ORDER NO. 98-543

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 903

In the Matter of an Investigation into Policy Issues and Procedures Associated with Recovery of Purchased Gas Costs by Oregon's Regulated Gas Distribution Utilities.	))))	ORDER

DISPOSITION: STIPULATIONS APPROVED

On May 19, 1998, in Order No. 98-197, the Commission initiated this investigation to examine policies and procedures related to the recovery of purchased gas costs by Oregon's regulated gas distribution companies. One of the primary issues in this proceeding is to review the purchased gas adjustment (PGA) risk-reward sharing mechanism and the structure of related earnings reviews.

Pursuant to Administrative Law Judge Thomas Barkin's recommendation, the Commission directed that this investigation follow a two-stage process. The Commission opened a rulemaking proceeding in docket AR 357, to establish the procedural steps for PGA filings and associated earnings reviews. This docket (UM 903) was continued to determine specific standards for the earnings review and sharing mechanisms.

As a result of settlement discussions, the Commission Staff and Washington Water Power (WWP) submitted a stipulated agreement on November 19, 1998. On December 1, 1998, Staff and Cascade Natural Gas (CNG) filed a separate agreement. The language in the CNG and WWP stipulations differed in one minor area. On December 11, 1998, WWP filed a letter indicating that it would be willing to accept the language in the CNG stipulation should the Commission prefer to conform those sections. The stipulations are attached as Appendices A and B. Appendix C includes the WWP December 11, 1998, letter. The stipulations were clarified in a December 17, 1998, filing. The amendment is attached as Appendix D. Appendix D also conforms the WWP stipulation to the CNG stipulation.

Summary of the Stipulations

We adopt WWPs offer to conform the stipulations. As a result, we will not describe the slight differences between the WWP and CNG stipulations.

The stipulations would require a general earnings review in the spring of each year beginning in 1999. The adjusted earnings will be calculated based on the prior calendar year test year, with agreed upon adjustments. There will be no adjustment for weather normalization. The earnings threshold will be set by adding 7.1 percent to the average of the test year of the annual yields reported monthly, and rate case adjusted, five-, seven-, and ten-year US Treasury debt securities. If the adjusted earnings are below the threshold, there will be no rate adjustment. If the adjusted earnings are above the threshold, revenues representing 33 percent of the earnings exceeding the threshold will be shared with the customers. Rate adjustments will be booked to a deferred balance sheet account, with interest. The rate adjustment and amortization will be effective with the date of the subsequent purchased gas cost change.

The stipulations call for another earnings review in the fall, if the company has chosen a risk-reward sharing mechanism for variations in commodity gas costs that allocates less than 33 percent of the changes in cost to the company. If the sharing mechanism allocates at least 33 percent of the difference to the company, there will be no earnings review conducted within the PGA gas cost tracking filing.

If a fall earnings review is conducted, it will be based on the financial results of the spring review. The results of the spring review will be adjusted to account for revenues returned to customers as a result of the spring review. Purchased gas deferrals for the PGA will be those amounts deferred during the 12-month period ending the prior June 30. If adjusted earnings are above the threshold earnings level and the PGA gas cost deferrals produce a potential customer surcharge, the company will return to customers the lesser of: (a) revenue representing 80 percent of the earnings above the threshold level or (b) the amount of revenue related to offsetting the purchased gas cost deferrals. If there is a rate adjustment, the amount of the revenue adjustment will be booked to a deferred account, with interest, accumulated beginning the previous July 1. The rate adjustment and amortization will be effective with the date of the subsequent purchased gas cost change.

The stipulations also include a provision that allows some of the components of the agreements to be modified by the final order in this docket. The provisions that cannot be modified are the 7.1 percent adder and the 33 percent sharing percentage. The agreements also provide that the agreements will be terminated, if future events result in the companies no longer filing and participating in periodic regulatory PGA review for recovery of purchased gas costs.

Commission Conclusion

We adopt WWPs offer to conform its stipulation to CNG’s stipulation. In addition, we conclude that the proposed PGA mechanisms and associated earnings reviews in the stipulations fall within the range of acceptable plans. They should be adopted. We also adopt the provision in the stipulations allowing us to supplement, modify, or supercede the stipulations when we issue the final order in this docket.

ORDER

IT IS ORDERED that:

1. The stipulation between the Commission Staff and Washington Water Power, filed November 19, 1998, and amended December 17, 1998, is adopted.

2. The stipulation between the Commission Staff and Cascade Natural Gas, filed December 1, 1998, and amended December 17, 1998, is adopted.

Made, entered, and effective ____________________________.

Ron Eachus
Chairman

Roger Hamilton
Commissioner

Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070. A party may appeal this order to a court pursuant to ORS 756.580.