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June 14, 2019

VIA ELECTRONIC FILING

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive, SW
Post Office Box 47250
Olympia, Washington 98504-7250

Re: UG-170003—NW Natural Comments on Natural Gas Cost of Service Generic Proceeding Informal Draft Rules

Dear Mr. Johnson:

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), submits the following comments in response to the Washington Utility and Transportation Commission's ("Commission") Notice of Opportunity to Comment ("Notice"), issued April 25, 2019, and revised May 6, 2019, in Docket No. UG-170003, a Generic Proceeding into natural gas cost of service rulemaking.

The Commission requested utilities provide feedback on the Draft Cost of Service Rules (Chapter WAC 480-07). NW Natural appreciates the opportunity to comment on the draft rules. The Company's comments are largely focused on WAC 480-xxx-060 (1) of the Draft Cost of Service Rules. This section, as proposed, is as follows:

WAC 480-xxx-060 (1). *The rate schedule usage data for any cost of service study must come from one of the following sources, which are ranked from most to least preferred: advanced metering infrastructure; special contracts; or, a load study.*

WAC 480-xxx-060 (1) Comments:

NW Natural does not have advanced metering infrastructure (AMI) deployed in such a way that can generate an appropriately sampled load study of its residential and small commercial customer classes on a daily basis as defined in draft rule WAC 480-xxx-030 (4).

Rolling out AMI necessary for a daily sampled study of natural gas load across the Company's Washington territory would place undue cost burdens on its customers. Those costs would be associated with administering, implementing, and deploying the

AMI units. The Company would seek a tracker to ensure full cost recovery for the AMI system and the load study requirements at its Commission-approved rate of return.[1]

The National Association of Regulatory Utility Commissioners ("NARUC") Gas Distribution Rate Design Manual discusses the complexity of selecting and administering a sampled load study that accurately represents all customer classes and schedules within a utility's service territory:

> *The selection process must result in a valid statistical sample. Ultimately, there must be selected a representative cross-section of customers willing to cooperate in the test-metering program, sufficiently large in number to be statistically significant. About three times the number of customers for which tests are needed must be initially selected. Factors such as examination of the types of customers produced by the random selection to assure that they are representative; field inspection of premises to determine type of premises; connected load and number of people who live or work on the premises; and unwillingness or inability of a customer to cooperate, all must eventually be tested. A considerable expenditure of time and manpower is needed to complete the process.*[2]

In addition to the setup time necessary to conduct the load study, the Company notes that data would need to be collected for a period of several years before any meaningful results could be derived. A 12-month study period would be subject to biases introduced by a heating season that is above- or below-normal temperature, a new phase in the business cycle such as the beginning of a recession, as well as other exogenous factors.

Further, the Company agrees with Cascade Natural Gas that any rules addressing a load study are not necessary.[3] NW Natural already conducts studies of natural gas load on its system attributable to all customer classes as part of the bi-annual Integrated Resource Plan (IRP) process. These Commission-approved studies are relied upon for the Company's long-term system resource planning. We feel that it is appropriate to keep consistent methodology to produce both the cost of service study class demand determinants, as well as the approved IRP daily system load and peak day load models.

The Company respectfully requests that WAC 480-xxx-060 (1) of the Cost of Service Draft Rules be amended to include a "load forecast" as a valid data source for cost of service studies. A load forecast, as the Company defines it here, is an econometric analysis that estimates the relationship between heating degree days and therm usage.

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[1] Cost elements for the load study will likely include, but not be limited to: Consulting fees for study development, sample size, geographic dispersion and analysis of results; metering equipment, data collection, IT/cellular and programing; field workforce labor and vehicle costs for installations; administrative costs associated with customer outreach.
[2] NARUC Staff Subcommittee on Gas. "Gas Distribution Rate Design Manual," June 1989, page 30.
[3] Cascade Natural Gas Corporation Comments Ref: Docket No. UG-170003, May 31, 2018, at Section II (A).

It builds a daily weather normalized use-per-customer load shape by rate schedule based on average observed temperatures. Load forecasts have been a long-standing practice of natural gas utilities, and their reasonableness at understanding the relationship between observed temperature and customer load have been described by NARUC as such:

> *However, since system peaks in the gas industry are highly weather sensitive, a fairly reliable correlation between temperature versus gas consumption can be developed from utility records. By applying a least square fit to average degree day and use per day data for each customer group, one can calculate with reasonable accuracy the demands to be placed on the system.*[4]

NW Natural's Cost of Service Study model, in addition to its Revenue Requirements model and Decoupling Mechanism proposal, relied on such a load forecast to weather normalize customer usage by rate schedule in the Company's UG-181053 general rate case filing. Such a study also underpins the Company's annual Purchased Gas Adjustment (PGA) forecast.

The Company maintains that its load forecast methods are appropriate for a cost of service study. It is based on billing records at a cycle level, which can be tied to the Company's financial reports. It is also based on all customer gas usage across any desired time period. The load forecast, already produced annually by the Company, has been employed in its last several Washington general rate cases. It requires no incremental customer costs to produce.[5]

Conversely, a sampled load study is only based on a portion of customer gas usage, and, therefore, must be carefully designed and implemented. It could take years to produce meaningful results from a load study, with a timeline that would require: sample design, field implementation, customer outreach, testing, and data collection of at a minimum one year. If the final rules indicate that a load forecast is an invalid input for a cost of service model, the Company may be unable to include a cost of service study in future rate cases.

For the reasons discussed above, the Company proposes the WAC 480-xxx-060 (1) language be revised as such (in blue):

WAC 480-xxx-060 (1). *The rate schedule usage data for any cost of service study must come from one of the following sources, which are ranked from most to least preferred: An econometric load forecast consistent with the Company's annual Purchase Gas*

[4] NARUC Staff Subcommittee on Gas. "Gas Distribution Rate Design Manual," June 1989, pages 28-29.
[5] For further description of the Company's load forecast model, as well as an analysis of its forecast accuracy, please refer to UG-181053 WUTC Data Requests 32, 33, and 36, the textual responses of which are attached to this document as "UG-170003-NWN-WUTC-Load-Forecast-DRs-Textual-06-14-19."

Adjustment (PGA) filing and/or its biennial Integrated Resource Plan (IRP) filing; advanced metering infrastructure; special contracts; or, a load study.

Natural Gas Scenarios:

Per a phone conversation with Staff, the Company has attached the summary of its latest Cost of Service Study results with parity ratios, filed in UG-181053. NW Natural has used outside consultants to produce its cost of service studies since at least 2003 and therefore does not have access to a model with which to run its own scenarios. The proposed revenue to cost parity ratios found in the attachment were produced using a distribution mains peak and average demand allocator. Separate allocators were used for distribution mains of less than and equal to or greater than four inches in diameter.[6] Application of this mains allocator on current rates had the effect of bringing all rate schedules closer to revenue parity, as shown in the attachment.

NW Natural appreciates the opportunity to comment in this docket. Please contact Kyle Walker at (503) 226-4211, extension 5858, if you have questions regarding our comments.

Sincerely,

/s/ Zachary Kravitz

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Attachments:
UG-170003-NWN-WUTC-Load-Forecast-DRs-Textual-06-14-19
UG-170003-NWN-WUTC-Summary-of-Parities-06-14-19
UG-170003-NWN-WUTC-UG181053-Dist-Mains-Alloc-06-14-19

[6] For a more detailed description of the Company's distribution mains allocation, please refer to UG-181053-NWN-Exh-RJA-1T-12-31-2018, page 20 at line 7. This page of testimony is attached to these comments as "UG-170003-NWN-WUTC-UG181053 Dist-Mains-Alloc-06-14-19."