

**BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION  
COMMISSION**

Rulemaking to Review Natural Gas  
Decoupling

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SECOND COMMENTS OF PUBLIC  
COUNSEL

**PUBLIC COUNSEL’S COMMENTS REGARDING GAS DECOUPLING**

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As stated in our previous comments decoupling revenues from sales volumes has two primary purposes. Decoupling reduces risks and associated capital costs for the utility allowing the benefits to be passed on to ratepayers. Second, by eliminating the disincentives for utility investment in Demand Side Management (“DSM”) that result when profits are linked to sales volumes, energy efficiency efforts can be advanced.

Public Counsel is concerned with workshop participants’ attraction to simple decoupling mechanisms. Public Counsel believes simpler mechanisms will have adverse consequences for ratepayers. Simpler mechanisms will fail to take into account the complex factors influencing gas consumption and they will have unintended consequences as a result of the blunt nature of the rate design for recovery of lost margin. Conversely, a complex mechanism needs considerable precision in its creation and effort in its ongoing maintenance in order to function properly.

Adopting a complex mechanism solely to reduce the disincentive to DSM may not be the best way to achieve DSM goals. If the purpose of this rulemaking is simply to allow DSM to flourish, there may be other, more direct mechanisms that should be considered as alternatives to

gas decoupling. A rulemaking on gas decoupling could preclude these alternatives, eliminating the opportunity for the Commission to compare them. These other alternatives, if compared to gas decoupling, may be far simpler and avoid adverse consequences to the ratepayer. For instance, one of the accomplishments touted from NW Natural's decoupling mechanism is the ratepayer funding of the Energy Trust of Oregon. It is possible to create this type of funding in Washington without implementing decoupling. Simple decoupling mechanisms that create unintended consequences are not simpler than more direct programs.

If on the other hand the goal of decoupling is to reduce risks and associated capital costs for the utility so the benefits can be passed on to ratepayers, a gas decoupling rulemaking is the one of the correct proceedings for considering the possibility of such a mechanism. Workshop participants provided scant recognition and agreement of this as the appropriate policy goal of a decoupling rulemaking. Furthermore, Public Counsel is skeptical a mechanism can be properly specified to achieve delivered benefits to ratepayers in its function. If this rulemaking is to proceed, a much greater effort on the part of gas decoupling proponents will need to be made and clear analysis of the decoupling mechanism will need to take place in order to demonstrate the benefits to ratepayers.

The complexity but necessity of a weather adjustment mechanism is an example of an issue proponents will need to examine. The effect of weather induced fluctuation in gas demand is an order of magnitude higher than the effect DSM has on a utility's ability to timely recover its margin. In order to achieve the reduction in risk that results in cost reductions through a change in capital structure, it will be necessary (at a minimum) to examine an explicit weather adjusted decoupling mechanism. To date gas decoupling proponents have shown little interest in this complex task. For Public Counsel this is an important predicate to serious gas decoupling rulemaking. While levels of effort can change, the exploration of whether there is a functional

decoupling mechanism that can deliver benefits to ratepayers can not proceed until there is a recognition and agreement on the goal of providing benefits to the ratepayer for the reduction in the utilities capital costs. As Public Counsel has stated before, a direct benefit to the ratepayer is an essential element of any gas decoupling proposal and for any gas decoupling proposal to meet the public interest standard it must include a demonstration of its ability to quantify and achieve this benefit.