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April 5, 2019

NWN WUTC Advice No. 19-02

VIA ELECTRONIC FILING

Mark L. Johnson, Executive Director and Secretary
 Washington Utilities and Transportation Commission
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 P.O. Box 47250
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 UTIL. AND TRANSP.
 COMMISSION

Re: Schedule 250—Monthly Incremental Cost of Gas

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith the following revisions to its Tariff WN U-6, stated to become effective with service on and after **November 1, 2019**:

Second Revision of Sheet 250-1	Schedule 250	Monthly Incremental Cost of Gas
Original Sheet 250-2	Schedule 250	Monthly Incremental Cost of Gas (continued)

Purpose

The purpose of this filing is to revise the calculation of the Monthly Incremental Cost of Gas (MICO) to better reflect the Pacific Northwest gas market available to non-residential customers that switch from transportation service to sales service outside of the Annual Service Election Period (referred to as Out-of-Cycle Transfers) or that are sales service customers that have selected the Winter Weighted Average Cost of Gas (WACOG) commodity option.¹

The proposed effective date is November 1, 2019, to avoid affecting customers who are currently paying MICO under the elections they made previously under the old definition. By making this filing now, the applicable customers will have ample time to evaluate whether they still want to elect to pay MICO under the new definition for the next contracting period that starts November 1, which requires an election by the end of July.

The Company respectfully requests approval of this filing by May 10, 2019. Approval in this timeframe will enable the Company to notify customers of this change and to

¹ For details about these options, see sections “Annual Service Election – July 31 Election for November 1 Service” and “Out-of-Cycle Transfers for Certain Service Types” in Schedules 41 and 42.

provide information and assistance to customers making their annual elections by July 31, 2019. Consistent with current practice, NW Natural's Major Account Services Team will hold its annual meetings with customers in May and distribute letters and communications to these customers in June in anticipation of the July 31, 2019 election date. If the proposal in this filing is approved, the Company will include additional information about these changes in the communications and interactions with customers that will occur in May and June.

Background

Schedule 250 Monthly Incremental Cost of Gas, first approved in 2006, establishes the calculation of MICOG.² MICOG represents the Company's incremental gas supply costs incurred to accommodate Out-of-Cycle Transfers as well as sales customers that have selected the Winter WACOG commodity option. MICOG is necessary to accommodate Out-of-Cycle Transfers and the Winter WACOG commodity option and mitigate the risk and potential for increased costs to all sales customers.

Since 2006, the Company's MICOG methodology has included using the calendar one-month spot price average for AECO/NIT transactions, i.e., gas purchased in Alberta, as published in the Canadian Gas Price Reporter Natural Gas Market Report in US dollars per million British thermal units (the AECO Index) during the Billing Month. In 2006, Alberta monthly gas purchase prices had been moving in tandem with prices in the US Rockies and from British Columbia at the Sumas border point. Since that time, the dynamics of the natural gas commodity market in the Pacific Northwest have evolved, and there have been the occasional large variations between Alberta, the US Rockies, and Sumas pricing. Until recently, such variations did not change the usage of the AECO Index as the MICOG. In recent years and to a greater extent in recent months, however, the regional dynamics have changed noticeably and now dramatically, to the point that Alberta gas is priced so favorably that it is no longer available as the Company's incremental source of gas purchases (see the chart below).

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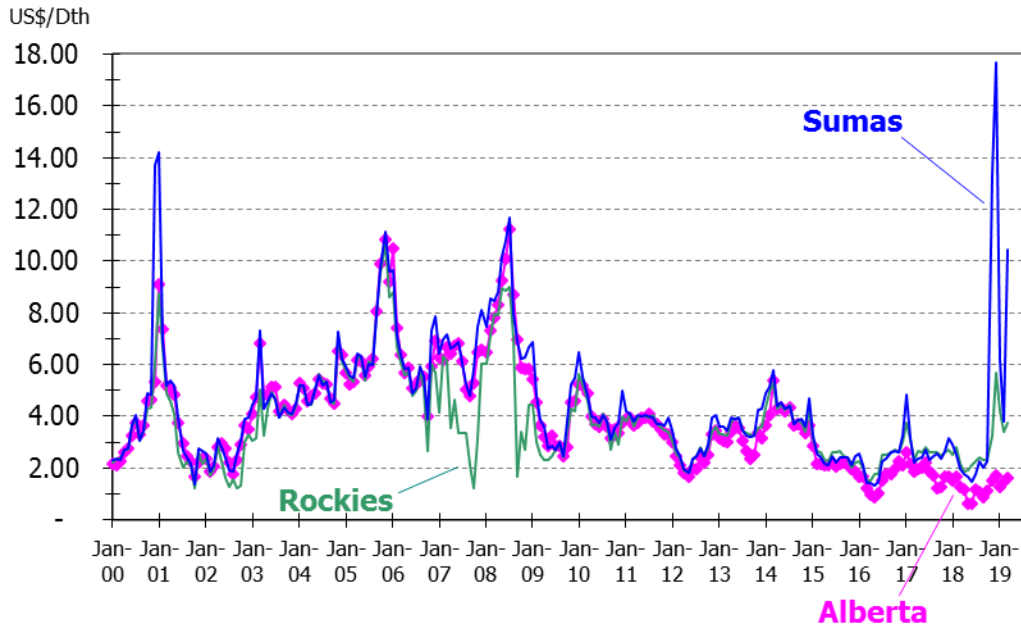
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² Northwest Natural Gas Company, dba NW Natural, Advice No. WUTC 06-04A, Comprehensive Tariff Changes: Schedule 3, 41, 42, 43, Docket No. UG-061186 (Aug. 8, 2006).

Monthly Index Prices in the Pacific Northwest



To reflect this trend and the fact that the Company's source of incremental gas purchases is not static, NW Natural proposes to adjust the MICO method to take into account additional market indices in the region.

Proposed Changes

The Company proposes to modify the MICO calculation to include the consideration of supplies in British Columbia and the US Rockies in addition to the supply in Alberta that is used in the current methodology. Currently, the MICO reflects the AECO Index, adjusted for relevant fuel-in-kind, line loss charges and pipeline variable transportation charges, to derive an equivalent city gate price. In this filing, NW Natural proposes to follow this same methodology for supplies in British Columbia and the US Rockies, using the Sumas Index and Rockies Index, respectively, to derive equivalent city gate prices for those hubs. The resulting three equivalent city gate prices for AECO, Sumas and US Rockies then would be compared among each other, and the MICO would be calculated as the average of the highest two of those three prices. The two highest prices are used because the lowest of the three prices is assumed to represent baseload supply, which would not be used for MICO supply. In addition, it is appropriate to use an average of the two highest prices because use of the middle price alone may not reflect the entire portfolio from which MICO supply would come, and use of the highest price alone may result in using a price stack that would not be realized.

As shown in the chart above, the three indices have grown increasingly diverse within the last year. Taking into account all of the indices will help alleviate the risk of setting the MICO below what is prevailing in the regional market. The proposed tariff change better reflects the diversity of the economics of available supply in the Pacific Northwest

region, thereby providing additional protection against potential increased costs to all sales customers.

The Company respectfully requests that the tariff sheets filed herein be approved by May 10, 2019, to become effective with service on and after November 1, 2019.

As requested by WAC 480-80-103(4)(a), I certify that I have authority to issue tariff revisions on behalf of NW Natural

Please address correspondence on this matter to me with copies to the following:

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Sincerely,

NW NATURAL

/s/ Natasha Siores

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Attachments:

NEW-NWN-WUTC-Advice-19-02-Trf-Sheet-250-1-04-03-2019
NEW-NWN-WUTC-Advice-19-02-Trf-Sheet-250-2-04-03-2019