ITEM NO. 3 and 4 Order No. 00-599

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT

PUBLIC MEETING DATE: September 28, 2000

REGULAR AGENDA .X CONSENT AGENDA EFFECTIVE DATE October 1, 2000

DATE: September 19, 2000

TO: Bill W n through Lee Sparling, Ed Busch and Bonnie Taton

FROM: Ray Nunez and Judy Johnso&,-

SUBJECT: NW Natural's 2000 Gas Cost Tracking and Technical Adjustment Filing (Docket No. UG 140, Advice Nos. 00-15 and 00-15A), and Application for Reauthorization to continue deferring certain revenues and expenses (UM 988)

SUMMARY RECOMMENDATION:

We recommend the Commission approve NW Natural's (NWN or company) Application to Waive Statutory Notice and allow the following two proposed tariff sheets in Advice No. 00-15 (Twelfth Revision of Sheet 169-4 and Sixth Revision of Sheet 173-1) and the proposed tariff sheets in Advice No. 00-15A to become effective with service on and after October 1, 2000. This filing increases the company's annual revenues by $96.1 million, or 21.6 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 18, 2000, NW Natural submitted its annual gas cost tracking and technical adjustment filing. In Advice No. 00-15 (docketed as UG 140), the company proposed to increase annual rates effective October 1, 2000, to reflect changes in the cost of purchased gas, and technical adjustments in its deferred revenue and gas cost accounts. In a filing docketed as UM 988, NW Natural requested reauthorization of deferrals under its PGA mechanism. On September 13, 2000, in Advice No. 00-15A, the company submitted substitute sheets to reflect correction of an error.

UG 140

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

PGA Base Gas Cost Increase	$ 90,331,824
Removal of Temporary Increment	(14,438,717)
Addin New Temporary Increment	20,164, 832
TOTAL Proposed Increase .	.$ 96,057,939

Staff Review of Gas Costs

National/Regional/Local Trends

Natural gas prices in the Northwest have increased steadily over the last couple of years, primarily due the greater demand for natural gas in the Midwest region of the United States-Canadian gas that once served the Northwest fairly inexpensively can 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.

NW Natural's Gas Cost Situation

NW Natural's source of gas supply originates approximately 79 % from Canada, 19 from Rocky Mountain regions and 2 % from local production in the Mist field. About 70 % of the firm off-system contracts are purchased on a fixed price basis, of which half was fixed through financial instruments such as swaps. The other 30 % of the firm off system contracts float with well-known indices such as the *Inside F. E. R. C. 's Gas Market Report* for the Canadian border and Rocky Mountains, and the *Canadian Gas Price Reporter Report* for AECO C/N.I.T. All of NW Natural's annual gas supply volumes change price at least once a year. As a result, these annual renegotiations took place in the current high-price natural gas market. The recent increase in prices and volatility shortened the time for evaluating supplier offerings and placed more emphasis on responding to quickly moving real time quotes. Overall, NW Natural's purchasing strategy has been to minimize, to the extent possible, the impact of rising prices, while balancing the need for gas reliability.

NW Natural pays demand charges to Northwest Pipeline Corporation (NPC) for long term primary firm transportation (TF-1) of 3,520,440 therms per day. As an offset to these demand charges, the company receives payments from Portland General Electric (PGE) and Georgia-Pacific (GP) under the terms of special service contracts for their use of company-owned capacity on NPC facilities. PGE and GP have reserved company capacity of 300,000 and 70,000 therms per day, respectively, and pay the company the current maximum tariffed NWP TF-1 rate for each therm of this reservation. These payments are credited against the TF-1 demand charges in the company's filing. . Proposed TF-1 costs total $33 million per year. This amount is unchanged from last year's PGA filing. NW Natural also previously acquired another 137,000 therms per day of TF-1 capacity release from Avista, Duke, and Weyerhaeuser, but this is included in the WACOG along with ANG and NOVA demand costs.

NW Natural relies on storage to meet about 20 percent of its annual sales requirement and about 50 percent of its design peak day firm demand. Most of this storage is owned and operated by NW Natural within its service territory. Storage facilities include the Mist field and two liquefied natural gas plants in Portland and Newport, Oregon. With the additional flexibility provided by the Mist expansion, NW Natural has decreased the proportion of premium-priced swing supplies in its portfolio. NW Natural believes that its storage refill activities will be completed by October 1, 2000, and available for winter operations at that time.

Staff's Review of NW Natural's Gas Costs

NW Natural, 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. NW Natural's tariff allows an "out of cycle" filing to be filed if the company's "WACOG changes by ten percent (10%) or more..." In workpapers submitted to Staff, NW Natural shows an annualized gas cost of $323,554,678, which represents a 42% increase over the current annual cost on a system basis. The annual cost of gas includes both natural gas commodity and transportation costs.

Staff reviewed the PGA filing to determine the merits and basis for the proposed gas cost increase. Staff examined the gas supply contracts, the prices paid for the gas, and volumes of gas delivered and used for customers. Staff also duplicated the calculations, audited billing records, examined supporting documents and cost data used in the spreadsheet models for the gas cost exhibits. In addition, Staff performed statistical tests of the purchasing operations of the gas supply portfolio and submitted data requests of NW Natural. Quarterly and monthly operational reports were also examined.

Last year, the company had actual volumes totaling 763,105,022 therms and a weighted average cost of gas of $0.22314. The weighted average cost of gas, or WACOG, is the annual commodity cost per therm. This year, the company has contracted with suppliers for volumes **totaling 750,118,260** therms at a weighted average cost of gas of $0.34767. The number of therms actually decreased by 1.7 % , while the WACOG increased 56 % . Overall, NW Natural's annual commodity cost increased by $84,024,214.

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

Year	WACOG
1991	.15479
1992	.16699
1993	.17654
1994	.15241
1995	.11635 I
1996	.11051 i
1997	.16344 I
1998	.17906
1999	.22314
2000	.34767

Staff concludes that NW Natural's proposed WACOG of $0.34767 is an accurate reflection of the company's annual commodity cost. In addition, this filing shows demand charge increases of $3,726,830 and adjustments for uncollectibles, city franchise fees, and gross revenue fees of $2,580,780. Adding these costs to the commodity cost increase of $84,024,214 results in the change in base gas cost of $90,331,824 which is shown in Attachment A. Staff has inspected NW Natural's proposed tariff sheets and verified their accuracy.

How does 1VW Natural expect to work with its customers in the next year in response to the high gas costs?

NW Natural, along with Cascade and Avista, met with the Commissioners in a special public meeting on September 15, 2000. The purpose of the briefings 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. NW Natural also met with Staff and the Office of Energy in August to discuss its DSM plans for the next year or so. Following are some of the plans NW Natural has made with respect to . consumer advocacy:

The company will continue to offer its customers a *Equal Pay Plan* that is devised to average out the monthly payments for gas service of any residential customer who has no outstanding balance. NW Natural will be adding a tag line to its bills regarding the *Equal Pay Plan.* NW Natural will be able to help customers through its customary practice of offering time payment agreements on arrearages.

The company will continue to promote its GAP program, a program that helps lowincome customers pay their winter gas bills. The company will double shareholder contributions to GAP and believes it can double other contributions to GAP, making more funds available for bill payment assistance. The company will continue to incorporate energy efficiency advice on its website.

NW Natural distributed a bill insert, Comfort *Zone,* in September bills, with information on payment options and energy efficiency programs. The company will also continue its furnace inspection work to identify furnaces that might need no-cost or low-cost fixes to improve efficiency

The company continues to work with its residential customers to offer demand-side management programs. NW Natural has indicated in its 2000 Integrated Resource Plan that several commercial programs may provide an opportunity to offer DSM to this customer class. In addition, it appears that with slightly higher avoided costs other weatherization programs may now be cost-effective to pursue. However, more work is necessary before these programs can be submitted for Staff review.

The company will continue its mandated energy audits under its Residential Weatherization and Energy Conservation Services (Schedule 220) and Commercial Energy Conservation Services (Schedule 230) Programs.

Technical Adjustments - Deferred Accounts

Northwest'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 $14.4 million.

- Collection of $20.2 million of debit balances in the company's deferred revenue and gas cost accounts. The Commission previously authorized all of the deferred amounts subject to amortization.

Approximately $3.4 million of additional net debits must be held for later amortization. These debits are being held for later amortization so that the overall annual average rate impact of the amortizations will not exceed three percent of the utility's gross revenues for the preceding calendar year, as required by statute (see discussion below). Of the $3.4 million, $1.9 million are from previously approved technical adjustments and $1.5 million are current year deferral accumulations (as of June 30, 2000).

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 an increase of $5.7 million on an annual basis. The net technical adjustment change for the residential customer class is a rate increase of 0.841 cents per therm.

Summary

With these changes, the monthly bill of a typical residential customer on Schedule No. 2 using 62.2 therms per month will increase by $9.05, or 19.9 percent. A summary of the proposed tariff and revenue changes for Northwest'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." NW Natural has 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 should not exceed three percent of the utility's gross revenues for the preceding calendar year. The company's filed tariff in Advice No. 00-15 complies with the three percent limitation by deferring $1.9 million of previously approved technical adjustments and $1.5 million of current year deferral accumulations.

UM 988

In this filing, Northwest requests reauthorization of deferrals pursuant to its automatic adjustment clause, the Purchased Gas Adjustment (PGA) mechanism. The PGA allows

Northwest 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 the NW Natural filing:

1. Approve amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 140. Approve NW Natural's request for waiver of the 30-day notice requirement and allow the associated tariff sheets of Advice No. 00-15A -- and the tariff sheets of Advice No. 00-15 specified below -- to go into effect October 1, 2000.

    - Twelfth Revision of Sheet 169-4
    - Sixth Revision of Sheet 173-1

2. Reauthorize deferred accounting for Northwest's Purchased Gas Balancing Account mechanism, Schedule No. 169, 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.

Attachments.

cc: Bonnie Tatom
Ed Busch
Maury Galbraith

JRAL
f PGA Rate Effects
come Effective – 10/01/00
Calculated
l Oregon Volumes Year Ended – 06/30/00

cents per therm)

np		Current Base Normalized Commodity Rate Change	Current Rate	Normalized Average Gas Cost Average Rate			PGA Base	Continuation of Tax Rate	Proposed Related Therms	Proposed DSM Temp Therms	Proposed Oregon Tariff	Oregon Norm	Remo 191 Te Th
(a)	(h)	(c)	(d)	(e)	(0	(9)	(h)	n	G)	(k)	(n	(m)	(n
RKET SERVICE													
- Commercial	1	72.162	87.714	13.717	0.066	0.950	2.087	(2281)	13.609	101.323	85.771	871,891	
871,891													
				0.597									
	2	65.878	73.209	13.717	0:060	0.950	2.087	(2.256)	13.608	86.817	79.486	325,383,72	
	325,383,723												
				0.597									
ıl	3	59.539	62.198	13.717	0.055	0.950	2.087	(2.196)	13.683	75.861	73.202	150,877,96	
	150,877,969												
				0.597									
ıl/Industrial	4	44.852	48.888	13.717	0.041	0.950	2.087	(2.072)	13.773	62.661	58.625	116,773,00	
	116,623,552												
				0.597									50,
Firm	5	45.012	32.717	13.717	0.041	0.950	2.087	(2.074)	13.771	46.488	58.783	726,305	
	2,387,724												
				0.597									1.66
inn	6	N/A	39.721	13.717	0.029	0.950	2.087	(1.956)	13.877	53.598	N/A	34,272,788	
	34,272,786												
				0.597									
inn	10	N/A	53.590	13.717	0.047	0.950	2.087	(1.956)	13.895	67.485	N/A	1,964,289	
	1,964,289												
			0.597									0	
	19	N/A	43.613	13.717	0.051	0.950	2.087	(1.956)	13.899	57.512	NIA	56,057	
				0.597									

'inn	21	47.955	55.614	13.717	0.043	0.950	2.087	(2.110)	13.737	69.351	61.69	29,888,832
	9,888,832											
				0.597								
nt	23	34.809	43.007	13.120	0.032	0.000	1.725	(1.479)	13.398	56.405	48207	18,426,97
	18,460,812											
												33,
Institutional	54	66.991	66.991	13.717	0.061	0.950	2.087	(2.269)	13.596	80.587	80.587	30,148
E MARKET SERVICE												
ncentive	55	NIA	15.323	0.000	0.000	0.000	0.000	0.000	0.000	15.323	N/A	29,548,208
	67,342,509											
												37,7
'rans	90	NIA	8.015	0.000	0.007	0.000	0.000	(0.092)	-0.085	7.930	N/A	0
	28,535,807											
												28,5
ans	91	NIA	4.929	0.000	0.006	0.000	0.000	(0.061)	-0.055	4.874	NIA	0
	125,312,180											
												125,
ntracts	60	NIA	2.555	0.000	0.000	0.000	0.000	0.000	0.000	2.555	NIA	0
	289.545,323											
												289.

URAL
f PGA Rate Effects
come Effective: 01-0ct-00
Calculated on
gon Volumes Year Ended 30-Jun-00 REVENUES (In dollars)
Proposed Change
Current Removal of

PGA Base PGA Sales PGA Trans Continuation Proposed Prop
Present Propose Percent Total

Schad. Revenues Gas Cost Change Change of T
191 Temp Inc. Temp Inc. Revenue Change Change

		(p)	(q)	(r)	(s)	(1)	(u)	M	(W)	(x)	(Y)	(Z)
-Commercial	1	$764,774	$119,597		$119,597					$0	$575	$8,
		$18,196	($19,713)		$891,717		16.6%	$ 126,943				
	2	$238,210,549		$44,632,161	$44,632,161		$0		$195,230			$3
l	3	$93,843,746		$20,695,931	$20,695,931		$0		$82,983			$1
l-Industrial	4	$57.113,186	$16,018,054	$16,017,752	$302	$47,898	$1,110,407	$2,437,236	($2,420,584)	$74,306,		
inn	5	$781,193	$109,547	$99,627	$9,920	$979	$22,695	$21,172	($49,521)	$886,065		
f.	6	$13,613,611	$4,701,198	$4,701,198	$0	$9,939	$325,763	$715,273	($670,376)	$18,695,408		
inn	10	$1,052,668	$269,442	$269,442	$0	$923	$18,671	$40,995	($38,421)	$1,344,277		
	19	$24,448	$7,689	$7,689	$0	$29	$533	$1,170	($1,096)	$32,772		
irm	21	$5,499,554	$1,356,451	$1,356,451	$0	$4,252	$93,993	$206,380	($208,654)	$6,951,976		
nter.	23	$7,939,479	$2,417.619	$2,417,619	$0	$5,907	$0	$318,449	($273,035)	$10,408,419		
Institutional	54	$0	$4,135	$4,135	$0	$18	$287	$629	($684)	$4,385		
E MARKET SERVICE												
ncentive	55	$10,319,091	$0	$0	$0	$0	$0	$0	$0	$10,319,091	(	
ity Trans	90	$2,287,080	$0	$0	$0	$1,998	$0	$0	($26,253)	$2,262,824	-	
Trans	91	$6,177,012	$0	$0	$0	$7,519	$0	$0	($76,440)	$6,108,090	-	
tracts	60	$7,397,629	$0	$0	$0	$0	$0	$0	$0	$7,397,629	(	

22 $90,331,824 $90,321,602 $10,222 $3

NW NATURAL
SUMMARY OF REVENUE IMPACTS BY MAJOR CLASS OF SERVICE
OREGON
Total Dollar Effects of PGA and Permanent Rate Reduction

	Volumes Year Ended 30-Jun-00 (M Thms)	PGA Effect [1]	Removal of Current Temp Inc. ($M)	Proposed Temp. Inc ($M)	Total Change ($M)($M)
fication					
(a)	(b)	(C)	(d)	(e)	
	Residential	330,187	$45,066	($7,334)	$10,236$47,968
	Commerical	235,141	$32,254	($5,164)	$7,271$34,361
	Industrial Firm	75,517	$10,359	($1,565)	$2,324$11,118
	Firm Transportation	1,712	$235	0	0 $286
	Interruptible	18,427	$2,418	($273)	$324$2,469
	Incentive	67,343	$0	$0	$0 $0
ule 90	28,536	$0($26)	$2	($25)	
ule 91	125,312	' $0($76)	$8	($69)	
al Contracts	289,545	$0$0	$0	$0	
	-1,171,720	90,332 -	(14,438)	20,164	$96,058