

Agenda Date: October 24, 2019
Item Numbers: F11 and F7

Dockets: UG-190769 and UG-190765
Company: Northwest Natural Gas Company

Staff: Cristina Steward, Regulatory Analyst
Jim Woodard, Regulatory Analyst
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Recommendation

Take no action, thereby allowing the tariff sheets filed by Northwest Natural Gas Company on September 12, 2019, amended September 27, 2019, in Dockets UG-190769 and UG-190765 to become effective November 1, 2019, by operation of law.

Background

On September 12, 2019, 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-190765; the temporary rate adjustment related to its energy efficiency service and programs in Docket UG-190766; the temporary rate adjustment related to its low-income program costs in Docket UG-190771; and the combined effects of the above three filings in Docket UG-190769.

NW Natural serves 78,579 residential customers and 7,337 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 2019-2020 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 an increase of approximately \$4.7 million (7.17 percent) in annual revenue for this portion of the filing.

The higher than average requested increase is due to a higher market cost for gas caused by an irregular event. In October of 2018, an explosion occurred along a natural gas transmission pipeline owned and operated by Enbridge, Inc., approximately 13.5 km north of Prince George, B.C. Large amounts of gas stores were lost, which caused the market price of gas to increase. Currently, NW Natural's embedded weighted average cost of gas (WACOG) is \$0.32022 per therm (\$0.21379 commodity and \$0.10643 firm demand). The proposed WACOG is \$0.30076 per therm (\$0.19447 commodity and \$0.10629 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	\$0.15284	\$0.14905	\$0.19447	\$0.24511
Demand (firm)	\$0.09651	\$0.18135	\$0.10629	\$0.17463
Total	\$0.24935	\$0.33040	\$0.30076	\$0.41974

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 2018 through October 2019. The company used the actual deferral balance through August 31, 2019, and estimated deferred monthly balances for September and October 2019.

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-190725 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

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

Washington customers, concurrent with its PGA filing.² The company has complied with this requirement.

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 increase of \$4,019,865 (6.07 percent).

	Avista	Cascade	PSE	NWN
Current Typical Residential Bill	\$47.79	\$48.06	\$59.60	\$48.92
Average Therms	66	55	64	57
Rate Adjustments:				
Cost Recovery Mechanism		\$0.12	\$0.50	
Decoupling Rate Adj.	\$2.07	\$2.19		
Energy Efficiency Rider		\$(0.07)		\$ 0.47
Low Income Adj.				\$(0.06)
Purchased Gas Adj.	\$4.99	\$2.97	\$7.91	\$ 2.20
Reorganization Benefits				\$ 0.00
Adj. for EDIT Tax		\$(0.03)		
Adj. for Over Collection Tax		\$0.47		
Sum of All Adjustments	\$7.06	\$5.64	\$8.46	\$ 2.61
% Change in Customer Bills	14.8%	11.7%	14.19%	5.3%

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 increase of \$2.61, from \$48.92 to \$51.53. The combined effects of these filings on the company’s rates (\$/therm) and annual Washington revenues are as follows:

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.

	<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	(0.02389)	0.06680	\$2,856,014	6.5%
Commercial	(0.02389)	0.06595	1,275,647	7.0%
Industrial	(0.02389)	0.05916	33,161	1.3%
Interruptible	(0.02363)	0.06106	(144,957)	(10.2)%
Total			<u>\$4,019,865</u>	<u>6.07%</u>

Customer Comments

General Comments

The customer stated that the current natural gas surplus should be keeping rates lower.

Staff Response

Staff informed the customer that natural gas utilities do not profit on the actual cost of natural gas. The customer was also informed of the impacts the Enbridge Pipeline incident had on natural gas costs and supply over the winter of 2018 and that NW Natural experienced less cost volatility than other utilities. The customer was also told that commission staff performs a thorough review of rate filings to ensure all rates and fees are appropriate.

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-190769 and UG-190765 to become effective November 1, 2019, by operation of law.