

Agenda Date: October 27, 2022  
Item Numbers: A2, A3, A4, A5, F13, E8

**Dockets:**        **UG-220670** – Avista Corporation d/b/a Avista Utilities  
                      **UG-220697** – Northwest Natural Gas Company d/b/a NW Natural  
                      **UG-220702** – Cascade Natural Gas Corporation  
                      **UG-220715** – Puget Sound Energy  
                      **UG-220734** – Northwest Natural Gas Company d/b/a NW Natural  
                      **UG-220735** – Northwest Natural Gas Company d/b/a NW Natural

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### **Recommendation**

Take no action, thereby allowing the tariff sheets filed by Cascade Natural Gas Corporation (Cascade), Puget Sound Energy (PSE), Avista Corporation d/b/a Avista Utilities (Avista), and Northwest Natural Gas Company d/b/a NW Natural (NW Natural) in Dockets UG-220702, UG-220715, UG-220670, UG-220697, and UG-220734, respectively, to become effective November 1, 2022, by operation of law.

Issue an Order in Docket UG-220735 authorizing deferred accounting treatment related to NW Natural’s residential winter bill mitigation proposal.

### **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 its customers. The Commission refers to these filings as annual Purchased Gas Adjustments (PGA). The annual PGA revises rates by (1) updating the projected cost of gas for the upcoming year, and (2) updating the amortization rate for the deferral balance. The deferral balance reflects the difference between the actual cost of gas and the cost of gas embedded in rates.

Natural gas prices have risen significantly across all four utilities. Each utility has faced higher natural gas prices because of low natural gas inventories and supply as well as high demand for US liquefied natural gas exports and natural gas in the electric power sector.

PGAs reflect both actual costs of the previous year and forecasted natural gas costs for the upcoming year. If any of the allowed increases in this year’s PGA filings prove to be higher than necessary, the examination of next year’s PGAs will result in a true-up of the current year’s forecast.

The PGAs for natural gas providers were filed this year as follows:

- Cascade filed its annual PGA on September 15, 2022.
- PSE filed its annual PGA on September 19, 2022.
- Avista filed its annual PGA on September 2, 2022.
- NW Natural filed its annual PGA on September 14, 2022.

### **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 (in millions).

	<b>Cascade</b>	<b>PSE</b>	<b>Avista</b>	<b>NW Natural</b>
Projected gas costs	\$55.4	\$142.1	\$5.3	\$9.1
Amortization of deferral	\$ 8.9	\$13.2	\$19.8	\$10.3
Total change (annual)	\$64.3	\$155.3	\$25.1	\$19.4
<b>Avg. Monthly Residential Bill Impact (in dollars)</b>	<b>\$13.54</b>	<b>\$10.69</b>	<b>\$8.95</b>	<b>\$12.41</b>

**Table 2.** Summary of Weighted Average Cost of Gas (WACOG) for residential customers, by commodity and demand components.<sup>1</sup>

	<b>Cascade</b>	<b>PSE</b>	<b>Avista</b>	<b>NW Natural</b>
Commodity	\$0.52438	\$0.43773	\$0.35373	\$0.44925
Demand (firm)	\$0.17537	\$0.14921	\$0.10111	\$0.08317
<b>Total WACOG</b>	<b>\$0.69975</b>	<b>\$0.58694</b>	<b>\$0.45484</b>	<b>\$0.53242</b>

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

**Table 3.** Summary of bill impact – all proposed tariff revisions effective November 1, 2022.

	<b>Cascade</b>	<b>PSE</b>	<b>Avista</b>	<b>NW Natural</b>
Avg. Monthly Residential Bill (Current)	\$61.00	\$75.59	\$76.17	\$67.93
<b>Revisions</b>				
Pipeline CRM Adj.	\$ 0.25	\$0.37		
Decoupling Rate Adj.	0.45			
Conservation Adj.	0.01			\$(1.07)
Low Income Adj.	(0.037)			(0.02)
PGA	13.54	10.69	\$8.95	12.41
EDIT tariff Adj.	(0.02)			
CPA				(0.11)
Truck Lot Sale Impact <sup>2</sup>				0.32
ECRM Adj.				0.24
<b>Sum of All Revisions</b>	<b>\$14.19</b>	<b>\$11.06</b>	<b>\$8.95</b>	<b>\$11.76</b>
Revised Avg. Monthly Residential Bill	\$75.19	\$86.65	\$85.12	\$79.69
Percent Change	23.27%	14.6%	11.8%	17.3%

## **Discussion**

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

Wholesale gas prices continue to increase across North America, including at 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 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 regulated natural gas companies showed various degrees of sensitivity and exposure to high price markets. All four companies were affected by higher gas costs than expected over the past year and project higher gas costs for the upcoming PGA year.

<sup>2</sup> The Truck Lot sale credit is removed from the PGA temporaries workpapers and is included in the Company’s general rate case compliance filing workpapers, filed on October 14, 2022, in Docket UG-200994, as an agreed upon mitigating component of the base rate change.

***Cascade, Docket UG-220702***

Cascade, a gas-only utility, serves approximately 225,000 customers throughout Washington, including Aberdeen, Bellingham, Bremerton, Yakima, Walla Walla, and Longview. Cascade's Schedule 590 captures Cascade's cost of gas in deferred gas costs related to the Enbridge pipeline rupture. The deferred gas costs that had accumulated between November 1, 2018, and January 31, 2019, are amortized over three years, beginning November 1, 2019. Amortization of this deferral balance is complete as of October 31, 2022.

Schedule 595 captures the PGA for projected gas costs and the amortization of the deferral balance based on difference between the prior year's projected gas costs and actual gas costs.

Cascade's storage is typically filled throughout the summer, with fill targets of 100 percent by September/October. Compared to prior year, Cascade's storage accounts at Mist, Jackson Prairie, and Plymouth are seeing a much higher average cost of gas due to the spike in summer prices.

Projected gas costs increase annual revenue by approximately \$55.4 million, and the amortization of deferred gas costs increases annual revenue by approximately \$8.9 million. The combined effect of projected gas costs and the amortization of deferred gas costs is an increase of approximately \$64.3 million (22.10 percent). A residential customer using an average of 54 therms per month would see an increase of \$13.54 monthly.

***PSE, Docket UG-220715***

PSE, a combined electric and gas utility, serves approximately 870,000 natural gas customers in Western Washington. PSE's Schedule 101 rates capture the estimated cost of gas in the upcoming year, and its Schedule 106 rates capture the amortization of the deferral balance.

Projected gas costs (Schedule 101) increase annual revenue by approximately \$142.1 million. The amortization of deferred gas costs (Schedule 106) increases the annual revenue by approximately \$13.2 million. The combined effect of the revisions to Schedules 101 and 106 is an increase in revenue of approximately \$155.3 million (14.9 percent). A residential customer using an average of 64 therms per month would see an increase of \$10.69 monthly.

***Avista, Docket UG-220670***

Avista, a combined electric and gas utility, serves approximately 176,000 customers in eastern Washington. Avista's Schedule 150 rates capture estimated costs of natural gas for the upcoming year and Schedule 155 rates capture the amortization of a deferred natural gas commodity costs.

Avista's projected gas costs for the upcoming year would increase annual revenue by approximately \$5.3 million. The amortization of deferred gas costs would increase annual revenue by about \$19.8 million. The combined effect of the revisions to Schedules 150 and 155

would result in an approximately \$25 million dollar increase or 12.3 percent. On an annual basis, a residential or small commercial customer using an average of 67 therms per month will see their bill increase by \$8.95 per month from \$76.17 to \$85.12, or approximately 11.8 percent.

### *NW Natural, UG-220697*

NW Natural, a gas-only utility, serves approximately 95,000 customers in Washington. NW Natural's projected gas costs for the upcoming year will increase annual revenue by \$9.1 million, and the amortization of deferred gas costs increase annual revenue by approximately \$10.3 million. The combined effect of the PGA revisions is an increase in revenue of \$19.4 million (23.4 percent). A residential customer with typical usage of 57 therms per month would see their bill increase by \$12.41 per month from \$67.93 to \$80.34, or approximately 18.3 percent.

### **Rate Increase Mitigation**

Gas usage is typically highest during the winter heating months of November through March, and consumption is lower during the warmer months of April through October. The start of this high gas consumption period coincides with the effective date of the PGA's. Given the magnitude of the rate increases proposed by all four gas utilities, Staff approached the gas utilities about possible rate shock mitigation approaches. The following sections summarize NW Natural's, Avista's and PSE's solutions. Staff reached out to Cascade about potential rate mitigation strategies, but it did not agree with the other companies' mitigation proposals.

### *NW Natural*

In addition to NW Natural's November 1 PGA increase, November 1 is also the effective date of the Company's year two rate plan increase from the Company's most recent general rate case in Docket UG-200994.

Taken together, NW Natural's PGA and rate plan will result in a 20.3 percent increase to residential customer rates. In Docket UG-220734, NW Natural has proposed to mitigate this increase and help residential customers by issuing residential customers a temporary credit. This credit represents a bill reduction of approximately 5.3 percent of the expected bills beginning November 1, so rates will increase by roughly 15 percent rather than by roughly 20 percent. This would reduce a residential customer's monthly bill by approximately \$3.64 during the winter heating months.

In Docket UG-220735, NW Natural has proposed to defer this uncollected revenue and collect interest on the unamortized and the amortized portion of the deferral at the Company's short-

term borrowing rate which is currently 2.9 percent.<sup>3</sup> NW Natural's residential customers will pay back this deferred revenue plus interest between April 1 and October 31 of 2023. Using the current short-term borrowing rate, this would result in a roughly \$0.20 total bill increase per customer over the year.

This method of collecting a portion of winter bills during lower-use months has the potential for intra-class subsidy because high-consuming space heating customers may not have gas water heating or gas appliances. This is mitigated by collecting this deferred revenue during the shoulder use seasons of April through October when space heating is still being used.

The Company presented this proposal to their GREAT<sup>4</sup> advisory group where it received support. NW Natural made a similar proposal in Oregon (UG-459), which will be considered on October 25, 2022, and is supported by the Oregon Public Utility Commission's Staff.

### *Avista*

Due to rising natural gas prices in early 2022, and to mitigate anticipated rate shock in November, Avista filed an Out of Cycle PGA in Docket UG-220309 on April 29, 2022. This filing updated the commodity weighted average cost of gas portion of the Schedule 150 tariff. The tariff adjustment was approved and subsequently Avista's annual revenue increased by \$23.0 million, or 12.6 percent.

After its initial annual PGA filing on September 2, 2022, Staff collaborated with Avista to explore options for mitigating additional rate shock. Avista subsequently filed revised workpapers and proposes to implement seasonal rates for its Schedule 155 tariff for residential customers in the forthcoming year. This revision alleviates the rate increase during Avista's winter heating months from November through April. The average residential customer using an average of 109 therms per month during the heating season of November through April will see their bill decrease by approximately \$4.69, or 3.5 percent, compared to rates proposed in Avista's initial filing. During the heating months, customers are likely to experience an 8.4 percent increase on their monthly bills, rather than 11.8 percent as originally filed. Customer bills will then increase by a like amount during the non-heating season of May through October to fully collect the surcharge balance during the PGA year. There is no impact to the annual revenue changed proposed in the initial filing.

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<sup>3</sup> Since 2014 NW Natural's monthly historical short-term borrowing rate is reported annually to the Commission in the Commission Basis Report.

<sup>4</sup> The Gas Residential Energy Assistance Tariff (GREAT) Advisory Group is the Company's low-income advisory group.

## *PSE*

After its initial annual PGA filing on September 19, 2022, Staff collaborated with PSE to explore options for mitigating additional rate shock. PSE subsequently filed revised workpapers on October 21, 2022, and proposes to implement seasonal rates for its Schedule 23 tariff for residential customers in the upcoming year. This revision alleviates the rate increase during PSE's winter heating months of November through March. A residential customer using an average of 100 therms per month during the heating season will experience a lower bill, by approximately \$6.03 or 5.4 percent, compared to rates proposed in PSE's initial filing. During the heating months, customers are likely to experience an 11.97 percent increase on their monthly bills, rather than 17.37 percent as originally filed.

## **Customer Comments**

Avista notified its customers via bill inserts in the September billing cycle of the rate filings proposed to become effective November 1, 2022, in accordance with WAC 480-90-194(1). Staff have not received any comments regarding the proposed rate increases.

On September 30, 2022, and October 1, 2022, PSE notified its customers via newspaper publications of the proposed rate filings to become effective November 1, 2022, in accordance with WAC 480-90-194(2). Staff received two comments opposing the proposed rate increase. One commenter expressed concern about the financial stress the proposed increase would have on them and their neighbors. The other cites numerous stacked increases as the reason for their opposition.

On October 13, 2022, Cascade notified its customers of the rate filings proposed to become effective November 1, 2022, in accordance with WAC 480-90-194(3). Staff received 65 comments regarding the proposed rate increases, all opposed. Most commenters expressed shock and frustration at the size of the proposed increase. Many customers were concerned about their ability to afford the increase and the compounding impacts of inflation.

On October 17, 2022, NW Natural notified its customers of the rate filings proposed to become effective November 1, 2022, in accordance with WAC 480-90-194(3). Staff has received one comment, opposing the filing. The commenter cites increased costs for all other commodities, and questions how much of the increase is for stockholders as the basis for the opposition.

All commenters were notified that they may access relevant documents about these filings on the commission website, and that they may contact Consumer Protection at 1-888-333-9882 or [comments@utc.wa.gov](mailto:comments@utc.wa.gov) with questions or concerns.

## **Conclusion**

Commission Staff completed its analysis of the companies' filings, including documents

supporting prospective gas costs and cumulative deferral balances and conclude that Cascade, PSE, Avista, and NW Natural's revised rates accurately reflect the cost of providing gas to its customers. Staff is aware that these are significant rate impacts on customers. Staff supports Avista's and PSE's seasonal rate proposal and NW Natural's deferred accounting petition related to the rate increase mitigation plans. These proposals help to mitigate rate shock by reducing bills in the winter heating months. Staff explored other options to mitigate rate shock to residential customers where possible but recognize that each company has its own programs to assist customers with stabilizing their bills.

Staff finds that these filings are in the public interest. Staff recommends that the Commission take no action, thereby allowing the tariff sheets filed by Cascade Natural Gas Corporation, Puget Sound Energy, Avista Corporation, and Northwest Natural Gas Company, to become effective November 1, 2022, by operation of law.

The Commission should Issue an Order in Docket UG-220735 authorizing deferred accounting treatment related to NW Natural's residential winter bill mitigation proposal.