

Agenda Date: October 28, 2010
Item Number: A4

Docket: UG-101487
Company: Northwest Natural Gas Company

Staff: Joanna Huang, Regulatory Analyst
Roger Kouchi, Consumer Protection

Recommendation

Take no action, thereby allowing the revised tariffs filed by Northwest Natural Gas Company on October 14, 2010, in Docket UG-101487 to become effective November 1, 2010, by operation of law.

Background

On September 2, 2010, Northwest Natural Gas Company (NW Natural or company) filed its Purchased Gas Adjustment (PGA) and Deferred Gas Cost Amortization (Deferral) mechanisms in Docket UG-101487 with an effective date of November 1, 2010. On October 14, 2010, the company filed revised tariffs to replace the original filing. The impact of the final revision to the company is an annual revenue decrease of approximate \$1.7 million or 1.9 percent.

NW Natural serves approximately 63,398 residential customers and 5,393 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 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 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.

The company originally filed for an approximate \$799,000 (0.9 percent) decrease in annual revenues. On October 14, 2010, the company filed replacement pages to update even lower natural gas prices and actual deferral balances as of September 30, 2010. This updated PGA filing is required pursuant to Oregon Public Utilities Commission Order 08-504 in Docket UM 1286. Operations in Washington equal about 10 percent of the company's total system operations. The company uses the same methodology for setting Weighted Average Cost of Gas (WACOG) and submits two PGA filings for simplicity reasons.

Purchased Gas Adjustment

The PGA reflects a projection of gas cost for the coming 2010-2011 winter season. 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 a decrease of approximately \$3.9 million (4.5 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 consumption for an average residential customer has been decreasing each year since 2001. Currently, NW Natural's embedded Weighted Average Cost of WACOG is \$ 0.68666 per therm (\$0.56977 commodity and \$0.11689 firm demand). The proposed WACOG is \$ 0.63346 per therm (\$0.51032 commodity and \$0.12314 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 2009 to October 2010. The company used estimated deferred monthly balances for August, September and October in its original filing. On October 14, 2010, the company updated the deferred monthly balances for August and September. Only October deferred monthly balances were estimated in its replacement filing. The deferral portion of this filing will result in an increase of approximately \$2.2 million in annual revenue, or 2.6 percent.

The impact of the PGA and Deferral amortization on an average residential customer with consumption of 59 therms will be a net decrease of about \$1.23 per month from \$69.82 to \$68.59. 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	-0.05650	0.03550	- \$ 595,774	-1.8%
Commercial	-0.05650	0.03271	- \$ 411,624	-2.1%
Industrial	-0.05650	0.01201	- \$ 152,457	-6.8%
Interruptible	-0.06066	0.01315	- \$ <u>511,232</u>	<u>-7.3%</u>
Total			- \$1,671,087	-1.9%

Customer Comments

The company notified its customers of the anticipated rate decrease by bill insert starting September 10, 2010, and ending October 8, 2010. The company also issued a news release on September 2, 2010. The commission did not receive any customer comments on this filing.

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-101487 to become effective November 1, 2010, by operation of law.