

Re: Rulemaking to Review Natural Gas Decoupling  
Docket No. UG-050369

**June 10, 2005**

NW Natural offers the following comments to assist Staff in their rulemaking.

- 1. Please specifically address which elements of Cascade’s proposal you or your organization support or oppose and explain why.**

NWN Response:

We have not reviewed Cascade’s proposed mechanism to determine if it fully addresses those elements of a decoupling mechanism that NW Natural finds most important. In developing our proposals in Oregon and Washington we followed three principles. Those principles are: (1.) severing the relationship between sales and revenues; (2.) eliminate the disincentive to promote conservation – putting us on the same side as the customers; and (3.) buy-in of the participating parties.

- 2. Any specific changes to the Cascade methodology that would make it work better in terms of our organization’s interests and objectives.**

NWN Response:

At the present time, the company is unable to identify any specific changes that would allow it to work better in terms of our interests and objectives. However, there are concerns pertaining to potential billing issues – Cascade acknowledged that their system can handle the proposed methodology, but there is uncertainty regarding errors and how they would flow through a utility’s billing system, as well as the marketing ethos necessary for the program to be embraced by the public.

- 3. In particular, staff is interested in any comments comparing the Northwest Natural mechanism with the Cascade proposal.**

NWN Response:

In its current form, our decoupling mechanism is significantly different from the one proposed by Cascade. The three fundamental differences between the two methodologies revolve around: (1) weather risk, (2) the calculation of “delivery billing units,” and (3) the way in which over/under-recovery of margin is administered.

Cascade’s proposed approach handles weather risk endogenously and eliminates it altogether. NWN’s decoupling program, as a stand-alone mechanism, does not reduce or eliminate weather risk. The company’s WARM mechanism, implemented after the inception of decoupling reduces weather risk for both the company and its customers.

While Cascade proposes to update customers’ delivery billing units annually, NWN currently utilizes use-per-customer coefficients, by rate schedule, that were established in its last

general rate case. Cascade's approach looks to capture annual adjustments that customers make. On the other hand, NWN is not allowed to adjust its coefficients outside of a general rate case.

The recovery of margin in Cascade's proposed methodology would be done on a real-time basis by tracking the annual changes in total delivery billing units, but the average margin per customer per rate schedule would remain constant. NWN's decoupling mechanism tracks the change in usage in real-time as well. However, usage changes due to conservation or increased load behind the meter are accrued in a deferral account, and are not reflected in customers' rates until the following PGA. Those volumetric changes due to weather are reflected in customers' rates on a real-time basis, but are accomplished through the company's WARM mechanism.

Finally, NWN's current methodology allows it to only defer 90% of the usage deviations that are non-weather related. This element exposes the company to 10% of the price elasticity effects and general usage fluctuations that occur. The removal of this 10% factor, allowing NWN to recover 100% of the deferrals, would further reduce the disincentive to promote conservation.

- 4. Any decoupling model that your or your organization believes should be considered as an alternative to the Cascade and Northwest Natural models. Please explain why you believe such an alternative model would be preferable in general, or with specific reference to the objectives of your organization.**

NWN Response:

Based on the findings of the independent evaluation of our decoupling mechanism as well as varying opinions within NWN, there is a better mechanism that should be further investigated.

Northwest Natural's decoupling mechanisms produces similar financial results as would be produced by straight fixed variable pricing, but preserves the price signal that is currently sent by collecting fixed costs through volumetric rates.

While needlessly complex, Northwest Natural's Oregon decoupling and WARM mechanisms taken together accomplish this price signal objective and at the same time provide a substantial contribution toward the company being able to receive the level of revenue per customer determined in its last rate case. They also address the problems resulting from basing of rates coming out of a rate case on a too-warm normal weather measure.

The leading alternative is Revenue-Per-Customer Decoupling (RPCD) with real time adjustments and deferral accounting, with statistical opt-outs. This would use a combination of real time adjustments to customers' bills for weather with an annual true-up to revenue requirement per-customer target. Customers whose usage is unrelated to weather would be excluded from real time weather adjustments. RPCD reduces company risk by keeping the company whole in terms of fixed cost recovery, and, as with any full fixed-cost recovery mechanism, it eliminates the disincentive for the company to promote energy conservation. It should be noted that NWN proposed implementation of RPCD in Washington in the context of its most recently settled general rate case. At the time it was removed for settlement purposes, but the company continues to support further discussion of decoupling with the WUTC.

- 5. Identify and rank the interests and/or objectives that need to be addressed and satisfied before you or your organization could support a natural gas decoupling methodology.**

**Please state with respect to each interest or objective whether it is “must have,” “would like to have,” or “would be nice to have.”**

NWN Response:

The following interests need to be addressed in order for NWN to be in position to support a natural gas decoupling methodology.

**Must Have:**

Decoupling mechanism must be tied to normal weather measures used in the rate cases in order to eliminate the gains from gaming rate case normal weather measures.