

The Oregonian

NW Natural will seek up to 40 percent residential rate increase

Soaring commodity prices push the utility to ask regulators whether it can pass increases on to ratepayers this fall

Wednesday, July 16, 2008

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Already struggling with rising prices on almost every front, Northwest consumers should brace themselves this winter for some of the largest increases in natural gas rates in memory.

Northwest Natural Gas Co. -- the region's largest gas utility, with 655,000 customers in Oregon and southwest Washington -- expects this fall to ask regulators to approve a residential rate increase of as much as 35 percent to 40 percent, effective Nov. 1.

Avista Corp., which serves customers in southern Oregon, expects to seek a 10 percent to 15 percent rate increase, and Cascade Natural Gas Corp. said its central Oregon customers could see rates go 15 percent to 20 percent higher than a year ago.

In Oregon, regulated utilities, faced with soaring commodity prices, can pass supply cost increases directly to ratepayers.

The increases will hurt most for low-income customers, who may be forced to choose between heating their home and eating this winter, said Jim Abrahamson of the Oregon Energy Partnership, which works with low-income customers to assure affordable energy.

But for consumers at every income level feeling the inflationary pinch of higher food and gas prices, the rate increases will hurt across the board.

Michael Evans, 48, who rents a 1,000-square-foot house in Oregon City with his 21-year-old son, pays about \$90 a month in gas costs in the winter months. If his bill rose 35 percent, it would bump up to more than \$120 a month, which Evans calls "steep."

"People are getting hit by so many things right now -- gas, food, now this," said Evans, a building maintenance worker at Oregon Health & Science University. "It puts a pinch on you, and you don't have a choice but to pay it. You have to do what you have to do."

A typical NW Natural customer pays about \$74 a month for gas averaged out over the year but faces much higher bills in winter months. The projected increases would push that average over \$100.

Currently, about two-thirds of a customer's gas bill is made up of the commodity cost for fuel. The utility makes no markup on the gas, simply passing through its cost to consumers. At this point, utilities say, the short-term spot price of gas on the wholesale market is anywhere from 50 percent to 100 percent higher than it was in November. Utilities don't buy much gas on the spot market, but their contract prices are still much higher than the level used last year to set rates.

The causes of those increases include higher oil prices, robust demand for natural gas for electricity generation, the declining U.S. dollar, and more competition for gas supplies that have traditionally served West Coast markets as a result of new pipelines serving East Coast markets.

Hedge strategies differ

NW Natural's estimated rate increase -- the biggest since the utility started keeping records three decades

ago -- is larger than those projected Tuesday by Cascade Natural Gas Corp. and Avista Corp. because it has the lowest average weighted cost of gas among the three, so its percentage increase under prevailing market prices will be larger. Each of the three utilities also pursues a different strategy to hedge the price of its gas supply.

Randy Friedman, NW Natural's director of gas supply, said the company doesn't use as many multiyear contracts as its competitors, leaving it more exposed to market volatility. That worked well for NW Natural last year, when gas prices were low, but its customers will be penalized in 2009.

Avista and Cascade also are masking some of the commodity price increases because they will be flowing through refunds to customers next year.

NW Natural has locked in about 50 percent of next year's gas supply, and it still hopes that prices will come down.

"We'll be on pins and needles until we get to the September time frame," Friedman said.

Lee Beyer, chairman of the Oregon Public Utility Commission, described the utilities' forecasts as sobering and urged consumers to start thinking early about how they can use less gas this winter.

Low-cost measures to conserve energy include tightening up loose doors and windows with weatherstripping, turning down or insulating water heaters, insulating pipes, and installing water-conserving shower heads. Consumers can also consider investing in energy-efficient appliances, some of which earn tax credits from the Energy Trust of Oregon.

LNG hopes

Utilities and industrial gas users wasted no time Tuesday in using the projected rise in gas prices to lobby in favor of controversial proposals to bring more natural gas to the state, either through new pipelines or through liquefied natural gas terminals proposed for the Columbia River and Coos Bay.

Gregg Kantor, president of NW Natural, said the utility hopes someday to buy as much as 25 percent of its gas supply from an LNG terminal on the Columbia River.

"Access to multiple supplies is the best solution to holding down energy prices," Kantor said.

The company has a major gas storage operation near the proposed Bradwood Landing terminal and hopes to build a pipeline to transport gas from the terminal into the Willamette Valley and central Oregon. So the company has a financial interest in seeing the terminal built.

It's far from assured that an LNG terminal would significantly lower the price of gas in the Northwest. LNG importers are price takers, not price makers, meaning they generally price imported gas near prevailing market rates and don't strive to be low-cost suppliers. This year, natural gas prices in Asia have run as high as double the prevailing U.S. price, so producers have diverted cargoes to the higher-priced markets -- a contributing factor to tight U.S. supplies.

Backers of the LNG project believe that new supplies of LNG coming on line in the next five years would dampen LNG prices and allow imported gas to temper prices in the United States as domestic and Canadian gas supplies tighten.

Opponents think that day is a long way off. They believe the region can satisfy its gas needs more cheaply and with less environmental impact by importing more gas from the Rockies and eastern British Columbia, conserving energy supplies and building more renewable energy sources such as wind farms and solar.

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