

Agenda Date: October 19, 2018
Item Numbers: A2 and F13

Dockets: UG-180785 and UG-180786
Company: Northwest Natural Gas Company

Staff: Kristen Hillstead, Regulatory Analyst
Joanna Huang, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff sheets filed by Northwest Natural Gas Company on September 14, 2018, in Dockets UG-180785 and UG-180786 to become effective November 1, 2018, by operation of law.

Background

On September 14, 2018, Northwest Natural Gas Company (NW Natural or company) filed with the Washington Utilities and Transportation Commission (commission) four related tariff revisions: the purchased gas adjustment (PGA) and amortization mechanisms for deferred costs of gas in Docket UG-180785; the temporary rate adjustment related to its energy efficiency service and programs in Docket UG-180783; the temporary rate adjustment related to its low-income program costs in Docket UG-180784; and the combined effects of the above three filings in Docket UG-180786.

NW Natural serves 76,020 residential customers and 7,013 commercial and industrial customers in Vancouver and surrounding areas of southwest Washington.

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 surcharge 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 2018-2019 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 \$5.0 million (7.25 percent) in annual revenue for this

portion of the filing. This decrease is due to lower gas costs for the whole system. Currently, NW Natural's embedded weighted average cost of gas (WACOG) is \$0.37482 per therm (\$0.25856 commodity and \$0.11626 firm demand). The proposed WACOG is \$0.32022 per therm (\$0.21379 commodity and \$0.10643 firm demand).

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

WACOG	Avista	Puget Sound Energy	NW Natural	Cascade Natural Gas
Commodity	\$0.17067	\$0.18055	\$0.21379	\$0.24240
Demand (firm)	\$0.10239	\$0.13125	\$0.10643	\$0.17501
Total	\$0.27306	\$0.31180	\$0.32022	\$0.41741

Deferred Gas Cost Amortization

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 2017 through October 2018. The company used the actual deferral balance through August 31, 2018, and estimated deferred monthly balances for September and October 2018.

Hedging Plan

In the commission's policy and interpretive statement, Docket UG-132019, the commission directed each of the regulated natural gas companies to submit their hedging plans at the same time they submit their PGA filings. NW Natural filed its hedging plan as required. Docket UG-180781 will be a discussed at a later open meeting.

Reorganization

In Docket UG-170094, dated December 28, 2017, the commission approved NW Natural's request to reorganize and to create a holding-company, subject to conditions. One of these conditions required NW Natural to provide an annual credit of approximately \$55,000 to its Washington customers, concurrent with its PGA filing.² The company has complied with this requirement.

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

² Condition 35 states, "For a period of three years following the formation of HoldCo, NWN-U will provide an annual credit to Washington customers in the amount of \$55,000 on an equal percent margin basis concurrent with NWN-U's PGA." HoldCo was formed on October 1, 2018.

Combined Effects of all filings

The company implements the combined effects of multiple dockets which updates the billing rates on Schedules 1 through 43, all deferral adjustments on Schedules 201 through 230, and the reorganization credit on Schedule 200. The impact of these filing revisions is an annual revenue decrease of \$4,541,824 (6.56 percent).

	Avista	Cascade	PSE	NWN
Current Typical Residential Bill	\$51.21	\$51.69	\$65.18	\$52.73
Average Therms	65	54	64	57
Rate Adjustments:				
Cost Recovery Mechanism		\$0.46	\$0.32	
Decoupling Rate Adj.	\$(5.40)	\$(1.32)		
Energy Efficiency Rider		\$0.75		\$0.22
Low Income Adj.				\$0.01
Purchased Gas Adj.	\$0.03	\$(3.91)	\$(6.34)	\$(4.00)
Reorganization Benefits				\$(0.05)
Adj. for Tax Effects		\$(0.05)		
Sum of All Adjustments	\$(5.37)	\$(4.07)	\$(6.02)	\$(3.81)
% Change in Customer Bills	-10.5%	-7.9%	-9.2%	-7.2%

The bill impact of the company's proposed multiple tariff changes on a residential customer with monthly average consumption of 57 therms will be a net decrease of \$3.81, from \$52.73 to \$48.92. The combined effects of these filings 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	(0.05710)	(0.00968)	\$(2,526,498)	(7.20)%
Commercial	(0.05710)	(0.00943)	(1,162,035)	(7.70)%
Industrial	(0.05710)	(0.01339)	(422,578)	(13.50)%
Interruptible	(0.05042)	(0.02101)	(430,714)	(14.40)%
Total			<u>\$(4,541,824)</u>	<u>(6.56)%</u>

Conclusion

Staff reviewed the company's prospective gas cost and deferral amortization filings and recommends the commission take no action, thereby allowing the tariff sheets filed in Dockets UG-180785 and UG-180786 to become effective November 1, 2018, by operation of law.