

Agenda Date: October 29, 2015
Item Numbers: A3 through A6

Dockets: UG-151825, UG-151826, UG-151827 and UG-151828
Company: Northwest Natural Gas Company

Staff: Kristen Russell, Regulatory Analyst

Recommendation

Take no action, thereby allowing the revised tariff sheets filed by Northwest Natural Gas Company on September 11, 2015, in Dockets UG-151825, UG-151826, UG-151827 and UG-151828, to become effective November 1, 2015, by operation of law.

Background

On September 11, 2015, Northwest Natural Gas Company (NW Natural or company) filed four related tariff revisions: the purchased gas adjustment (PGA) and amortization mechanisms for deferred costs of gas in Docket UG-151826; the temporary rate adjustment related to its energy efficiency service and programs in Docket UG-151825; the temporary rate adjustment related to its low-income program costs in Docket UG-151827 (collectively referred to as the Deferrals); and the combined effects of the above three filings in Docket UG-151828.

NW Natural serves 69,413 residential customers and 6,279 commercial and industrial customers in Vancouver and surrounding areas of southwest Washington.

The company implements the combined effects of these four dockets, which updates the billing rates on Schedules 1 through 43 and the all deferral adjustments on Schedules 201 through 230. The impact of the PGA and various Deferral revisions is an annual revenue decrease of \$11,906,405 or 16.25 percent.

| Docket | Description | Incremental revenue change | Percent of total revenue |
|-----------|-------------------|----------------------------|--------------------------|
| UG-151826 | PGA | \$ (8,103,927) | (11.06) percent |
| UG-151827 | Various Deferrals | \$ (3,822,277) | (5.22) percent |
| UG-151825 | Conservation | \$ 19,799 | <u>0.03 percent</u> |
| UG-151828 | Combined Impact | \$ <u>(11,906,405)</u> | <u>(16.25) percent</u> |

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 2015-2016 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 a decrease of approximately \$8 million (-11.00 percent) in annual revenue for this portion of the filing. This decrease is due to lower gas costs and storage capacity costs for the whole system. Currently, NW Natural's embedded WACOG is \$0.52969 per therm (\$0.40999 commodity and \$0.11970 firm demand). The proposed WACOG is \$0.42336 per therm (\$0.30754 commodity and \$0.11582 firm demand).

The following chart shows the residential customer commodity and demand charges for the gas LDC's regulated by this commission.¹

| WACOG | Avista | Puget Sound Energy | NW Natural | Cascade Natural Gas |
|---------------|----------------|--------------------|------------------|---------------------|
| Commodity | 0.25031 | \$0.29270 | \$0.30754 | \$0.34417 |
| Demand (firm) | 0.12133 | \$0.12898 | \$0.11582 | \$0.18370 |
| Total | 0.37164 | \$0.42168 | \$0.42336 | \$0.52787 |

Deferred Gas Cost Amortization/Various Deferrals

The gas cost deferral 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 2014 through October 2015.

The impact of the PGA and Deferral amortizations on an average residential customer with consumption of 58 therms will be a net decrease of \$9.46 per month from \$65.61 to \$56.15. The

¹ Commodity and demand charges for all LDC's are *before* revenue sensitive items for comparison purposes.

effects of the PGA and Deferral amortizations 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 | (0.11118) | (0.05255) | (\$6,864,366) | (14.29%) |
| Commercial | (0.11118) | (0.05251) | (3,228,325) | (15.79%) |
| Industrial | (0.10713) | (0.05273) | (883,830) | (28.30%) |
| Interruptible | (0.10713) | (0.07041) | <u>(929,884)</u> | (55.16%) |
| Total | | | <u>(\$11,906,405)</u> | |

Conclusion

Staff reviewed the company's prospective gas cost, deferral amortizations, and conservation filings and recommends the commission take no action, thereby allowing the filings in Dockets UG-151825, UG-151826, UG-151827 and UG-151828 to become effective November 1, 2015, by operation of law.