

Agenda Date: October 27, 2011
Item Number: A2

Docket: UG-111587
Company: Northwest Natural Gas Company

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

Recommendation

Take no action, allowing the revised rates filed by Northwest Natural Gas Company on October 17, 2011, and October 19, 2011, to become effective November 1, 2011, by operation of law.

Discussion

On September 1, 2011, Northwest Natural Gas Company (NW Natural or company) filed with the Utilities and Transportation Commission (commission) tariff revisions for both the company's Purchased Gas Adjustment (PGA) and Deferred Gas Cost Amortization (Deferral) mechanisms that would decrease annual revenue by approximately \$1.31 million (1.6 percent). NW Natural serves approximately 69,450 residential and commercial customers in portions of three counties in Southwest Washington – Clark, Skamania and Klickitat. Operations in Washington equal about 9.9 percent of the company's total system operations. The proposed effective date is November 1, 2011.

On October 17, 2011, and October 19, 2011, the company filed revised revenue requirement of approximately \$1.83 million (2.3 percent) in lower annual revenue and revised rates. NW Natural filed replacement pages to update natural gas prices and actual deferral balances as of September 30, 2011. For simplicity reasons, the company submits two filings (proposed and revised) as required pursuant to Oregon Public Utilities Commission. The filings use similar methodologies for setting the Annual Sales Weighted Average Cost of Gas (WACOG) with one exception; in Oregon, the company includes the operating costs and the return on and return of its investment in a natural gas production field, a joint venture with Encana Oil and Gas Inc. The inclusion of this investment in Washington rates is the subject of Docket UG-111233, and it is not included in the costs to be recovered in the Washington PGA filing.

The PGA and Deferral mechanisms are designed to pass through the utility's actual cost of natural gas to customers on an annual basis. Periodic technical adjustments to rates are necessary under the terms of the Company's tariffs in order to return to customers credit or debit balances with interest in its deferred gas cost accounts (Account 191) and other non-gas cost accounts (Account 186).

Purchased Gas Adjustment

The PGA reflects a projection of gas cost for the coming 2011-2012 winter season. The PGA 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 with pipeline transporters. Due to lower commodity gas cost, the company is proposing a decrease of approximately \$2.27 million (2.9 percent) in annual revenue for this portion. The lower gas prices are the result of ample supply and declining demand in domestic natural gas consumption because of the economic downturn. NW Natural's embedded WACOG is \$0.66242 per therm (\$0.53365 commodity and \$0.12877 firm demand) and the proposed WACOG is \$0.63157 per therm (\$0.49539 commodity and \$0.13618 firm demand).

Deferred Gas Cost Amortization

The Deferral reflects balances in Accounts 191 for the period of November 2010 to October 2011, resulting from the difference between actual gas costs incurred and gas costs projected in rates last year. The company updated the deferred monthly balances for August and September, while using an estimated deferred monthly balance for October in its revised filing. Actual gas costs were higher than projected by approximately \$425,400 requiring an increase in annual revenue of approximately 0.5 percent.

A residential customer using 58 therms (the calculated monthly average gas consumption for Washington) would pay \$1.51 less per month from \$67.54 to \$66.03. The combined effects of the PGA and Deferral mechanisms on the NW Natural's rates (\$/therm) and annual Washington revenues are as follow:

Schedule Classes	PGA Change	Deferral Change	Revenue Impact	Percent Change
Residential	(\$0.03085)	\$0.00459	(\$1,012,310)	-2.2%
Commercial	(\$0.03085)	\$0.00592	(\$453,777)	-2.2%
Industrial	(\$0.03085)	\$0.01628	(\$65,981)	-3.2%
Interruptible	(\$0.03567)	\$0.01410	(\$296,793)	-3.9%
Total			(\$1,828,861)	-2.3%

Customer Comments

Northwest Natural Gas Company notified its customers of the anticipated rate decrease by bill insert with the September billing . The company informed staff that it intends to inform its customers of the rate decrease with a bill message on the first bill following the effective date of the tariff revision. The commission received no customer comments on this filing.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, prospective gas cost and deferral amortization filing. Staff's review shows that the expenses are reasonable and required as part of the company's operation. The company's financial information supports the revised rates and charges are fair, just, reasonable, and sufficient.