

ITEM NO. 1A

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 16, 2009**

REGULAR X CONSENT _____ EFFECTIVE DATE July 1, 2009

DATE: June 10, 2009

TO: Public Utility Commission

FROM: Ken Zimmerman

THROUGH: Lee Sparling, Ed Busch, and Bonnie Tatom

SUBJECT: OREGON PUBLIC UTILITY COMMISSION STAFF:
(Docket No. UM 1286) Investigation into the Purchased Gas Adjustment
(PGA) Mechanism Used by Oregon's Three Local Distribution Companies.

STAFF RECOMMENDATION:

I recommend the Commission acknowledge by order the Natural Gas Portfolio Development Guidelines and the PGA Filing Guidelines agreed to by Avista Utilities (Avista), Cascade Natural Gas Corporation (Cascade), Northwest Natural Gas Company (NW Natural), Northwest Industrial Gas Users (NWIGU), and Staff.

DISCUSSION:

On November 21, 2006, the Public Utility Commission of Oregon opened this investigation to review and modify, as appropriate, the PGA mechanism used by Oregon's three Local Distribution Companies (LDCs)—NW Natural, Avista and Cascade. NWIGU participated actively in most phases of the docket. The Citizens' Utility Board (CUB) was also a participant in this process. Due to staffing changes/limitations and time constraints, CUB was unable to remain actively involved in the development of the guidelines. Upon review of the guidelines, however, Bob Jenks communicated that CUB has no objection to the guidelines.

The docket grew out of Staff's initial and informal PGA/gas supply portfolio guidelines development process. In its Staff Report dated November 14, 2006, Staff requested that the Commission open an investigation into the PGA used by Oregon's three LDCs. In the Staff Report, Staff proposed a list of 9 general issues to be addressed in the investigation, including: guidelines for implementing portfolio purchasing; guidelines for

hedging practices; the sharing of cost differences between the LDCs and their customers; and guidelines for documentation of purchasing decisions and practices.

The parties agreed to split this docket into two phases. In the first phase, the parties addressed the form of the PGA mechanisms, including any proposed incentive arrangements. That portion of the docket was closed by the Commission's Order No. 08-504.

In the second phase, the parties addressed guidelines for PGA filings and development of the gas supply portfolio upon which the PGA is based, and necessary and related documentation. Several additional workshops and teleconferences were held in 2008 and into 2009. The result of these meetings is the Natural Gas Portfolio Development Guidelines and the PGA Filing Guidelines attached to this memo. These guidelines represent the consensus of the parties, including CUB and NWIGU. They are a set of principles and procedures agreed to among the parties to help steer the LDCs in the preparation of their gas supply portfolios and the PGA filings and to aid Staff in its review of these portfolios and filings. The LDCs have agreed to apply these guidelines in the preparation of their PGA gas supply portfolios and annual PGA filings. These guidelines become effective July 1, 2009, and will be first applied for the 2009 PGA filings.

The parties also intend that the guidelines should be flexible so that modifications can be quickly and easily made to reflect changes in gas supply markets, LDC operations, natural gas demand, and other factors. Rigid guidelines are simply not feasible in today's volatile and uncertain utility, regulatory, and market settings. For these reasons, the parties, including Staff, recommend the Commission simply acknowledge these guidelines. Acknowledging rather than approving the guidelines would avoid additional and unnecessary hearings and greater encumbrance of the Commission's time to review and approve changes to the guidelines that reflect well known and documented changes in market conditions, LDC operations and demand, or gas contracting.

The term acknowledgement as used in this docket has the same meaning as that given to it by the Commission in Orders 07-002 and 89-507. In Order 07-002 the Commission noted,

As we stated in Order No. 89-507 and reiterate here, the Commission does not make ratemaking decisions in the IRP process. Acknowledgment of the company's plan means only that we consider it reasonable at the time of our decision. Acknowledgement would not allow the rate design option into effect. The utility would need to seek tariff approval to accomplish that, and in the review process we would consider the IRP

analysis and the Commission order on acknowledgment as evidence on whether the rate option is reasonable. (p. 16)

If the Commission acknowledges these guidelines it would mean only that the Commission finds them reasonable in their current form and with their current content. It also means these guidelines do not imply or impute any particular rate treatment by the Commission of costs LDCs propose for recovery in their annual PGA filings. LDC adherence to the guidelines would, however, be one factor the Commission would consider in its review and decision regarding the reasonableness of LDC gas costs and the pass through of these costs to customers.

PROPOSED COMMISSION MOTION:

Natural Gas Portfolio Development Guidelines and the PGA Filing Guidelines agreed to by Avista, Cascade, NW Natural, NWIGU and Staff, be acknowledged.

Natural Gas Portfolio Development Guidelines

I. Introduction

To the extent practicable, a natural gas utility (utility) should comply with these guidelines. However, the guidelines are not intended to restrict or hamper utility gas portfolio planning and procurement to the detriment of the utility's sales customers, and a utility is always expected to act in the best interests of its customers. These guidelines are not intended to be a static document and should be updated to meet the evolving needs of utility operational, financial, or demand circumstances, as well as changes to natural gas market conditions, contracting, and other market rules.

These guidelines are intended to be applied as drafted until altered by the unanimous agreement of the parties or by the Commission. Any party seeking changes to these guidelines must consult first with all other parties prior to proposing such changes to the Commission.

II. Definitions and Acronyms

1. Gas Year: Delivery period running November through October.
2. IRP: Integrated Resource Plan
3. LNG: Liquefied Natural Gas
4. PGA: Purchased Gas Adjustment

III. Portfolio Planning Guidelines

A. Portfolio Planning and the IRP

The IRP provides the framework for the portfolio planning process, and the portfolio planning process should build upon the IRP; this nexus includes both forecasting methodology and supply options. The gas supply process should begin with a strategic planning effort to provide a reliable supply and consider how best to balance the issues of price, flexibility, and diversity in the context of the utility's system and its customers' needs. The portfolio planning process should be regularly updated to capture changes in forecast load, available resources, and market conditions.

B. Quarterly Portfolio Planning Meetings

Each utility will meet with Staff quarterly during the year, unless more frequent meetings are requested by a utility or Staff. These meetings will be open to other interested parties, within the limits of confidentiality requirements of certain information and data to be discussed at the meetings. Notice of these meetings will be sent via email to the service

lists for each utility's most recent PGA filing. A protective order will be established to address any confidential information to be distributed at the quarterly meetings.

C. Portfolio Planning Process: General

The portfolio planning process should consider the following:

1. Expected monthly average core and peak load based on normal weather conditions. Development of the utility's load forecast should be based on the same methodology that was utilized in the utility's most recently acknowledged IRP or IRP update, while considering any changes to conditions since that time. Any differences in the methodology used to forecast load for gas portfolio development from that used in the IRP process should be identified and explained.
2. All reasonable supply-side and demand-side resources (physical and financial) available to meet each segment of a utility's forecast load.
3. Fundamental analysis.

D. Portfolio Planning: Physical Natural Gas

A physical natural gas portfolio should meet the following objectives:

1. The portfolio should include a sufficient number of nonaffiliated suppliers to ensure diversity of supply sources.
2. The utility's portfolio should include contracts of varying duration.
3. The utility's portfolio should include contracts entered into at various times throughout the gas year.
4. To the extent reasonable and feasible, the utility's portfolio should include contracts that allow the utility to vary its gas take and pricing requirements on a seasonal or monthly basis. Physical arrangements may also cover annual and multi-year periods.
5. The utility should be able to demonstrate that its gas supply portfolio is sufficiently flexible to meet reasonably expected weather, pipeline operations, gas supply shortage, system load reduction events, and market scenarios.
6. A utility should comply with its own minimum standards for creditworthiness and financial stability when evaluating counterparties in order to minimize the risk of counterparty failure or diminished performance.

E. Portfolio Planning: Financial Natural Gas

If the utility maintains a financial natural gas portfolio, that portfolio should meet the following objectives:

1. The portfolio should include a sufficient number of nonaffiliated counterparties to ensure diversity of counterparties.
2. The portfolio should include financial contracts covering both annual and seasonal periods. Financial arrangements may also cover multi-year periods. A utility should thoroughly evaluate qualitatively and, if possible, quantitatively, the use of multi-year financial arrangements in preparing its portfolio.
3. The portfolio should include financial arrangements for natural gas entered into at various times throughout the gas year.
4. When it is reasonable and feasible, no single financial transaction should cover more than 25% of the total annual volumes for the portfolio. Also, to the extent reasonable and feasible, multiple types of financial arrangements should be considered.
5. A utility's gas supply financial arrangements should be sufficiently flexible to meet reasonably expected weather, pipeline operations, gas supply shortage, system load reduction events, and market scenarios.
6. A utility should comply with its own minimum standards for creditworthiness and financial stability when evaluating counterparties in order to minimize the risk of counterparty failure or diminished performance.

F. Portfolio Planning: Contractual Arrangements

In developing its natural gas supply portfolio, a utility should consider at least the following:

- a. A wide range of physical and financial contracts and hedges based on market conditions, the utility's annual, seasonal, and peak demands; varying weather conditions; and other utility-specific conditions;
- b. Storage;
- c. Demand response programs;
- d. Coordinated purchasing with other companies;
- e. Natural gas exchange opportunities;
- f. Arrangements with third parties already on the utility system that have their own gas supply;
- g. Direct purchases from a non-utility LNG facility; and

h. Direct purchases from producers of natural gas.

PGA FILING GUIDELINES

I. Introduction

These guidelines are not intended to be a static document and should be updated to meet the evolving needs of utility operational, financial, or demand circumstances, as well as changes to natural gas market conditions, contracting, and other market rules.

These guidelines are intended to be applied as drafted until altered by the unanimous agreement of the parties or by the Commission. Any party seeking changes to these guidelines must consult first with all other parties prior to proposing such changes to the Commission.

II. Definitions and Acronyms

1. FOM: First of Month
2. Gas Year: Delivery period running November through October.
3. IRP: Integrated Resource Plan
4. LNG: Liquefied Natural Gas
5. NAESB: North American Energy Standards Board
6. PGA: Purchased Gas Adjustment
7. Spot Purchase: A physical purchase of natural gas for one month or less.
8. WACOG: Weighted Average Cost Of Gas
9. Annual Sales WACOG: the estimated Annual Sales Weighted Average Cost of Gas as defined in the utility's Purchased Gas Cost Adjustment Tariff

II. Assumptions

1. General Rate Development:

- a) *Deferrals and amortizations:* LDCs should use forecasted terms to develop rate increments associated with deferrals and amortizations.
- b) *Calculation and application of revenue sensitive costs:* When revenue sensitive costs are updated, the LDC should send in work papers to support revision. The LDCs should first determine the entire revenue requirement associated with the annual PGA and then apply the revenue sensitive calculation to the total. Allocation of revenue requirement totals into rate increments should be made after that point. Alternatively, the revenue requirement could be allocated to customer classes and then the total for each customer class could be grossed up. The rate increment would be calculated from the grossed up total.

- c) *Deferral accounts*: The revenue totals in the PGA Summary Sheet (see Appendix A) should tie directly to deferral account totals. Utility will provide 2 columns consisting of pre- and post-grossed up totals.
 - d) *Annual Sales WACOG*: The forward price curve used by the utility in its PGA filing for its Annual Sales WACOG should be based on the formula described in Order 08-504, at page 16-17.
2. **PGA Amortizations unrelated to gas distribution**: With its Spring Earnings filing, the company should provide Staff with a notice of “intent to request amortization effective November 1” for any deferral it intends to amortize in the PGA that requires a separate earnings test. Staff and the utility will confer to determine which deferrals require a separate earnings test; deferrals related to intervenor funding and independent evaluators do not. An exception to this will be granted if the LDC could not reasonably have known at the time of the Spring Earnings report it would be requesting amortization effective Nov. 1. The notice should include a completed (hard copy and electronic) Deferral Summary Worksheet. (For example, see Appendix B.) The LDC would be expected to submit an updated summary sheet and other necessary information when filing for amortization.
3. **Calculation of 3% Test**: The calculation for the 3% Test should conform to ORS 757.259(6), (i.e. total proposed amortization times the LDC’s gross revenues from the preceding year should not exceed 3%). Gross revenues is defined as all Oregon revenues including Other Revenues that are booked above the line. (First column of the ROO from the preceding year.) Preceding year is defined as preceding calendar year as submitted in the ROO provided for the spring earnings review.) The 3% consists of the total of all amortizations. If the total exceeds 3%, it will be dealt with on a case by case basis as provided by related statutes and regulation. See ORS 757.259(7).
4. Deferral Application (new or reauthorization) must be its own filing in compliance with ORS 757.259 and OAR 860-027-0300 and include:
- a. A completed (hard copy and electronic) Summary Sheet (see Appendix B), the location in the PGA filing of the back up work papers, and an account map that highlights the transfer of dollars from one account to another.
 - b. For reauthorizations:
 - i. The effective date of deferral
 - ii. Prior year Order Number approving the deferral;
 - iii. The amount deferred last year; and,
 - iv. The amount amortized last year.
 - v. For new applications and reauthorizations:

- vi. The effective date of deferral;
- vii. The interest rate that did or will apply to the accounts; and,
- viii. An estimate of the upcoming PGA-period deferral and/or amortization.

III. General Information and Forecasting

As part of its annual PGA filing the utility should include the following general information and data regarding its natural gas supply portfolio, including related transportation, upon which its PGA filing is based.

1. General Information

- a) Definitions of all major terms and acronyms in the data and information provided.
- b) Any significant new regulatory requirements identified by the utility that in the utility's judgment directly impacts the Oregon portfolio design, implementation, or assessment.
- c) All forecasts of demand, weather, etc. upon which the gas supply portfolio for the current PGA filing is based should be based on a methodology and data sources that are consistent with the most recently acknowledged IRP or IRP update for the utility. If the methodology and/or data sources are not consistent each difference should be identified, explained, and documented as part of the PGA filing workpapers.

2. Workpapers

Workpapers to the PGA should include:

- a) **PGA Summary Sheet:** Utilities should provide a PGA Summary Sheet. See Appendix A.
- b) **Gas Supply Portfolio and Related Transportation:** Utilities should provide the following information related to the gas supply portfolio and related transmission:
 - 1. General Information.
 - 2. Overview of portfolio planning process.
 - 3. LDC sales system demand forecasting.
 - 4. Natural gas price forecasts.
 - 5. Physical resources for the portfolio.
 - 6. Financial resources for the portfolio (derivatives instruments and other financial arrangements).
 - 7. Storage resources.

8. Forecasted annual and peak demand used in the current PGA portfolio, with and without programmatic and non-programmatic demand response, with explanation.
9. Forecasted annual and peak demand used in the current PGA portfolio, with and without effects from gas supply incentive mechanisms, with explanation.
10. Overview of portfolio documentation provided.

IV. Data and Analysis

As part of its annual PGA filing the LDC should include the following information and data regarding the PGA gas supply portfolio, including related transportation. Historical data requirements will go into effect over a three year period, beginning with the 2009 PGA filing. During the first year the guidelines are in effect, historical data for three years should be provided, adding one additional historical data year for each of the subsequent two years, for a total of five years.

1. Physical Gas Supply

- a) For each physical natural gas supply resource that is included in a utility's portfolio (*except spot purchases*) upon which the current PGA is based, the utility should provide the following:
 1. Pricing for the resource, including the commodity price and, if relevant, reservation charges.
 2. For new transactions and contracts with pricing provisions entered into since the last PGA: competitive bidding process for the resource. This should include number of bidders, bid prices, utility decision criteria in selecting a "winning" bid, and any special pricing or delivery provisions negotiated as part of the bidding process.
 3. Brief explanation of each contract's role within the portfolio.
- b) For purchases of physical natural gas supply resource *from the spot natural gas market* included in the portfolio at the time of the filing of the current PGA or after that filing, the utility should provide the following:
 1. An explanation of the utility's spot purchasing guidelines, the data/information generally reviewed and analyzed in making spot purchases, and the general process through which such purchases are completed by the utility.
 2. Any contract provisions that materially deviate from the standard NAESB contract.

2. Hedging

The utility should clearly identify by type, contract, counterparty, and pricing point both the total cost and the cost per volume unit of each financial hedge included in its portfolio.

3. **Load Forecasting:**
 - a) Customer count and revenue by month and class.
 - b) Historical (five years) and forecasted (one year ahead) sales system physical peak demand.
 - c) Historical (five years), and forecasted (one year ahead) sales system physical annual demand.
 - d) Historical (five years), and forecasted (one year ahead) sales system physical demand for each of following,
 1. Annual for each customer class.
 2. Annual and monthly baseload.
 3. Annual and monthly non-baseload.
 4. Annual and monthly for the geographic regions utilized by each LDC in its most recent IRP or IRP update.
2. **Market information:** General historical and forecasted (one year ahead) conditions in the national and regional physical and financial natural gas purchase markets. This should include descriptions of each major supply point from which the LDC physically purchases and the major factors affecting supply, prices, and liquidity at those points.
3. **Data Interpretation:** If not included in the PGA filing please explain the major aspects of the LDC's analysis and interpretation of the data and information described in (1) and (2) above, the most important conclusions resulting from that analysis and interpretation, and the application of these conclusions in the development of the current PGA portfolio.
4. **Credit worthiness standards:** A copy of the Board or officer approved credit worthiness standards in place for the period in which the current gas supply portfolio was developed, along with full documentation for these standards. Also, a copy of the credit worthiness standards actually applied in the purchase of physical gas and entering into financial hedges. If the two are one and the same, please indicate so.
5. **Storage:**

Workpapers should include the following information about natural gas storage included in the portfolio upon which that PGA is based.

 - a) Type of storage (e.g., depleted field, salt dome).
 - b) Location of each storage facility.

- c) Total level of storage in terms of deliverability and capacity held during the gas year.
- d) Historical (five years) gas supply delivered to storage, both annual total and by month.
- e) Historical (five years) gas supply withdrawn from storage, both annual total and by month.
- f) An explanation of the methodology utilized by the LDC to price storage injections and withdrawals, as well as the total and average (per unit) cost of storage gas.
- g) Copies of all contracts or other agreements and tariffs that control the LDC's use of the storage facilities included in the current portfolio.
- h) For LDCs that own and operate storage:
 - a. The date and results of the last engineering study for that storage.
 - b. a description of any significant changes in physical or operational parameters of the storage facility (including LNG) since the current engineering study was completed.

Attachment A

LDC Name: _____

PGA Summary Sheet

	Amount	Location in Company Filing (cite)
1) Change in Annual Revenues (Per OAR 860-022-0017(3)(a))		
A) Dollars (<i>To .1 million</i>)		
B) Percent (<i>To .1 percent</i>)		
2) Annual Revenues Calculation (<i>Whole Dollars</i>)		
A) PGA Cost Change (<i>Commodity & Transportation</i>)		
B) Remove Last Year's Temporary Increment Total		
C) Add New Temporary Increment		
D) Other Additions or Subtractions (<i>Break out & List each below -- Attach additional sheet if necessary</i>)		
1) Per Commission Approved Stipulation in Docket UG-153, Order No. 03-570		
2)		
E) Total Proposed Change		
3) Residential Bill Effects Summary		
A) Residential Schedule Rate Impacts		
1) Current Billing Rate per Therm		
2) Proposed Billing Rate per Therm		
3) Rate Change Per Therm		

Attachment A

4) Percent Change per Therm (to .1%)		
B) Average Residential Bill Impact (forecasted weather-normalized annual)		
1) Average Residential Monthly Use		
2) Customer Charge		
3) Current Average Monthly Bill		
4) Proposed Average Monthly Bill		
5) Change in Average Monthly Bill		
6) Percent change in Average Monthly Bill (to .1%)		
C) Average January Residential Bill Impact		
1) Average January 2008 Residential Use (forecasted weather-normalized)		
2) Customer Charge		
3) Current Average January Bill		
4) Proposed Average January Bill		
5) Change in Average January Bill		
6) Percent change in Average January Bill (to .1%)		
4) Breakdown of Costs		
A) Embedded in Rates		
1) Total Commodity Cost		
a) Total Demand Cost (assoc. w/ supply)		
b) Total Peaking Cost (assoc. w/ supply)		
c) Total Reservation Cost (assoc. w/ supply)		
d) Total Volumetric Cost (assoc. w/ supply)		
e) Total Storage Cost (assoc. w/ supply)		

Attachment A

f) Other (A&G Benchmark Savings)		
2) Total Transportation Cost (<i>Pipeline related</i>)		
a) Total Upstream Canadian Toll		
i. Total Demand, Capacity, or Reservation Cost		
ii. Total Volumetric Cost		
b) Total Domestic Cost		
i. Total Demand, Capacity, or Reservation Cost		
ii. Total Volumetric Cost		
3) Total Storage Costs		
4) Capacity Release Credits		
5) Total Gas Costs		

Attachment A

LDC Name: _____
 PGA Summary Sheet

	Amount	Location in Company Filing (cite)
B) Projected For New Rates		
1) Total Commodity Cost		
a) Total Demand Cost (assoc. w/ supply)		
b) Total Peaking Cost (assoc. w/ supply)		
c) Total Reservation Cost (assoc. w/ supply)		
d) Total Vaporization Cost (assoc. w/ supply)		
e) Total Volumetric Cost (assoc. w/ supply)		
f) Total Storage Cost (assoc. w/ supply)		
g) Other (A&G Benchmark Savings)		
2) Total Transportation Cost (<i>Pipeline related</i>)		
a) Total Upstream Canadian Toll		
i. Total Demand, Capacity, or Reservation Cost		
ii. Total Volumetric Cost		
b) Total Domestic Cost		
i. Total Demand, Capacity, or Reservation Cost		
ii. Total Volumetric Cost		
3) Total Storage Costs		
4) Capacity Release Credits		
5) Total Gas Costs		

Attachment A

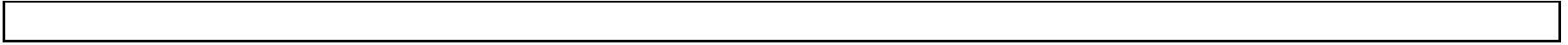
5) WACOG (Weighted Average Cost of Gas)		
A) Embedded in Rates		
1) WACOG (Commodity Only) a. With revenue sensitive b. Without revenue sensitive		
2) WACOG (Non-Commodity) a. With revenue sensitive b. Without revenue sensitive		
B) Proposed for New Rates		
1) WACOG (Commodity Only) a. With revenue sensitive a. Without revenue sensitive		
2) WACOG (Non-Commodity) a. With revenue sensitive b. Without revenue sensitive		
6) Therms Sold		

Attachment A

LDC Name: _____
 PGA Summary Sheet

8) Purchasing/ Hedging Strategies Prepare 1-2 page summary of gas cost situation to include resources, purchasing strategy, hedging, and pipeline issues. Within the summary include:	
A) Resources embedded in current rates and an explanation of proposed resources.	
1) Firm Pipeline Capacity	
a) Year-round supply contracts	N/A
b) Winter-only contracts	N/A
c) Reliance on Spot Gas/Other Short Term Contracts	N/A
d) Other - e.g. Supply area storage	N/A
2) Market Area Storage	
a) Underground-owned	N/A
b) Underground- contracted	N/A
c) LNG-owned	N/A
d) LNG-contracted	N/A
3) Other Resources	
a) Recallable Supply	N/A
b) City gate Deliveries	N/A
c) Owned-Production	N/A
d) Propane/Air	N/A

Attachment A



Hedging Strategy is part of the company's risk management policy that has been previously supplied to staff.

