

Agenda Date: October 30, 2014
Item Number: A4

Docket: UG-143337
Company: Northwest Natural Gas Company

Staff: Kristen Russell, Regulatory Analyst
Brad Cebulko, Regulatory Analyst

Recommendation

Take no action, thereby allowing the revised tariff sheets filed by Northwest Natural Gas Company on September 15, 2014, in Docket UG-143337 to become effective November 1, 2014, by operation of law.

Background

On September 15, 2014, Northwest Natural Gas Company (NW Natural or company) filed its purchased gas adjustment (PGA) and amortization mechanisms for deferred costs for gas, and low-income program costs, (Deferral) in Docket UG-143337, and conservation program costs in Docket UG-143333.

NW Natural serves 67,740 residential customers and 6,212 commercial and industrial customers in Vancouver and surrounding areas of southwest Washington.

The company implements the combined effects of Dockets UG-143333 and UG-143337, which updates the billing rates on Schedules 1 through 43 and the all deferral adjustments summary on Schedule 201. The impact of the PGA and various Deferral revisions is an annual revenue increase of \$4,961,060 or 6.73 percent. The impact of the Conservation Program Adjustment in Docket UG-143333, by itself, is an annual revenue decrease of \$28,531 or (0.04) percent.¹

| Docket | Description | Incremental revenue change | Percent of total revenue |
|-----------|-------------------|----------------------------|--------------------------|
| UG-143337 | PGA | \$1,458,973 | 1.98 percent |
| UG-143337 | Various Deferrals | \$3,502,087 | 4.75 percent |
| UG-143333 | Conservation | <u>\$ (28,531)</u> | <u>(0.04) percent</u> |
| | Combined impact | <u>\$4,932,529</u> | <u>6.69 percent</u> |

¹ This includes the forward and backward-looking gas cost changes from Schedule 203. The Deferral portion also includes the costs of the low-income bill assistance and energy efficiency programs in Schedules 230 and 215, respectively.

NW Natural experienced a problem with availability in early December 2013 that Staff has discussed with the company. The company has taken steps to mitigate a shortfall issue in the future. The overall impact on Washington ratepayers was relatively small.

Discussion

The PGA and Deferral mechanisms are designed to pass through to customers the utility's actual cost of natural gas on an annual basis. The PGA establishes a projection of the utility's gas cost for the upcoming year. The difference between the projected cost and the actual cost is then deferred in Account 191420 and Account 191430. Each year the balances of these accounts are amortized back to customers with interest, whether it is a refund for over-collection or a charge for under-collection.

The company's Washington weighted average cost of gas (WACOG) excludes NW Natural's joint venture with Encana Oil and Gas Inc. as ordered in Docket UG-111233.

Purchased Gas Adjustment

The PGA reflects a projection of gas cost for the coming 2014-2015 year. This portion of the filing consists of two parts: the cost of gas purchased (Commodity) by the company from its gas suppliers, and the cost of pipeline and storage capacity (Demand) under contracts. The company is proposing an increase of approximately \$1.5 million (1.98 percent) in annual revenue for this portion of the filing. This increase is due to higher gas commodity costs for the whole system combined with a decrease in pipeline and storage capacity costs. Currently, NW Natural's embedded WACOG is \$ 0.51354 per therm (\$0.37961 commodity and \$0.13393 firm demand). The proposed WACOG is \$0.52969 per therm (\$0.40999 commodity and \$0.11970 firm demand).

Deferred Gas Cost Amortization

The deferred gas cost accounts accumulate the differences between actual gas costs incurred and the gas costs projected in the prior year and embedded in tariff rates. These balances are amortized over the upcoming year. The deferral balances cover the period from November 2013 to October 2014. The amortization of the deferral portion of this filing results in an increase of \$3,473,556 in annual revenue, or 4.71 percent.

The impact of the PGA and Deferral amortization on an average residential customer with consumption of 57 therms will be a net increase of \$3.65 per month from \$60.95 to \$64.60. The effects of the PGA and Deferral amortization on the company's rates (\$/therm) and annual Washington revenues are as follows:

| | <u>PGA</u> <u>Change</u> | <u>Deferral</u> <u>Change</u> | <u>Revenue</u> <u>Impact</u> | <u>Percent</u> <u>Change</u> |
|---------------|-----------------------------|----------------------------------|---------------------------------|---------------------------------|
| Residential | 0.01668 | 0.04726 | \$2,997,640 | 6.0% |
| Commercial | 0.01668 | 0.04717 | 1,457,775 | 6.4% |
| Industrial | 0.01668 | 0.04626 | 314,051 | 14.0% |
| Interruptible | 0.02656 | 0.05352 | <u>163,062</u> | 13.7% |
| Total | | | <u>\$4,932,529</u> | |

Customer Comments

NW Natural notified its customers of the proposed rate increase through a news release and bill inserts mailed to customers in September and October. The commission received one customer comment opposing the increase.

- Customer commented on the frequency of the increases, and the downward trend in the wholesale cost of gas.

Staff Response

State law requires rates to be fair and reasonable, and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment. Staff provided a copy of the commission fact sheet "Understanding Purchased Gas Cost Adjustments."

Conclusion

Staff has reviewed the company's prospective gas cost and deferral amortization filing and recommends the commission take no action, thereby allowing the filing in Docket UG-143337 to become effective November 1, 2014, by operation of law.