

Agenda Date: October 29, 2009
Item Number: A3

Docket: UG-091371
Company: Northwest Natural Gas Company

Staff: Joanna Huang, Regulatory Analyst

Recommendation

Take no action, thereby allowing the substitute tariffs filed by Northwest Natural Gas Company in Docket UG-091371 to become effective November 1, 2009, by operation of law.

Background

On August 31, 2009, Northwest Natural Gas Company (NW Natural or company) filed its Purchased Gas Adjustment (PGA) and Deferred Gas Cost Amortization (Deferral) mechanisms in Docket UG-091371 with an effective date of November 1, 2009. The company originally filed for an approximate \$23.5 million (22.27 percent) decrease in annual revenues. On October 13, 2009, the company filed replacement pages to update even lower natural gas prices. The impact of the final revision to the company is an annual revenue decrease of approximate \$24 million or 22.74 percent.

In addition to this revised request for a 24 million reduction in revenues, on May 28, 2009, the Company's request to provide a one-time refund of \$4.3 million to ratepayers for the overcollection of gas costs in Docket UG-090684 was granted. In total the company will refund to ratepayers \$28.3 million for this coming PGA season. Attached is a graph showing bill comparison for residential customer with an average consumption of 80 therms since the energy crisis in 2000.

NW Natural serves approximately 62,287 residential customers and 5,355 commercial and industrial customers in Vancouver and surrounding areas of southwest Washington.

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 for the upcoming year a projection of the utility's gas cost. The difference between the projected cost and the actual cost is then deferred in Account 191420 and Account 191430. Each year the balances of Account 191420 and Account 191430 are amortized back to customers with interest, whether it is a refund for over-collection or a charge for under-collection.

Included in this filing is the cancellation of Schedule 19, Gas Light Service. This schedule has been frozen and only available to customers that were served under this rate schedule prior to March 4, 1974. Currently there are no customers taking service under this rate schedule. The company has proposed to cancel the schedule in its entirety.

This filing also includes a rate adjustment due to the Mist Storage Recall, a 12-month amortization of collection balance for the Schedule J “Gas Residential Energy Assistance Tariff” (UG-090470), and the residual credit refund balance to Washington customers for the gain on sale of Albany and Vancouver offices (UG-080546).

Purchased Gas Adjustment

The PGA reflects a projection of gas cost for the coming 2009-2010 winter season. The company is proposing a decrease of approximately \$19 million (18 percent) in annual revenue for this portion of the revised filing. This decrease is due to lower commodity gas costs. The lower natural gas prices are the result of ample supply and declining demand in domestic natural gas consumption because of the economic downturn in the U.S. The company refiled its PGA filing on October 13, 2009, to reflect more current gas costs using the average of the New York Mercantile Exchange (NYMEX) forward price from August 1 to September 30, 2009. Currently, NW Natural’s embedded Weighted Average Cost of Gas (WACOG) is \$0.93751 per therm (\$0.82668 commodity and \$0.11083 firm demand). The proposed WACOG is \$ 0.68666 per therm (\$0.56977 commodity and \$0.11689 firm demand).

Deferred Gas Cost Amortization

The Deferral mechanism amortizes balances in deferred gas cost accounts resulting from the difference between actual gas costs incurred and gas costs embedded in tariff rates. The deferral balances cover the period from November 2008 to October 2009. The original filing used estimated deferred monthly balances for August, September, and October. On October 13, 2009, the company updated the deferred monthly balances and used estimated October only for the deferral period in its replacement filing. The deferral portion of this filing will result in a decrease of approximately \$5 million in annual revenue, or 4.76 percent.

The impact of the PGA and Deferral amortization on an average residential customer with consumption of 60 therms will be a net decrease of about \$19.88 per month from \$90.77 to \$70.89. The combined 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	-0.26164	-0.06987	- \$13,643,477	-21.9%
Commercial	-0.26164	-0.07046	- \$6,583,511	-22.8%
Industrial	-0.26164	-0.07262	- \$1,362,793	-28.9%
Interruptible	-0.26584	-0.07213	<u>- \$2,441,491</u>	<u>-32.7%</u>
Total			- \$24,031,272	-22.7%

Conclusion

Staff has reviewed the company's prospective gas cost and deferral amortization filing and recommends the Commission take no action, thereby allowing the revised filing in Docket UG-091371 to become effective November 1, 2009, by operation of law.

Attachment