Agenda Date: March 28, 2019
Item Number: A3

Docket: UG-190145
Company: Cascade Natural Gas Corporation

Staff: Betty Erdahl, Regulatory Analyst
Elizabeth O'Connell, Regulatory Analyst

Recommendation

Take no action, allowing the proposed tariff sheet filed by Cascade Natural Gas Corporation on February 28, 2019, in Docket UG-190145, to become effective April 1, 2019, by operation of law.

Background

On February 28, 2019, Cascade Natural Gas Corporation (Cascade or company) filed with the Washington Utilities and Transportation Commission (commission) it's proposed tariff Schedule No. 590, Temporary Gas Cost Amortization, effective April 1, 2019 through March 31, 2021. The company proposes to recover deferred gas costs of approximately $48 million plus accrued interest over two years. This request for recovery reflects the costs accumulated between November 1, 2018, and January 31, 2019. Any remaining balance will be transferred to the annual commodity deferral account. The annual revenue increase of this filing is $26,813,340 (11.94 percent).

Natural gas market conditions

On October 9, 2018, a 36-inch diameter natural gas mainline ruptured near Prince George, British Columbia (BC). The Enbridge pipeline serves markets in Canada, Washington, Oregon, and Idaho with natural gas production from northeastern BC through the Sumas hub. Imports of natural gas at the Sumas hub import point fell to zero for a day after the rupture. This is compared to the first half of 2018 where average daily imports were 1.1 billion cubic feet.[1]

Weather did not play a major role in driving market prices in this particular timeframe. The November 2018 through January 2019, period was the 10th warmest compared to the same period of time in recorded history for Washington state according to NOAA.[2] The company states that November was 4 percent colder than normal, but didn't provide support for their assertion. The depletion of regional gas reserves and transportation constraints during and after the Enbridge contingency caused significant price hikes in the spot markets.

[1] https://www.eia.gov/todayinenergy/detail.php?id=37312
[2] https://www.ncdc.noaa.gov/cag/statewide/rankings/45/tavg/201901

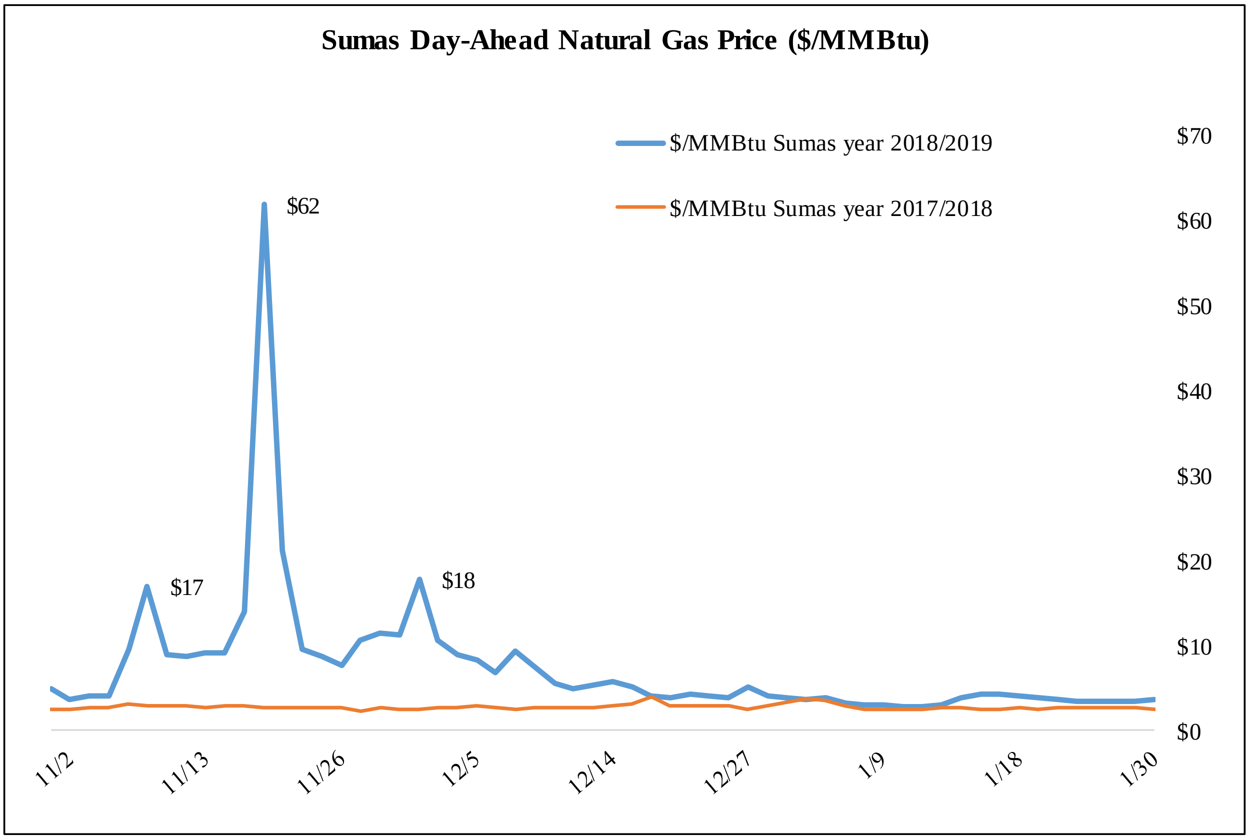

Chart 1. Source: SNL. Last viewed on 03/20/2019[3]

On October 31, Enbridge announced that it had successfully completed repairs on the section of its 36" natural gas pipeline that ruptured near Prince George. However, it was not until November 17, 2018, that Enbridge announced that it expected to "gradually increase capacity from the current 0.9 Bcf/d to approximately 1 Bcf/d at the Huntingdon area by November 22, 2018."[4] The delays in bringing the pipeline to its full capacity added uncertainty to the markets.

Contracts and volumes transacted in the deferral period

Cascade stated that typically half of its winter loads come from Sumas and 40 percent of those volumes are met with fixed priced physical hedges. Additionally, Cascade has been ordered to comply with the Northwest Pipeline (NWP) Operational Flow Orders (OFO) for much of the heating season since the Enbridge incident.[5] The company had to purchase additional supplies to

[3] Prices at Sumas were at supernormal levels in the months of February and March. For the purposes of this filing Staff is limiting the scope of this analysis to November, December, and January.
[4] https://www.enbridge.com/media-center/media-statements/prince-george-pipeline-incident
[5] An OFO is a tool used by the pipeline to alleviate capacity and throughput constraints on the pipeline. It forces parties to provide displacement to meet contracted demands and directs affected parties to flow gas to a specific point or zone based upon calculations made by upstream pipelines.

cover its requirements under pipeline entitlements[6] since it could not rely on gas in the south under the operating restrictions. Since October, Cascade has had to comply with mandatory OFOs in excess of 736,000 dths. These volumes are not part of what the company accounts for when planning to meet its native load. Since the rupture of the Enbridge line, the company has entered into multiple contracts to satisfy the pipelines operating requirements as well as its customers demand for gas. These contracts were neither contemplated nor reviewed in the current rates for the PGA mechanism, approved in September of 2018.

In general, these contracts aligned with prices determined by futures market. For example, the company locked in a three-month contract in November 2018, because they needed the certainty of supply to avoid possible curtailments going into the heating season. The result was a fixed price contract that exceeded most spot market quotes going forward (late November and December). However, in February of 2019, prices increased dramatically due to record cold temperatures. Therefore, even though prices contained in the November contract was relatively high compared to the spot market through January, it was substantially lower than spot prices during February, 2019.

Staff is concerned about the company contracting supply agreements with fixed-prices that are significantly higher than average historical prices and longer than one month as was done in November. Rather than reacting to spot prices in a supply crisis, such as a pipeline rupture, a robust hedging program would provide a measure of price predictability and could help insulate the company from price spikes.

In sum, the combination of the pipeline rupture, transportation constraints, depletion of storage, and pipeline operational requirements caused additional costs for the company. Although the negative consequences could not have been avoided, some could have been mitigated by having a robust hedging plan. In particular, a hedging plan would have been beneficial to control upward price risk in a highly volatile market.

Rate Impacts

Annual gas cost deferrals have ranged from approximately $4 million to $23 million in both under or over collection from customers since 2010. The most recent PGA adjustment for gas costs, effective November 1, 2018, was a refund to customers of approximately $11 million (-4.85 percent). Cascade's current request to recover $48 million covers only a three month period of gas costs accrued November 201, through January 2019, and is significantly higher than prior years. The company's proposal to recover the costs over two years instead of one, reduces the impact to customers.

[6] An entitlement is a restriction placed on gas schedulers to limit the amount of variance between a company's actual receipt of gas and its supply of gas onto the pipeline. Entitlements exist in different degrees, ranging from a Stage 3 (allowed variance of up to 13 percent) and Stage 1 (allowed variance of up to 3 percent).

The impact of the proposed schedule on a residential customer with average consumption of 54 therms will be an increase of $6.07, from $43.75 to $49.82. The following table provides rate changes and revenue impact by schedule.

	Schedule 590	**Revenue Impact**	**Revenue Percent Change**
Residential (503)	$0.11245	$ 13,703,802	12.45%
Commercial (504)	0.11245	9,829,141	13.78%
Industrial-Firm (505)	0.11245	1,405,402	16.24%
Industrial Lg. Vol (511)	0.11245	1,621,076	17.81%
Ind. Interruptible (570)	0.11245	253,918	21.60%
Total		$ 26,813,340	11.94%

Cascade serves approximately 215,000 gas customers in various areas situated primarily along Williams Gas Pipeline. Major Washington locations include Aberdeen, Bellingham, Bremerton, Yakima, Walla Walla, and Longview.

Customer Comments

Cascade issued customer notice of the proposed rate increase with its March billing cycle. The customer notice explained that the increase was to cover increased commodity costs resulting from the Enbridge pipeline explosion. The commission has received nine customer comments, all opposed to the proposed rate increase.

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