NOTE: Cascade has withdrawn this item and it will be removed verbally from the Open Meeting Agenda

Agenda Date: December 28, 2018
Item Number: A3

Docket: UG-180986
Company: Cascade Natural Gas Corporation

Staff: Jason Ball - Deputy Assistant Director, Energy Economics & Reliability
Kristen Hillstead, Regulatory Analyst

Recommendation

Issue a Complaint and Order Suspending the tariff sheet filed by Cascade Natural Gas Corporation in Docket UG-180986.

Background

On November 30, 2018, Cascade Natural Gas Corporation (Cascade or company) filed a revision to its tariff Schedule No. 595, Temporary Technical Adjustment, with an effective date of January 1, 2019. The company proposes to revise the rate for its Purchased Gas Adjustment (PGA). 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. This filing updates the gas cost prices but does not change the current deferral rate. The company did not file a deferral amortization because the balances are not known at this time.

The effect of the out-of-cycle PGA is an increase in annual revenues of $40 million (17.21 percent). The rate increase is driven by gas commodity costs that are higher than what the company forecasted when it filed its annual PGA in September, with a November 1, 2018, effective date.

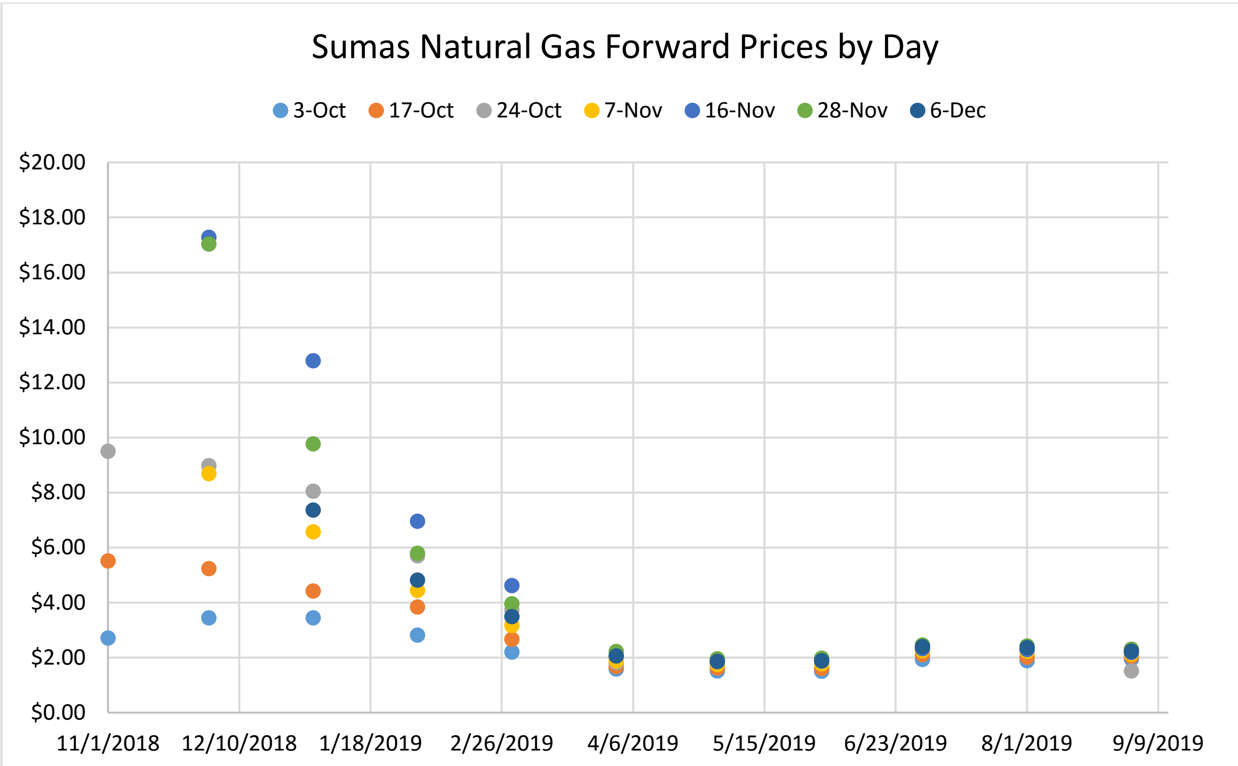
Cascade serves approximately 215,000 gas customers in various areas situated primarily along Williams Gas Pipeline. Major Washington locations include Aberdeen, Bellingham, Bremerton, Yakima, Walla Walla, and Longview.

Changes in expected gas prices

The changes in gas commodity costs are driven by the Enbridge pipeline explosion that occurred on October 9, 2018.[1] As summarized below, natural gas forward prices have faced significant

[1] The rupture occurred near Prince George, British Columbia. It is the primary link for shale gas in northern Canada with markets in the south and averages 1.1 billion cubic feet of gas daily. The rupture occurred on a 36-inch diameter pipeline but impacted an nearby 30-inch pipeline as well. Enbridge has been working to restore gas to full operational capacity since the incident. For more information refer to https://www.eia.gov/todayinenergy/detail.php?id=37312

volatility due to the uncertainty in supply caused by the explosion.[2]



Cascade Situation

Cascade has indicated through informal data request that natural gas prices in early 2019 are "still substantially above the prices included in our filing" and that the proposed "filing only helps minimize the deferrals until gas prices return to normal."[3]

However, a significant portion of the gas price risk that Cascade faces includes new or recently acquired contracts for supply. There is uncertainty into the nature of these contracts, when and why they were created, and their effect on expected natural gas prices. Since these contracts seem to be a primary driver of the increased PGA costs, staff requests time to evaluate them. Further, staff is concerned that approving an increase in expected PGA costs now results in a de-facto prudency determination without having reviewed the actual contracts under prudency standards.

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[2] Chart data is based on Natural Gas prices for Sumas using CME Group/NYMEX forward from SNL.com
[3] Company email response to Staff informal data requests on December 16, 2018

Rate Impact

The company is proposing an increase of approximately $40 million (17.21 percent) in annual revenue. The current residential weighted average cost of gas (WACOG) is $0.41741/therm (commodity $0.24240, firm demand $0.17501). In this filing, Cascade proposes a WACOG of $0.58108/therm (commodity $0.40646, firm demand $0.17462) for residential customers.

The impact of the proposed PGA on a residential customer with an average use of 54 therms is an increase of $9.23 per month, from $51.69 to $60.92. The following table provides rate changes and revenue impact by schedule.

	PGA Rate Change	Revenue Impact	Revenue Percent Change
Residential (503)	$.17094	$ 20,633,774	17.90%
Commercial (504)	.17095	14,699,447	19.65%
Industrial-Firm (505)	.17098	2,080,883	23.96%
Industrial Lg Vol (511)	.17098	2,425,396	26.06%
Ind. Interruptible (570)	.17101	371,881	29.38%
Total		$ 40,211,381	19.14%

These rate increases are significant and could present challenges to customers, especially at the peak of the 2018-2019 winter heating season. Staff would like time to work with Cascade and identify options, such as incremental increases, that will reduce the impact on ratepayers.

Customer Comments

On November 30, 2018, the company notified its customers of the proposed PGA by mail. Staff received nine consumer comments all opposing the proposed rate increase. Customers expressed shock at the amount rates would increase under the proposal. One customer expressed concern about absorbing the proposed increase on their fixed income. Three customers expressed skepticism at the proposal, citing low natural gas prices. Customers were notified that they may access relevant documents about this filing on the commission's website, and that they may contact Andrew Roberts at 1-888-333-9882 or andrew.roberts@utc.wa.gov with questions or concerns.

Conclusion and Recommendation

Commission staff has serious questions about the appropriateness of certain estimated costs included in this filing. However, staff requests time to evaluate the driving forces of this adjustment, the degree to which it is warranted, and options to mitigate its impact.

Staff recommends that the Commission issue a Complaint and Order Suspending the tariff sheet filed by Cascade Natural Gas Corporation, in Docket UG-180986.