

Agenda Date: October 26, 2017  
 Item Number: A6

**Dockets:** UG-170963, UG-170965, UG-170966, UG-170967  
**Company:** Northwest Natural Gas Company

**Staff:** Kristen Hillstead, Regulatory Analyst  
 Kyle Frankiewich, Regulatory Analyst  
 Jing Liu, Regulatory Analyst

### **Recommendation**

Take no action, thereby allowing the tariff sheets filed by Northwest Natural Gas Company on September 12, 2017, in Dockets UG-170963, UG-170965, UG-170966, and UG-170967 to become effective November 1, 2017, by operation of law.

### **Background**

On September 12, 2017, Northwest Natural Gas Company (NW Natural or company) filed four related tariff revisions: the purchased gas adjustment (PGA) and amortization mechanisms for deferred costs of gas in Docket UG-170967; the temporary rate adjustment related to its energy efficiency service and programs in Docket UG-170965; the temporary rate adjustment related to its low-income program costs in Docket UG-170966; and the combined effects of the above three filings in Docket UG-170963.

NW Natural serves 73,656 residential customers and 6,499 commercial and industrial customers in Vancouver and surrounding areas of southwest Washington.

The company implements the combined effects of these four dockets which updates the billing rates on Schedules 1 through 43 and the all deferral adjustments on Schedules 201 through 230. The impact of these filing revisions is an annual revenue decrease of \$1,927,257 or 2.95 percent.

<b>Docket</b>	<b>Description</b>	<b>Incremental revenue change</b>	<b>Percent of total revenue</b>
UG-170967	PGA/Deferral	\$ (1,991,698)	(3.04) percent
UG-170966	Low Income	\$ (108,431)	(0.17) percent
UG-170965	Energy Efficiency	\$ <u>172,872</u>	<u>0.26</u> percent
UG-170963	Combined Impact	\$ <u>(1,927,257)</u>	<u>(2.95)</u> percent

### **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 charge 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 2017-2018 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 \$1.6 million (2.5 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 WACOG is \$0.39934 per therm (\$0.28095 commodity and \$0.11839 firm demand). The proposed WACOG is \$0.37482 per therm (\$0.25856 commodity and \$0.11626 firm demand).

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

<b>WACOG</b>	<b>Avista</b>	<b>Puget Sound Energy</b>	<b>NW Natural</b>	<b>Cascade Natural Gas</b>
Commodity	0.21817	\$0.24068	\$0.25856	\$0.27336
Demand (firm)	0.10744	\$0.12683	\$0.11626	\$0.16731
<b>Total</b>	<b>0.32561</b>	<b>\$0.36751</b>	<b>\$0.37482</b>	<b>\$0.44067</b>

### **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 2016 through October 2017.

The impact of the PGA and Deferral amortizations on a residential customer with average consumption of 53 therms will be a net decrease of \$1.60 per month from \$51.12 to \$49.52. The combined effects of the PGA and Deferral amortizations on the company's rates (\$/therm) and annual Washington revenues are as follows:

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

	<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	(0.03018)	(0.00460)	(\$1,052,806)	(3.10%)
Commercial	(0.03018)	(0.00466)	(489,413)	(3.40%)
Industrial	(0.03018)	(0.00484)	(180,611)	(5.80%)
Interruptible	(0.01340)	0.00987	<u>(204,427)</u>	(2.10%)
Total			<u>(\$1,927,257)</u>	

### **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 a preliminary hedging plan as part of its 2017 PGA filing. NW Natural filed its hedging plan as required. Docket UG-171052 will be discussed at the recessed open meeting held on November 16, 2017.

### **Energy Efficiency and Washington Low-Income Energy Efficiency (WALIEE) Programs**

NW Natural's 2016 energy efficiency program costs were \$1,964,488, exceeding the high end of the company's 2016 program cost range in its 2016 Energy Efficiency Business Plan.<sup>2</sup> While the program went about 6 percent over budget, it also exceeded the high end of its energy savings target range by about 26 percent by achieving 330,866 therms of energy savings. The program very nearly became cost-effective for the first time, with a benefit to cost ratio of 0.99 under the Total Resource Cost (TRC) test and 1.61 under the Utility Cost Test (UCT).<sup>3</sup> Recent quarterly reports indicate that 2017 conservation program savings will greatly exceed year-end goals.<sup>4</sup>

Staff audited selected expenditures from the Energy Efficiency and WALIEE programs, including an on-site review on October 16, 2017, and found no evidence of inappropriate costs or mismanagement.

### **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-170963, UG-170965, UG-170966 and UG-170967 to become effective November 1, 2017, by operation of law.

<sup>2</sup> 2016 Energy Efficiency Plan, Docket UG-152349, page 14 (December 15, 2015).

<sup>3</sup> 2016 Annual Report, Docket UG-152349, Page 8 (April 25, 2017).

<sup>4</sup> 2017 Q2 Energy Efficiency Report, Docket UG-161259, Page 1 (August 24, 2017). For example, savings achieved in Q2 2017 were over 70 percent more than savings achieved in Q2 2016.