

Agenda Date: October 28, 2021
Item Numbers: A1 and A2

Dockets: UG-210711 – Cascade Natural Gas Corporation
UG-210721 – Puget Sound Energy

Staff: Betty Erdahl, Regulatory Analyst
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Recommendation

Take no action, thereby allowing the tariff sheets filed by Cascade Natural Gas Corporation (Cascade) and Puget Sound Energy (PSE) in Dockets UG-210711 and UG-210721, respectively, to become effective November 1, 2021, by operation of law.

Background

Each natural gas utility regulated by the Commission files an annual tariff revision that adjusts rates to reflect the cost of supplying natural gas to the utility's customers. The Commission refers to these filings as the annual Purchased Gas Adjustment (PGA). The annual PGA revises rates by (1) updating the projected cost of gas for the upcoming year, and (2) updating the amortization rate for the deferral balance. The deferral balance reflects the difference between the actual cost of gas and the cost of gas embedded in rates.

Natural gas prices have risen significantly across all four utilities. Each utility has faced higher natural gas prices because of increased economic activity and lower supply. Staff have focused today's presentation on Cascade and PSE because Cascade's proposed increase is the largest of the four natural gas utilities and PSE is the largest natural gas utility under the Commission's jurisdiction.

PGAs reflect both actual costs of the previous year and forecasted natural gas costs for the upcoming year. If any of the allowed increases in this year's PGA filings prove to be higher than necessary, the examination of next year's PGAs will result in a true-up of the current year's forecast.

The PGAs for Cascade and PSE were filed this year as follows:

- Cascade filed its annual PGA on September 15, 2021; and
- PSE filed its annual PGA on September 17, 2021.

Summary of Filings

Table 1. Summary of annual impact due to (a) projected gas costs, and (b) change in amortization rate for the deferral balance (in millions).

	Cascade	PSE	Avista	NW Natural
Projected gas costs	\$20.4	\$80.6	\$11.9	\$8.35
Amortization of deferral	\$15.7	(\$21.5)	\$5.6	\$0.8
Total change (annual)	\$36.1	\$59.1	\$17.5	\$9.3
Avg. Monthly Residential Bill Impact (in dollars)	\$8.06	\$3.84	\$5.81	\$5.73

Table 2. Summary of Weighted Average Cost of Gas (WACOG) for residential customers, by commodity and demand components.¹

	Cascade	PSE	Avista	NW Natural
Commodity	\$0.31554	\$0.29904	\$0.22319	\$0.33423
Demand (firm)	\$0.17861	\$0.14330	\$0.09373	\$0.10245
Total WACOG	\$0.49415	\$0.44234	\$0.31692	\$0.43668

¹ Commodity and demand charges shown are *before* revenue sensitive items for comparison purposes.

Table 3. Summary of bill impact – all proposed tariff revisions effective November 1, 2021.

	Cascade	PSE	Avista	NW Natural
Avg. Monthly Residential Bill (Current)	\$56.05	\$71.19	\$58.23	\$58.71
Revisions				
Pipeline CRM Adj.	\$0.34	\$0.31		
Decoupling Rate Adj.	1.11			
Conservation Adj.	0.21			\$0.51
Low Income Adj.	0.08			(0.11)
PGA	8.06	3.84	\$5.81	5.73
EDIT tariff Adj.	0.05			
Interim Tax Adj.				0.01
Hold-Co Impact				0.04
ECRM Adj.				0.15
Sum of All Revisions	\$9.85	\$4.15	\$5.81	\$6.33
Revised Avg. Monthly Residential Bill	\$65.90	\$75.34	\$64.04	\$65.04
Percent Change	17.57%	5.83%	9.98%	10.78%

Discussion

Natural Gas Market Pressure

In general, natural gas commodity prices have risen in a sustained manner since the onset of the COVID-19 pandemic in early 2020. Wholesale gas prices continue to increase across North America, including at trading hubs where northwest utilities procure natural gas. High natural gas commodity prices can be attributed, at least in part, to a reduction in oil production resulting from the pandemic-driven economic slowdown. Reduced oil production has resulted in a reduction in natural gas production and, consequently, a shortfall in gas inventories. This reduction in supply coupled with strong global demand for natural gas has led to significant upward pressure on natural gas prices.

Washington’s regulated natural gas companies showed various degrees of sensitivity and exposure to high price markets. Both Cascade and PSE were affected by higher gas costs than expected over the past year and project higher gas costs for the upcoming PGA year.

Cascade, Docket UG-210711

Cascade, a gas-only utility, serves approximately 225,000 customers throughout Washington, including Aberdeen, Bellingham, Bremerton, Yakima, Walla Walla, and Longview. Cascade's Schedule 595 rates capture the estimated cost of gas in the forthcoming year, and its Schedule 590 rates capture the amortization of the deferral balance.

Cascade's storage is typically filled throughout the summer, with fill targets of 100 percent by September/October. Due to the spike in summer prices, Cascade's storage accounts at Jackson Prairie are seeing a much higher average cost of gas than prior years.

Projected gas costs (Schedule 595) increase annual revenue by approximately \$20.4 million, and the amortization of deferred gas costs (Schedule 590) increases annual revenue by approximately \$15.7 million. The combined effect of the revisions to Schedules 590 and 595 is an increase of approximately \$36.1 million (13.72 percent). A residential customer using an average of 56 therms per month would see an increase of \$8.06 monthly.

PSE, Docket UG-210721

PSE, a combined electric and gas utility, serves approximately 870,000 natural gas customers in Western Washington. PSE's Schedule 101 rates capture the estimated cost of gas in the upcoming year, and its Schedule 106 rates capture the amortization of the deferral balance.

Projected gas costs (Schedule 101) increase annual revenue by approximately \$80.6 million. The amortization of deferred gas costs (Schedule 106) decreases annual revenue by approximately \$21.5 million because a portion of the amortization related to Enbridge has been recovered. The combined effect of the revisions to Schedules 101 and 106 is an increase in revenue of approximately \$59.1 million (5.8 percent). A residential customer using an average of 64 therms per month would see an increase of \$3.84 monthly.

Customer Comments

Cascade and PSE notified their customers of the proposed increases effective November 1 by way of newspapers and bill inserts. The Commission received comments from five customers opposed to Cascade's rate increase. The general tone of the comments was shock at the size of the proposed increase. Three comments came from senior citizens who were concerned that they will no longer be able to afford gas service.

No comments were received regarding PSE's rate change.

Conclusion

Commission Staff completed its analysis of the companies' filings, including documents supporting prospective gas costs and cumulative deferral balances and conclude that Cascade's and PSE's revised rates accurately reflect the cost of providing gas to its customers. Therefore, Staff find that these filings are in the public interest.