

Agenda Date: October 29, 2020  
Item Numbers: A1, A2, A3, and A4

**Dockets:** **UG-200717** - Avista Corporation, d/b/a Avista Utilities  
**UG-200799** - Northwest Natural Gas Company  
**UG-200807** - Cascade Natural Gas Corporation  
**UG-200832** - Puget Sound Energy

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### **Recommendation**

Take no action, thereby allowing the tariff sheets filed by Avista, NW Natural, Cascade and PSE in Dockets UG-200717, UG-200799, UG-200807 and UG-200832, respectively, to become effective November 1, 2020, by operation of law.

### **Background**

Each natural gas utility regulated by the commission files an annual tariff revision that adjusts rates to reflect the cost of supplying natural gas to the utility’s customers. By convention, the commission refers to this filing as the annual Purchased Gas Adjustment (PGA). The annual PGA revises rates by (1) updating the projected cost of gas for the forthcoming year, and (2) updating the amortization rate for the deferral balance. The deferral balance reflects the difference between actual cost of gas and the cost of gas embedded in rates.

PGAs for the four commission-regulated natural gas utilities were filed this year as follows:

- On July 31, 2020, Avista filed its annual PGA in Docket UG-200717.
- On September 14, 2020, NW Natural filed its annual PGA in Docket UG-200799.
- On September 15, 2020, Cascade filed its annual PGA in Docket UG-200807.
- On September 29, 2020, PSE filed its annual PGA in Docket UG-200832.

### **Tabular Summary of Filings**

**Table 1.** Summary of annual impact due to (a) projected gas costs, and (b) change in amortization rate for the deferral balance.

	<b>Avista</b>	<b>Cascade Natural Gas</b>	<b>Puget Sound Energy</b>	<b>NW Natural</b>
Projected gas costs	\$2.0 M	(\$0.9 M)	\$32.6 M	\$4.4 M
Amort. of deferral	(\$2.2 M)	\$3.6 M	\$37.4 M	(\$1.3 M)
Total change (annual)	(\$0.2 M)	\$2.7 M	\$70 M	\$3.1 M
<b>Average Bill Impact</b>	<b>(\$0.08)</b>	<b>\$0.58</b>	<b>\$4.77</b>	<b>\$2.01</b>

**Table 2.** Summary of Weighted Average Cost of Gas (WACOG) for Residential Customers, by Commodity and Demand Components.<sup>1</sup>

	<b>Avista</b>	<b>Cascade Natural Gas</b>	<b>Puget Sound Energy</b>	<b>NW Natural</b>
Commodity	0.16167	\$0.25053	\$0.21406	0.25238
Demand (firm)	0.09822	\$0.16596	\$0.14990	0.09719
<b>Total WACOG</b>	<b>0.25989</b>	<b>\$0.41649</b>	<b>\$0.36396</b>	<b>0.34957</b>

**Table 3.** Bill Impact Summary – All Proposed Tariff Revisions effective November 1, 2020

	<b>Avista</b>	<b>Cascade</b>	<b>PSE</b>	<b>NW Natural</b>
Pipeline CRM Adj.		0.24	0.69	
Decoupling Rate Adj.		(1.29)		
Conservation Adj.		(0.001)		0.45
Low Income Adj.				0.24
PGA	(0.08)	0.58	4.77	2.01
EDIT tariff Adj.		0.01		
Interim Tax Adj.				1.67
Reorg Credit Adj.				(0.01)
ECRM Adj.				0.17
<b>Sum of All Revisions</b>	<b>(0.08)</b>	<b>(0.46)</b>	<b>5.46</b>	<b>4.53</b>
Ave Res Bill (Current)	56.43	56.72	64.98	54.18
Ave Res Bill (Proposed)	56.35	56.26	70.44	58.71
% Change	-0.10%	-0.81%	8.46%	8.36%

### **Summary of PGA Filings**

#### ***Natural Gas Market Pressure***

In general, natural gas commodity prices have risen in a sustained manner since the onset of the of COVID-19 pandemic in early 2020. Since March, wholesale gas prices have been steadily rising across North America, including at all trading hubs where northwest utilities procure natural gas. High natural gas commodity prices can be attributed, at least in part, to a reduction in oil production resulting from the pandemic-driven economic slowdown. Reduced oil production has resulted in a reduction in natural gas production and, consequently, a shortfall in gas

<sup>1</sup> Commodity and demand charges shown are before revenue sensitive items.

inventories. This reduction in supply coupled with strong global demand for natural gas has led to significant upward pressure on natural gas prices.

Washington's natural gas regulated companies showed various degrees of sensitivity and exposure to high price markets. However, all four utilities are in one way or another affected by higher gas costs. Utilities either experienced higher than expected gas costs over the past year or they project higher gas costs for the forthcoming PGA year. PSE has experienced both.

### *Avista, Docket UG-200717*

Avista, a combined electric and gas utility, serves approximately 172,000 gas customers in Eastern Washington. Avista's Schedule 150 rates capture the estimated cost of gas for the forthcoming year, and its Schedule 155 rates capture the amortization of the deferral balance.

Projected gas costs (Schedule 150) increase annual costs by approximately \$2.0 million, and the amortization of deferred gas costs (Schedule 155) decreases annual costs by approximately \$2.2 million.<sup>2</sup> The net effect of the revisions to Schedules 150 and 155 is a decrease of approximately \$0.2 million (or 0.1 percent). Under the revised rates, an average residential customer using 66 therms per month would see a bill decrease of \$0.08.

The increase in Avista's projected gas costs (Schedule 150) is consistent with the upward trend in regional natural gas prices. The decrease in Avista's amortization rate (Schedule 155) reflects a combination of low demand driven by above-average winter temperatures and high storage levels.

### *NW Natural, Docket UG-200799*

NW Natural, a gas-only utility, serves approximately 81,360 customers, in the Vancouver and surrounding area. NW Natural's Schedule 203 rates capture the estimated cost of gas for the forthcoming year, and its Schedule 201 rates capture the amortization of the deferral balance.

Projected gas costs (Schedule 203) increase annual costs by approximately \$4.4 million, and the amortization of deferred gas costs (Schedule 201) reduces annual costs by approximately \$1.3 million.<sup>3</sup> The combined effect of the revisions to Schedules 201 and 203 is an increase of approximately \$3.1 million (4.8 percent). An average residential customer using 57 therms per month would see a bill increase of \$2.01.

The increase in NW Natural's projected gas costs (Schedule 203) is consistent with the upward trend in regional natural gas prices. The decrease in NW Natural's amortization (Schedule 201) rate reflects a reduction in the Company's cumulative deferral balance resulting from natural gas costs that were slightly lower than anticipated.

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<sup>2</sup> The \$2.2 million reduction to Avista's amortization rate reflects the deferral balance moving from a \$1.3 million surcharge to a \$0.9 million credit.

<sup>3</sup> The \$1.3 million reduction for NW Natural's amortization rate reflects the deferral balance moving from a \$0.5 million surcharge to a \$0.8 million credit.

*Cascade, Docket UG-200807*

Cascade, a gas-only utility, serves approximately 220,000 customers throughout Washington, including Aberdeen, Bellingham, Bremerton, Yakima, Walla Walla, and Longview. Cascade's Schedule 595 rates capture the estimated cost of gas in the forthcoming year, and its Schedule 590 rates capture the amortization of the deferral balance.

Projected gas costs (Schedule 595) decrease costs by approximately \$0.9 million, and the amortization of deferred gas costs (Schedule 590) increases annual costs by approximately \$3.6 million.<sup>4</sup> The combined effect of the revisions to Schedules 590 and 595 is an increase of approximately \$2.7 million (1.0 percent). An average residential customer using 56 therms per month would see an increase of \$0.58.

Unlike the other natural gas utilities the commission regulates, Cascade does not project an increase in gas costs (Schedule 595) for the next year. The increase in Cascade's amortization rate (Schedule 590) reflects growth in Cascade's cumulative deferral balance resulting from higher than anticipated natural gas costs over much of the past year.

*PSE, Docket UG-200832*

PSE, a combined electric and gas utility, serves approximately 800,000 natural gas customers in Western Washington. PSE's Schedule 101 rates capture the estimated cost of gas in the forthcoming year, and its Schedule 106 rates capture the amortization of the deferral balance.

Projected gas costs (Schedule 101) increase annual revenues by approximately \$32.6 million, and the amortization of deferred gas costs (Schedule 106) increases annual revenues by approximately \$37.4 million.<sup>5</sup> The combined effect of the revisions to Schedules 101 and 106 is an increase of approximately \$70.0 million (7.7 percent). An average residential customer using 64 therms per month would see a bill increase of \$4.77.

The increase in PSE's forward-looking gas costs (Schedule 101) is consistent with the sustained rise in regional commodity prices. The increase in PSE's amortization rate (Schedule 106) also reflects high commodity costs resulting from the COVID-19 pandemic. However, PSE's Schedule 106 rates also reflect deferral balances that accumulated as a result of extremely high demand for gas during November 2019 through January 2020, as well as a high level of commodity purchases in high price markets in February and March of 2020.

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<sup>4</sup> Cascade proposes to amortize its cumulative deferral balance of \$37.2 million over two years. The annual amortization rate of \$18.7 million represents an increase of \$3.6 million over the current amortization rate.

<sup>5</sup> The \$37.4 million increase for PSE reflects the amortization rate moving from a credit balance of \$16.4 million to a surcharge balance of \$21.0 million. The \$21.0 million amortization is composed of three separate deferral balances: (1) \$4.8 million for under collected remaining commodity balances from the out-of-cycle Supplemental Schedule 106A filing in Docket UG-190218; (2) \$2.4 million out of the total \$19.3 million balance for under collected demand costs for the 2019 PGA year, and (3) \$13.8 million for under-collected commodity costs for the 2019 PGA year.

### **Customer Comments**

Beginning with the September billing cycle the companies notified affected customers of the proposed rate changes. Customers were notified that they may access relevant documents about this proposal on the commission's website, and that they may contact Andrew Roberts at 1-888-333-9882 or [andrew.roberts@utc.wa.gov](mailto:andrew.roberts@utc.wa.gov) with questions or concerns.

Staff received five comments on the proposed PGA rate changes. All five comments opposed the proposed changes. Three Avista customers opposed the proposed changes due to the pandemic and frequent rate increases. One PSE customer opposed, arguing that the rate increase was too large. One NW Natural customer opposed, also citing the pandemic. No comments were received for Cascade.

### **Conclusion**

Commission staff completed its analysis of the companies' filings, including documents supporting prospective gas costs and cumulative deferral balances, and concludes each company's revised rates accurately reflect the cost of providing gas to its customers. Therefore, Staff recommends the commission take no action, thereby allowing the tariff sheets filed in Dockets UG-200717, UG-200807, UG-200832 and UG-200799 to become effective November 1, 2020, by operation of law.