

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

REGULAR X CONSENT _____ EFFECTIVE DATE November 1, 2018

DATE: September 17, 2018

TO: Public Utility Commission

FROM: Brian Fjeldheim *BF*

THROUGH: *JCF* Jason Eisdorfer and *JE* John Crider *JC*

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 355/Advice No. 18-11A)
Reflects changes in the cost of purchased gas, amortization of deferred gas costs, and the combined changes associated with the annual Purchased Gas Adjustment (PGA) filing.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural Gas Company's (NW Natural, NWN, or Company) Advice No. 18-11A,¹ which is the Company's 2018 Purchased Gas Adjustment (PGA) tariff sheet updates, be approved for service rendered on and after November 1, 2018.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's 2018 PGA as reflected in its Advice No. 18-11A.

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.

¹ NWN filed an update to Docket No. UG 355/Advice No. 18-12, which is identified as Docket No. UG 355/Advice No. 18-12A. The A indicates that the filing has been amended.

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 PGA mechanism was originally established by Order No. 89-1046 to minimize the frequency of gas cost-related rate changes and the fluctuation of rate levels pursuant to ORS 757.259(2)(e). Since the mechanism's creation in 1989, the Commission has issued a series of orders concerning PGA filings through open-docket UM 1286. Order No. 14-238 is the most recent of these orders, which set out the Commission's procedures and requirements concerning the processing of PGA filings.

Analysis

On July 26, 2018, NW Natural filed Advice No. 18-11, its annual PGA, requesting rate changes related to natural gas commodity purchases and the costs to deliver this gas to NW Natural's system for the upcoming gas year (a "gas year" runs from November 1 to October 31 of the following calendar year). NW Natural provided an updated filing on

September 14, 2018 (Advice No. 18-11A), which entirely replaced the Company's initial filing.

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 NW Natural to transport its gas purchases to its own system (city-gate) at the time it is needed.

NW Natural proposes a decrease of \$31,912,536 in gas commodity cost compared to its 2017 PGA. The decrease is in the gas cost per therm (WACOG or weighted average cost of gas). The change in total purchased gas cost is derived by comparing the 2018 customer load forecast with the 2017 cost per therm. This calculation shows the forecasted gas rate change when holding the gas cost constant from 2017 to 2018.

NW Natural also proposes a decrease in demand cost from its 2017 PGA of approximately two percent, or \$1,219,191. The total gas commodity and demand cost change compared to the 2017 PGA is a decrease of approximately five percent, or \$33,131,727. These changes are approximate due to the use of forecasted loads and

gas costs, and are driven primarily by changes in anticipated customer demand from the prior year, as a consequence of weather and related use forecasting.

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)	0.29186	0.24649	-0.04537
Demand (Firm)	(B)	0.11921	0.10917	-0.01004
Total Gas Cost	(C = A+B)	0.41107	0.35566³	-0.05541

Staff also reviewed NW Natural's forecasted commodity and demand costs to determine whether NW Natural complied with the Commission's Natural Gas Portfolio Development Guidelines (Portfolio Guidelines).⁴

Accepted "best practices" for purchasing natural gas supply by Local Distribution Companies (LDC) is portfolio construction 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 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.

NW Natural's portfolio preparation and planning process meets the standards in Section III of the Portfolio Guidelines related to portfolio planning, as do NW Natural's physical gas contracts and financial transactions relating to natural gas pricing. NW Natural has also demonstrated its adherence to the Portfolio Guidelines with regard to natural gas supplies and financial hedges. In addition, NW Natural has provided all the information called for in Order No. 11-196 in Section IV (Information and Workpapers), and Section V (Supporting Data and Analysis) of the Portfolio Guidelines. NW Natural's planned supply portfolio, both physical and financial, is presented in Table 2.

² See Supplemental Fifth Revision, Sheet P-2 and Sheet P-3; Supplemental Sixth Revision, Sheet P-5 and 164-1; and Supplemental Seventh Revision, Sheet 162-1 and Sheet 162-2, issued on September 15, 2017, "Rate" section approved by the Public Utility Commission of Oregon in Order No. 17-415 of Docket No. UG 334.

³ Supplemental 2018 PGA Filing at Schedules P, 162 and 164.

⁴ The "Natural Gas Portfolio Development Guidelines" and "PGA Filing Guidelines" were initially acknowledged by the Commission in Order No. 09-248 and initially corrected in Order No. 09-263. The current Portfolio Guidelines were acknowledged by the Commission in Order No. 11-196.

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

Resource	Percentage in Portfolio
Pipeline deliveries of natural gas	82.5%
Storage deliveries of natural gas	17.5%
Encana Gas Reserves	0.0%

Overall, NW Natural's target this year is to financially hedge the prices of approximately 53 percent of its expected annual sales requirements for the upcoming 12-month period commencing November 1st. Gas reserves are expected to account for another 5 percent of hedged volumes. Storage gas (which is purchased on the spot market) will account for another 17 percent, and local Mist gas production (which is indexed to our average gas purchase cost) adds another 1 percent. The remaining 24 percent of the Company's annual purchase volumes, when combined with purchases for storage, means about 41 percent of NW Natural's total volumes are purchased on an unhedged basis.

Spring Earnings Review

Each year, Oregon LDCs make an annual election for the upcoming PGA Year beginning November 1st whether to choose 90/10⁵ sharing or 80/20 sharing with a corresponding earnings review threshold. For the 2018-2019 PGA year, NW Natural elected a 90/10 sharing on September 14, 2018.⁶

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 previous years' 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 actual revenues collected did not equal those that were estimated.

NW Natural's proposed rates include a true-up of its commodity and non-commodity deferred account amortization in effect since November 1, 2017, and that projected for the 2018-2019 PGA period. The net effect of this portion of the filing is to decrease the Company's annual revenues by \$36,540,680, or approximately 5.47 percent. The effect of removing the Account 191 (temporary adjustments) placed into rates November 1, 2017, is an increase of \$15,624,355. The effect of applying the new Account 191

⁵ Sharing of the variance between the LDC's WACOG included in its rates and its actual WACOG. For example, 90/10 designates 90 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 percent is absorbed or retained by the LDC. See Order No. 08-504 at 17.

⁶ The election is filed annually in Docket No. UM 1286 in compliance with Order No. 11-196 and Order No. 08-504.

temporary rate adjustments for the amortization of gas costs deferred under Docket No. UM 1496 is a decrease of \$19,033,308.

Overall Rate and Revenue Impact

A summary of the proposed tariff changes for NW Natural's major rate schedules is shown in Attachment A.⁷ Table 3 below compares the rates the Commission has approved for NW Natural's residential customers on Schedule 2 between 2009 and 2017 with the Company's current proposed rates for 2018.

Table 3: Residential Rates 2009 – 2018 (Proposed)

Date	Customer Charge	Rate Per Therm ⁸	Percentage Change ⁹
January 2009	\$6.00	\$1.39384	-0.26%
November 2009	\$6.00	\$1.14047	-18.18%
November 2010	\$6.00	\$1.10644	-2.98%
November 2011	\$6.00	\$1.08786	-1.68%
November 2012	\$8.00	\$0.97306	-10.55%
November 2013	\$8.00	\$0.99317	2.07%
November 2014	\$8.00	\$1.01330	2.03%
November 2015	\$8.00	\$0.93513	-7.71%
November 2016	\$8.00	\$0.90723	-2.98%
November 2017	\$8.00	\$0.83850	-4.80%
November 2018	\$8.00	\$0.77712	-7.32%

Concurrent with its Advice No. 18-11A, the Company is also seeking rate changes associated with intervenor funding,¹⁰ Oregon regulatory fee,¹¹ the SRRM mechanism,¹² industrial DSM,¹³ decoupling,¹⁴ the WARM program¹⁵ and the HoldCo Credit.¹⁶

⁷ Attachment A was submitted by NW Natural along with its Supplemental filing to Docket No. UG 355/Advice No. 18-11A on September 14, 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 NWN Advice No. 18-04.

¹¹ NWN Advice No. 18-06.

¹² NWN Advice No. 18-07.

¹³ NWN Advice No. 18-08.

¹⁴ NWN Advice No. 18-09.

¹⁵ NWN Advice No. 18-10.

¹⁶ NWN Advice No. 18-12.

With these changes, the monthly bill of a typical residential customer using 53 therms per month will decrease 6.2 percent, from \$52.44 to \$49.19.¹⁷

Table 4: Change in Annual Revenues

PGA Gas Cost Change	-\$33,131,727
Gas Cost-related Amortizations	-\$ 3,408,953
Non Gas Cost-related Amortizations	\$ 2,891,240
Permanent Base Rate Increment	\$ 0
Total Proposed Change ¹⁸	-\$33,649,440

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 year, NW Natural is asking to amortize (\$17,624,596). During the previous calendar year, NW Natural gross revenues were \$678,370,976. Therefore, NW Natural is seeking to amortize amounts equal to negative 2.6 percent of the previous year's gross revenues, which meets the three percent threshold. See Attachment C for a more detailed accounting of amortizations and the three percent test.¹⁹

Conclusion

This 2018 PGA filing reflects a revenue decrease of \$3.4 million, or approximately 0.51 percent effective November 1, 2018, due to gas costs (Purchased Gas Cost Adjustment Provision; Schedule 164) and amortization of previous deferrals (Gas Cost Differences; Schedule 162). Combining the impact of this filing with the seven other regulatory filings filed on July 26, 2018 (i.e., Schedule 172, Intervenor Funding, Advice No. 18-04; Schedule 188, Industrial DSM Cost Recovery, Advice No. 18-08; Margin Normalization (Decoupling), No. 18-08; Schedule 195, Weather Adjusted Rate Mechanism (WARM) Program, Advice No. 18-10; Schedule 178, Residual Account Balances, Advice No. 18-05; Schedule 183, Environmental Cost Recovery SRRM, Advice No. 18-07; and Schedule 181, OR Regulatory Fee, Advice No. 18-06), as well as an additional regulatory filing filed September 14, 2018 (i.e., Schedule 173, Credits to Customers

¹⁷ This percentage change includes the effect of the monthly customer charge on the bill.

¹⁸ See Attachment B and CA1, CA2, CA3, CA4, CA5, CA6, and CA7 for details. Attachment B was submitted by NW Natural along with its Supplemental filing to Docket No. UG 355/Advice No. 18-11A on September 14, 2018.

¹⁹ Attachment C was submitted by NW Natural along with its Supplemental filing to Docket No. UG 355/Advice No. 18-11A on September 14, 2018.

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Related to Holding Company Formation) results in a revenue decrease of \$33.6 million, or 5.0 percent.

PROPOSED COMMISSION MOTION:

Approve NW Natural's Advice No. 18-11A, which is the Company's 2018 PGA tariff sheet updates for service rendered on and after November 1, 2018.

NWN Docket No. UG 355/Advice No. 18-11A