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September 30, 2019

Oregon Public Utility Commission  
P.O. Box 1088  
Salem, OR 97308-1088

Regarding: Docket No. UG 287 - Decoupling Mechanism Review, Rule 19

Per Order No. 15-412 of Docket No. UG-287, Cascade Natural Gas Corporation (Cascade or the Company) provides herein the following informational filing to initiate a review of its Decoupling Mechanism as authorized in Rule 19 of the Company's Oregon Tariff.

The Company intends to begin meeting with the parties to the aforementioned docket number to begin a formal review of its Decoupling Mechanism, with any proposed changes to become effective January 1, 2020.

If there are any questions regarding this information, please contact me at (509) 734-4591.

Sincerely,

/s/ Michael Parvinen

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Attachments

OREGON DECOUPLING MECHANISM REVIEW

CASCADE NATURAL GAS CORPORATION

PREPARED BY

CASCADE NATURAL GAS CORPORATION

SEPTEMBER 30, 2019

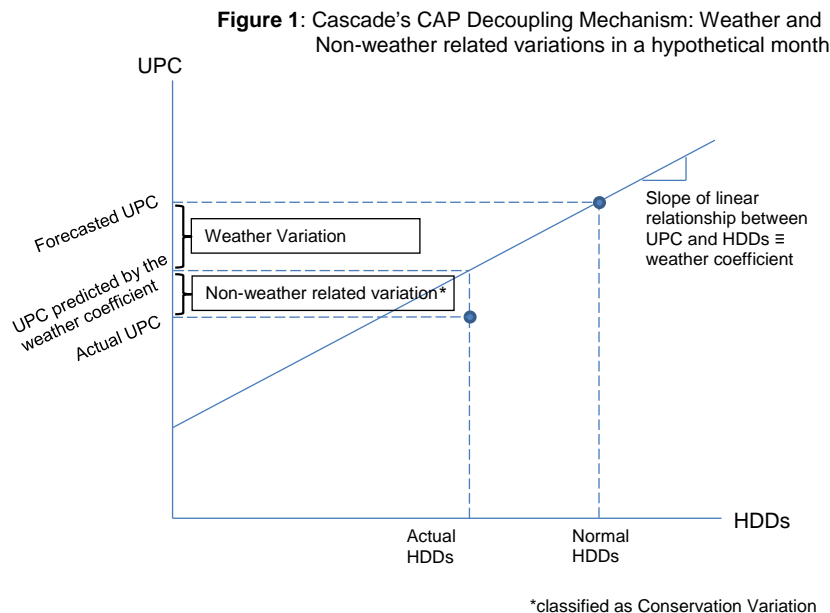
## Introduction

The Conservation Alliance Plan (CAP) mechanism is Cascade Natural Gas Corporation's (Cascade or the Company) current revenue decoupling mechanism. It was established by the Public Utility Commission of Oregon (OPUC) Order No. 06-191<sup>1</sup>. In docket UG 287, the parties agreed to continue Cascade's current decoupling mechanism and to initiate a full review of the mechanism on September 30, 2019 with any proposed changes to be effective January 1, 2020.<sup>2</sup>

In docket UG 305 testimony, the OPUC staff suggested a number of areas the Company might consider for the CAP mechanism review and modifications.<sup>3</sup> The purpose of this document is to reintroduce these items for review as required by Commission order in this docket and to propose modifications to the Company's amortization of CAP revenues.

## CAP Mechanism Overview

The CAP mechanism allows the Company to track changes in customer usage and revenues due to conservation and weather. The Company therefore maintains two deferral accounts within the CAP mechanism, with the combined activities of Schedules 101 (residential) and 104 (commercial). The first deferral account, related to conservation, records difference of non-weather related margin from expected commodity margin. The second deferral account, related to weather, tracks differences in margin due to variances from normalized weather.



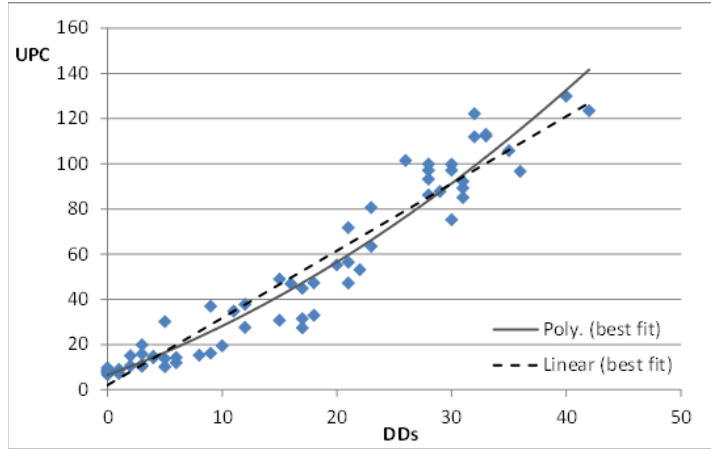
<sup>1</sup> UG 167, Order No. 06-191

<sup>2</sup> UG 287, Order No. 15-412 at E (Dec. 28, 2015).

<sup>3</sup> UG 305, Exhibit 300 St. Brown p. 22

### Non-linear computation of weather coefficients

In UG 305, OPUC staff witness Max St. Brown recommended refinements to the Company’s decoupling mechanism. St. Brown’s primary recommendation was that the “Company explore adding non-linear weather effects to its methodology used to compute its weather coefficient.”<sup>4</sup> This refers to the coefficients used by the Company to calculate deferrals for both the weather and conservation elements.



Source: Baker County Residential UPC & HDDs (June 2010-December 2015) from UG-305, Staff/300/St.Brown/Pg. 24

In testimony St. Brown suggested that the Company’s data demonstrated customers appeared more sensitive to lower temperatures and therefore polynomial coefficients were a better fit to predict customer usage. In extreme weather conditions over multiple years, linear formulas have the potential to under-predict customer usage resulting in potentially larger deferral amounts.

However, the Company’s decoupling method calculates linear weather/usage coefficients on a *monthly* basis (for each of its operating weather zones in Oregon) allowing for enhanced sensitivities to customer usage throughout the year. The result over months and years is a non-linear regression effect that adjusts periodically with the latest normalized weather data.

		<i>Coefficients</i>	<i>Standard Error</i>
Month	Intercept	0.5609596	0.107651359
Jan-18	X Variable 1	0.111889042	0.005546738
Feb-18	X Variable 2	0.120496752	0.006451532
Mar-18	X Variable 3	0.109346054	0.00877965
Apr-18	X Variable 4	0.092690155	0.010822233
May-18	X Variable 5	0.091995732	0.023940211
Jun-18	X Variable 6	0.048739033	0.063650372
Jul-18	X Variable 7	0.527888756	0.551101306
Aug-18	X Variable 8	-0.667571432	0.816912309

An example of Cascade’s monthly linear HDD/UPC coefficients for the Bend weather zone.

<sup>4</sup> UG 305, Exhibit 300 St. Brown, Pg. 22

The Company proposes maintaining the current monthly coefficient calculations by weather zone. The current method is effectively nonlinear over time and is sensitive to customer usage and weather throughout the year.

### **Adjustments for new customers in the decoupling mechanism**

In UG 347, OPUC staff witness Scott Gibbens recommended the Company explore decoupling mechanism adjustments for new customers. The premise of his recommendation is that new customers tend to have lower baseline use due to stricter building standards and appliance efficiencies. According to Gibbens this results in the following problems for the CAP mechanism<sup>5</sup>:

1. The decoupling adjustment will consistently be in Cascade's favor due to the average use of new customers being small relative to the average use of existing customers.
2. The decoupling mechanism will compensate Cascade for building code improvements and other forms of energy savings that are independent of Cascade.
3. The revenue associated with new customers will exceed the incremental cost of new customers because the average cost of serving all customers is higher than the incremental cost of serving an additional customer.

However, new code changes and more aggressive building standards are not developed in a vacuum. Cascade customers in Oregon contribute towards natural gas energy efficiency programs and market transformation efforts via the Energy Trust of Oregon (Energy Trust). The Energy Trust offers a suite of measures and incentives that impact energy usage in both new and existing construction. These programs, supported by Cascade's voluntary participation with the Energy Trust, contribute to the ongoing decline in energy usage for new customers as observed by Gibbens.

Energy Trust's programs factor for stricter building standards and appliance efficiencies. Conservation incentive offerings are regularly adjusted to avoid free ridership and to drive customers to achieve energy savings beyond code requirements. The Energy Trust's efforts include the Energy Performance Score (EPS) program which rates the energy performance of a home to encourage wise purchasing behavior for prospective buyers. Financial incentives are also offered for new construction to drive efficiencies even further beyond code standards. In addition, the Energy Trust partners with the Northwest Energy Efficiency Alliance to support the market transformation of natural gas conservation technologies which support the reduction of the baseline efficiency of both new and existing construction.

The Company is dedicated to actively supporting the Energy Trust's efforts on this front, as evidenced by the presence of Monica Cowlshaw, Manager of Energy Efficiency and Community Outreach on the NEEA Board of Directors. The Company therefore does not propose making an added adjustment for new customer usage at this time.

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<sup>5</sup> UG 347, Exhibit 400 Gibbens, Pg. 14

It is a common belief that the average new customer consumption is a small fraction of the average use of existing customers. However, as Cascade has observed in previous rate cases and related rate filings, the average residential customer usage in Oregon has either remained neutral on average or been slightly rising in recent years. That is why continued, aggressive energy conservation efforts are so important, and should be encouraged, and not penalized, by a well-designed decoupling mechanism. New customer usage data is factored into each subsequent update of the decoupling mechanism coefficients and into general rate revisions. Therefore, any perceived benefits to the Company are actually balanced out of the existing mechanism.

	UG 347	UG 305	UG 287
	5-31-18	4-29-16	03-31-15
RS 101	57	55	55

*Residential customer average use per last three GRCs*

Another common belief is that every new customer resides in new home construction. In many cases, new customers reside in preexisting buildings. Customers purchasing existing construction may treat energy efficiency as a secondary consideration, unless interventions are made through economic incentives, market transformation, and contactor education. Such interventions are offered through the Energy Trust and further promoted by Cascade. Due to the cost of conversion from electric heating, customers may not select more expensive high efficiency appliances or take advantage of Energy Trust’s energy efficiency rebates unless active efforts are made to encourage this behavior. Cascade and Energy Trust will remain proactive in driving participation in these efforts. A properly designed decoupling mechanism is essential to support this pathway forward.

The Company believes any decoupling adjustment for new customer consumption is likely captured in regular program true-ups, therefore it does not support such an adjustment at this time.

**Proposed Change to Decoupling Amortization Period**

Cascade currently maintains two deferral accounts within the CAP mechanism, with the combined activities of Schedules 101 (residential) and 104, for both Conservation and Weather. The Company imputes interest on the deferred balances of these accounting utilizing the Commission established interest rates for such accounts. The annual CAP filing includes temporary adjustment amounts design to amortize any balances of the deferral accounts over a 12-month period.

The Company has observed that depending on weather and customer usage, the effects of decoupling amortization can result in large customer charges or credits. The Company is entertaining a two-year amortization period for such customer credits and charges deferred within the Decoupling Mechanism.