1999	.24576
2000	.42807

Staff concludes that Cascade's proposed WACOG of $0.42807 is an accurate reflection of the company's annual commodity cost. In addition, this filing shows demand charge increases of $357,606 and adjustments for uncollectibles, city franchise fees, and gross revenue fees of $254,855. Adding these costs to the commodity cost increase of $10,373,173 results in the change in base gas cost of $10,985,634 which is shown in Attachment A. Staff has inspected Cascade's proposed tariff sheets and verified their accuracy.

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How does Cascade expect to work with its customers in the next ear in response to the high gas costs?

Cascade, along with Avista Utilities and NW Natural, met with the Commissioners in a special public meeting on September 15, 2000. The purpose of the meeting was to discuss with the Commissioners, Staff, CUB, Office of Energy and other interested parties, what each company expects to do to help customers with the expected bill increases-bills that would be even higher under colder than normal weather conditions.
Cascade also met with Staff in late August to discuss its DSM plans for the next year or so. Following are some of the plans Cascade has made with respect to consumer advocacy:

- Cascade is actively exploring options for a new weatherization program. These programs have long been non-cost effective. With increased gas costs, some programs that have been non-cost-effective may now be cost effective. The company has some homework to do in order to bring any proposals to the Commission for approval.
- The company will continue to offer its customers time payment agreements and a *Budget Payment Plan* that is designed to average out the monthly payments for gas service of any residential customer who can establish satisfactory credit with the company.
- Cascade will be able to help customers through its customary practice of offering 12 month payment arrangements on arrearages.
- Cascade has distributed two newsletters to its customers since July. The newsletters has offered information on the *Budget Payment Plan*, gas cost increases and energy efficiency ideas. In addition, the company plans to send out an expanded notice to the public following the Commission's approval of its PGA filing.
- The company will continue to promote its Winter *Help* program, a below-the-line program that helps low-income customers pay their winter gas bills. In this program, customers can contribute to this fund, which the company matches with shareholder dollars.
- Cascade also has a gift certificate program that allows a customer to pay for another customer's bill.
- The company will continue its mandated energy audits under its Residential Energy Conservation (Schedule 1005) and Commercial Energy Conservation Services (Schedule 1011) Programs.

Technical Adjustments - Deferred Accounts

Cascade's application proposes to make technical adjustments in amortizing credit and debit balances in its deferred accounts. This activity consists of the following components, as shown on Attachment A:

- Removal of temporary increments currently in place will decrease revenues by approximately $618,245.
- Collection of $97,241 of debit balances in the company's deferred revenue and gas cost accounts. This balance includes a refund of $122,265 resulting from the company's UM 903 Spring 2000 Earnings Review. The Commission previously authorized all of the deferred amounts subject to amortization.

Staff has reviewed the company's technical adjustments and determined that the proposed amortizations are appropriate. The revised amortization increments are incorporated in the energy charge component of the company's primary rate schedules. The net revenue effect of adding the new temporary increments and removing the current increments is a decrease of $521,004 on an annual basis. The net technical adjustment change for the residential customer class is a, rate decrease of 1.10 cents per therm.

Summary

With these changes, the monthly bill of atypical residential customer using 64 therms per month will increase by $11.68, or 25.0 percent. A summary of the proposed tariff and revenue changes for Cascade's major rate schedules is shown in Attachment A.

Earnings Review and Three Percent Test

As a matter of policy, in past years the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. In 1999, the Commission concluded its PGA Investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes.

In addition, Section (8) of this rule states: "An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism." In 1997, Cascade adopted a 33 percent sharing level and thus is exempt from an earnings review associated with this PGA filing.

ORS 757.259 (6) states that the overall annual average rate impact of the amortizations authorized under the statute must not exceed three percent of the utility's gross revenues for the proceeding calendar year. Cascade's proposed amortizations are below the 3 percent cap and may be implemented as proposed.

UM 987

In this filing, Cascade requests reauthorization of deferrals pursuant to its automatic adjustment clause, the Purchased Gas Adjustment (PGA) mechanism. The PGA allows Cascade to adjust tariffs annually for known and measurable changes in purchased base gas costs and for changes in amortization rates relating to the PGA balancing account.

The information contained in the application is consistent with the requirements of ORS 757.259, 757.210 and OAR 860-27-300. The application states that continued deferral of these cost and revenue differences minimizes the frequency of rate changes and appropriately matches costs borne and benefits received by ratepayers, consistent with ORS 757.259(2)(e). The reasons cited for reauthorization are still valid. Staff recommends the Commission approve the request for reauthorizing the PGA, effective October 1, 2000.

STAFF RECOMMENDATION:

We recommend the Commission take the following action regarding Cascade Natural Gas Corporation's filings:

1. Approve amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 141. Approve Cascade's request for waiver of the 30-day notice requirement and allow the associated tariff sheets (Sub. Twelfth Revision of Sheet 177-B and Sub. Seventy-Fifth Revision of Sheet 191) of Advice No. CNG/000-08-01A -- and the tariff sheets of Advice No. CNG/000-08-01 specified below -- to go into effect October 1, 2000.

   - Thirty-Second Revision of Sheet 193
   - Twenty-Ninth Revision of Sheet 194

2. Reauthorize deferred accounting for Cascade's Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2000.

3. Find that there is no earnings review requirement for the gas cost deferrals for the twelve months ended June 30, 2000.

Attachment

cc: Bonnie Tatom
Ray Nunez
Ed Busch