

Agenda Date: August 30, 2016
Item Number: D4

Docket: UG-160972
Company: Cascade Natural Gas Corporation

Staff: Kristen Hillstead, Regulatory Analyst
Betty Erdahl, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff sheet filed by Cascade Natural Gas Corporation in Docket UG-160972 to become effective on September 1, 2016, by operation of law.

Background

On August 1, 2016, Cascade Natural Gas Corporation (Cascade or company) filed a revision to its tariff Schedule No. 595, Temporary Technical Adjustment, effective September 1, 2016. Cascade revised its filing and supporting documents on August 23, 2016. The company proposes to revise the rate for Purchase Gas Adjustment (PGA) for the next rate period. It also seeks to decrease the amortization rate from its deferral gas cost account (Deferral).

Schedule No. 595 includes both the PGA for expected gas costs and the amortization of the deferral balance based on the prior year's gas costs. Taken together, the two components are designed to pass on the actual cost of gas to customers. The PGA projects the cost of gas for the upcoming year. The difference between the projected cost and the actual cost is deferred and amortized back to customers with interest.

The combined effect of the PGA and the Deferral filing is a decrease in annual revenues of \$17.8 million (8.7 percent). The rate reduction is driven by gas commodity cost lower than last year's forecast.

| Description | Revenue Change | Percent Change |
|---------------------|------------------------------|-----------------------|
| Deferral | (\$ 6,263,833) | (3.0%) |
| PGA | (11,617,544) | (5.7%) |
| Total Impact | <u>(\$17,881,377)</u> | <u>(8.7%)</u> |

Cascade serves approximately 210,000 gas customers in various areas situated primarily along Williams Gas Pipeline. Major Washington locations include Aberdeen, Bellingham, Bremerton, Yakima, Walla Walla, and Longview.

Deferred Gas Cost Amortization

Deferral amortization is designed to pass on the difference between the prior year's projected gas cost and the actual gas cost. Actual gas cost for the past PGA rate year was less than what was

projected. The company accrued over a nine million dollar deferral balance as of June 30, 2016, requiring a refund to customers. The rate revision will result in approximately \$6.3 million revenue change (3.0 percent). The refund period will start September 1, 2016, and end on October 31, 2017.

Purchase Gas Adjustment

In this filing, Cascade presented data and methods used in the determination of prospective gas cost for the coming year. The company is proposing a decrease of approximately \$11.6 million (6.2 percent) in annual revenue for this filing. The current residential weighted average cost of gas (WACOG) is \$.55181/therm (commodity \$0.35978, firm demand \$0.19203). In this filing, Cascade proposes a weighted cost of gas of \$0.49569/therm (commodity \$0.32009, firm demand \$0.17560) for residential customers.

Although the PGA rate will become effective September 1, 2016, the cost estimate is based on the period from November 1, 2016, to October 31, 2017. Any difference between projected cost and actual PGA revenue will be trued up in the next rate year.

Overall Rate Impacts

With combined effects from the PGA and Deferral rate adjustment, a residential customer with an average use of 49 therms will see a decrease of \$4.29, from \$46.96 to \$42.67. The following table provides rate changes and revenue impact in detail.

| | <u>PGA Rate Change</u> | <u>Deferral Rate Change</u> | <u>Revenue Impact</u> | <u>Revenue Percent Change</u> |
|--------------------------|-----------------------------------|--|----------------------------------|--|
| Residential | (\$0.05699) | (\$0.03072) | (\$9,224,835) | (9.1%) |
| Commercial | (.05674) | (.03072) | (6,583,698) | (9.8%) |
| Industrial-Firm | (.05551) | (.03072) | (924,668) | (11.3%) |
| Industrial | (.05551) | (.03072) | (848,719) | (11.8%) |
| Institutional | (.05427) | (.03072) | (10,166) | (22.6%) |
| Industrial Interruptible | (.05427) | (.03072) | (320,050) | (13.6%) |
| Non-Core | | .00007 | <u>30,758</u> | <u>0.2%</u> |
| Total | | | <u>(\$17,881,377)</u> | <u>(8.7%)</u> |

Customer Comments

Cascade notified its customers of its PGA filing through bill inserts by mail during August 2016. The commission did not receive any customer comments.

Additional Discussion

In the company's general rate case (GRC), Docket UG-152286, the commission approved a settlement agreement between the company, staff, Northwest Industrial Gas Users, Public Counsel, and The Energy Project. The settlement agreement authorized Cascade to implement base rate changes designed to increase its annual revenue by \$4 million dollars effective September 1, 2016. A condition of the settlement agreement was that Cascade would file its PGA by August 1, 2016, to become effective on September 1, 2016, to coincide with the company's approved increase to base rates, and to mitigate the impact of the rate increase on customers.

The overall impact of the PGA, the Deferral, and the GRC on a residential customer bill with an average use of 49 therms will be a rate decrease of \$2.98.

Conclusion

Commission staff completed its analysis of the company's supporting financial documents, prospective gas costs and deferral amortization filing. The company's information supports the conclusion that the proposed rates are fair, just, reasonable, and sufficient.

Recommendation

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