

Agenda Date: September 25, 2002
Item Number: A7 (Addendum)

Docket: UG-021213
Company: Northwest Natural Gas Company

Staff: Joanna Huang, Regulatory Analyst
Roland Martin, Regulatory Consultant

Recommendation:

Grant the filing in Docket UG-021213 to become effective October 1, 2002, by less than statutory notice.

Background:

On August 30, 2002, Northwest Natural Gas Company (NW Natural or Company) filed tariff changes to its Purchased Gas Adjustment (PGA) and Deferred Gas Cost Amortization (Deferral) with an effective date of October 1, 2002 in Docket UG-021114. On September 20, 2002, NW Natural withdrew the entire Docket UG-021114 and submitted a replacement filing in Docket UG-021213. The replacement filing in Docket UG-021213 incorporates two changes. One, is to include \$163,507 upstream revenue enabled by storage investments. The second is to change its collection methodology for Demand Side Management (DSM) program costs to be consistent with the methodology on conservation costs used for Puget Sound Energy conservation cost. On September 23, 2002, the Company filed substitute pages to correct certain technical errors. This filing will result in a net decrease in annual revenue of approximately \$14.3 million (25%).

NW Natural serves approximately 43,269 residential customers and 4,173 business and industrial customers in Vancouver and surrounding areas of southwest Washington.

Purchased Gas Adjustment (PGA):

The Purchased Gas Adjustment (PGA) reflects changes in the prospective gas cost for the coming year. The Company is proposing a decrease of approximately \$8.2 million (14%) in annual revenue for this portion of the filing. This decrease is mostly due to the lower cost of gas purchased in wholesale markets. Currently the embedded Weighted Average Cost of Gas (WACOG) is \$0.64935 per therm (\$0.52014 commodity and \$0.12921 firm demand). The proposed WACOG is \$0.51289 per therm (\$0.38643 commodity and \$0.12646 firm demand).

Deferred Gas Cost Amortization (DGCA):

The deferred gas cost portion amortizes balances in deferred gas cost accounts resulting from the difference between actual gas costs and the gas costs embedded in tariff rates. The deferral portion of this filing will result in a net decrease of approximately \$6.1 million in annual revenue

(11%). Currently, NW Natural is refunding \$0.0153 per therm to firm customers from last year's deferral filing. In this filing the Company is proposing a refund of \$0.13114 per therm to firm customers. The net change to firm customers in this deferral filing is a credit of \$0.11584 per therm.

Demand Side Management (DSM) program costs established in Dockets UG-011230 and UG-011231 were also filed to coincide with the proposed effective dates of this filing. The Company's proposed deferred amount for all incremental administrative and direct costs associated with the approved DSM programs is \$81,877. In this filing the Company originally established a rate to recover from firm customers the amortization of the previous year's accumulated programs costs deferred. At Staff's request, the Company changed its collection methodology for Demand Side Management (DSM) program cost recovery to be consistent with the methodology the Commission approved on conservation costs. The collection methodology is to allocate conservation program costs to all customers excluding transportation customers based on gas costs to each schedule.

Interstate storage and transportation services:

On July 30, 2001, NW Natural filed a petition in Docket UG-011090 for an accounting order to implement an agreement regarding the revenue sharing between the Company and customers from its upstream revenue enabled by storage investments. The Company has included the customer portion of revenue in this filing which is consistent with the agreement.

Summary:

The impact of the PGA and Deferral to an average residential customer will be a net decrease of about \$17 per month (based on 68 therms). The combined effects of the PGA and deferral amortization on the Company's rates (\$/therm) and annual Washington revenue is as follows:

	PGA	Deferral	Revenue Impact	Percent Change
Residential	\$ (0.13646)	\$ (0.11584)	\$ 8,136,000	-24.5 %
Commercial	(0.13646)	(0.11584)	4,695,000	-26.0 %
Industrial-Firm	(0.13646)	(0.11584)	501,000	-28.8 %
Industrial-Interruptible	(0.13404)	(0.09470)	59,000	-31.4 %
Industrial-Other	(0.13404)	(0.00043)	<u>926,000</u>	<u>-22.5 %</u>
Total			\$14,317,000	-25.0 %

Conclusion:

Staff has reviewed the Company's prospective gas costs and deferral accounts and found them

Docket UG-021213
September 25, 2002
Page 3

reasonable. Staff recommends the Commission grant the revised filing in Docket UG-021213 to become effective October 1, 2002, by less than statutory notice.