

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

NORTHWEST NATURAL GAS  
COMPANY d/b/a NW NATURAL,

Respondent.

DOCKET UG-181053

**POST-HEARING BRIEF ON DECOUPLING  
ON BEHALF OF COMMISSION STAFF**

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## I. INTRODUCTION

1 In this case, the decoupling program that all of the parties save one support, represents a time-tested design that will support conservation and revenue sufficiency for the benefit of the utility and its customers. The parties that jointly propose the decoupling mechanism in Exhibit JT-5, the Partial Multi-Party Settlement Agreement on Decoupling (Decoupling Agreement), are NW Natural Gas Company d/b/a NW Natural (“NW Natural” or “Company”), Staff of the Washington Utilities and Transportation Commission (Commission Staff), Alliance of Western Energy Consumers (AWEC), and The Energy project (TEP) (together “Settling Parties”). Public Counsel does not challenge the implementation of a decoupling program but disputes the methodology used to determine the allowed revenue to which future revenues will be compared.<sup>1</sup> This means that there is only one issue in dispute between Public Counsel and the Settling Parties: whether to use a revenue per customer approach or a rate class approach to determine allowed revenue.

2 The decoupling mechanism proposed by the Settling Parties allows for ongoing conservation while supporting revenue stabilization for NW Natural and managing risks for ratepayers. With decoupling as proposed by the Public Counsel Unit of the Washington State Attorney General’s Office (Public Counsel), Staff would fully expect to see NW Natural file frequent rate cases seeking exponentially greater rate increases each filing. The decoupling program proposed by the Settling Parties most efficiently protects customers from the risk of precipitous rate increases as well as from large swings in volumetric charges and should be implemented.

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<sup>1</sup> Rubin, TR. 112:19 - 113:5.

## II. BACKGROUND

3 NW Natural implements conservation measures through its Energy Efficiency  
Services program,<sup>2</sup> which has been in effect since October 2009.<sup>3</sup> The conservation program  
provides cash incentives to residential and commercial customers to install high-efficiency  
equipment and/or replace windows, insulate homes or buildings, and invest in other energy  
conservation measures.<sup>4</sup> The Company also offers a low-income energy efficiency program.<sup>5</sup>  
NW Natural experiences “lost margin,” that is, a reduction in revenue, due to its conservation  
efforts.<sup>6</sup>

4 In its general rate case filing, NW Natural proposed a decoupling mechanism.<sup>7</sup> NW  
Natural’s decoupling witness, Mr. Walker, testified that the decoupling mechanism would  
“protect the Company from a loss of earnings that are a direct result of NW Natural’s  
conservation programs.”<sup>8</sup> The rate case filing did not propose any other broad rate  
mechanisms like decoupling.<sup>9</sup>

5 The Settling Parties agreed with much of the Company’s proposed decoupling  
mechanism and incorporated the agreed-upon components into the Decoupling Agreement.<sup>10</sup>  
Only the additions to and modifications of the Company’s proposal are specifically set forth  
in the Decoupling Agreement.<sup>11</sup> The component that Public Counsel has placed in dispute,

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<sup>2</sup> Walker, Exh. KTW-1T at 7:6-8.

<sup>3</sup> Walker, Exh. KTW-1T at 8:2-3.

<sup>4</sup> Walker, Exh. KTW-1T at 8:3-8.

<sup>5</sup> Walker, Exh. KTW-1T at 8:18-20.

<sup>6</sup> Walker, Exh. KTW-1T at 8:7-15; *see* Walker, TR. 45:10-18; TR. 97:17 - 98:2.

<sup>7</sup> Walker, Exh. KTW-1T through Exh. KTW-3.

<sup>8</sup> Walker, Exh. KTW-1T at 8:15-16.

<sup>9</sup> Note, however, that NW Natural did propose a mechanism for recovery through rates of environmental expenses, and the all-party settlement in this case includes a provision for an Environmental Cost Recovery Mechanism. Exh. JT-3 at ¶ 18.

<sup>10</sup> Decoupling Agreement at ¶ 4 (“The Parties agree that the Commission should approve and authorize the implementation of the Company’s proposed decoupling mechanism . . . with the following clarifications and specific revisions”); *see* Liu, Exh. JL-1T at 6:3-8.

<sup>11</sup> Section A on page 3.

using revenue per customer as allowed revenue, is the methodology that the Company used in its original proposal, and is incorporated in the Decoupling Agreement.

6           NW Natural is the only energy utility regulated by the Commission without a decoupling program.<sup>12</sup> For the most part, the decoupling programs of these other energy utilities also use the revenue per customer approach.<sup>13</sup> Staff examines the relationship among the number of customers and the cost of providing service in each circumstance to determine whether the revenue per customer approach is appropriate.<sup>14</sup>

7           In this case, Staff found that NW Natural’s cost of serving customers outpaces the additional revenue from customer growth.<sup>15</sup> What this means is that “without an approach that scales with customer count, the Company will not be adequately compensated for the incremental cost to serve each additional customer.”<sup>16</sup> This is significant because NW Natural is currently experiencing steady customer growth.<sup>17</sup> The revenue per customer approach accounts for customer growth because allowed revenue is calculated going forward using the then-current number of customers.

8           Public Counsel advocates for “rate class” decoupling, which is a “fixed revenue” approach. With Public Counsel’s approach, the allowed revenue remains constant, regardless of the number of customers. This means that the methodology does not address the cost associated with serving new customers and would likely exacerbate regulatory lag.<sup>18</sup>

9           The decoupling program that the Settling Parties propose for NW Natural is a full decoupling program. The proposed mechanism allocates the risk of changes in usage to both

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<sup>12</sup> See Liu, Exh. JL-1T at 4:9-12.

<sup>13</sup> See Liu, Exh. JL-1T at 8, n. 14.

<sup>14</sup> Liu, Exh. JL-1T at 7:22 - 8:4.

<sup>15</sup> Liu, Exh. JL-1T at 8:7-16.

<sup>16</sup> Liu, Exh. JL-1T at 8:16-17.

<sup>17</sup> Liu, Exh. JL-5Tr at 13:11-14; TR. 72:23 - 73:3; see Walker, Exh. KTW-4Tr at 5:7-8.

<sup>18</sup> Liu, Exh. JL-1T at 9:20-22.

the utility and customers, and the allowed revenue reflects normalization for weather as well as conservation effects.<sup>19</sup> The program that the Settling Parties support protects customers and mitigates rate impacts. First, the program includes an earnings sharing mechanism that requires NW Natural to share 50 percent of its excess operating revenues with “decoupled” customers if the Company earns more than its authorized rate of return.<sup>20</sup> The program that the Settling Parties propose also protects ratepayers with a five percent “soft cap.” This provision caps rate increases from decoupling at five percent. It is a soft cap in that the balance of any decoupling surcharges above the five percent can be recovered in the following year, provided the decoupling rate increase does not exceed five percent.<sup>21</sup> In addition, the proposed decoupling program provides that the program will terminate unless NW Natural obtains reauthorization of the program with five years.<sup>22</sup> In other words, the proposal includes a built-in deadline for review of the program should NW Natural wish to maintain a decoupling program beyond the five years.

10           Staff’s expert witness on decoupling, Ms. Liu, examined NW Natural’s claim that the Company was experiencing lost margin.<sup>23</sup> She testified, “the data clearly indicate that, even though the Company gained revenue from customer growth, the average per-customer revenue is insufficient to cover the average per-customer cost.”<sup>24</sup> In other words, the incremental cost of serving additional customers exceeds the additional revenue the Company would receive from each new customer.<sup>25</sup> Specifically, Ms. Liu testified that it costs NW Natural more than \$421 to \$508 each year to serve a new residential customer. A

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<sup>19</sup> See Liu, Exh. JL-1T at 5, n. 8.

<sup>20</sup> Liu, Exh. JL-1T at 10:3-7.

<sup>21</sup> Liu, Exh. JL-1T at 11:3-11.

<sup>22</sup> See Decoupling Agreement at Subsection A.b.

<sup>23</sup> See Liu, Exh. JL-1T at 8:7-13.

<sup>24</sup> Liu, Exh. JL-1T at 8:14-16.

<sup>25</sup> Liu, Exh. JL-1T at 9:1-9; Exh. JL-5Tr at 19:3-4.

new residential customer on Schedule 1 would contribute \$224 in revenue annually, and a customer on Schedule 2 (which includes space heating) would contribute \$410.<sup>26</sup>

11 In the all-party Joint Settlement Agreement (Exhibit JT-3), NW Natural committed to half a dozen terms concerning conservation identification, planning, and reporting.<sup>27</sup> For example, the Company agreed to “identify and acquire all available cost-effective conservation” (G.c.), obtain an independent conservation potential assessment every two years (G.d.), propose an annual conservation target (G.e.), file an annual conservation plan (G.f.), and file an annual conservation report (G.g.). The parties to the all-party Joint Settlement Agreement understand that new laws, such as Laws of 2019, ch. 285, § 11 (E3SHB 1257) (“Gas Conservation Session Law”), or new natural gas energy efficiency rules may supersede the settlement and that the Company will comply with those laws and rules.<sup>28</sup>

12 The Gas Conservation Session Law went into effect July 28, 2019. It requires each gas company to identify and acquire all conservation measures that are available and cost-effective. It requires each company to establish acquisition targets every two years, to include the costs of greenhouse gas emissions in its cost-effectiveness analysis, and to base targets on a conservation potential assessment that is prepared by an independent third party and approved by the Commission. It provides that the initial conservation target must take effect by 2022.

### III. DISCUSSION

13 NW Natural is the only investor owned utility in Washington that does not have a decoupling program. NW Natural’s circumstances are similar to other Washington IOUs that

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<sup>26</sup> Liu, Exh. JL-5Tr at 18:18 - 19:2.

<sup>27</sup> Joint Settlement Agreement at Subsections G.c.–i.

<sup>28</sup> Exh. JT-1T at 26:7-15.



have proposed various supportive mechanisms recently, such as decoupling, attrition adjustments, and “k-factor” rate increases. Decoupling is appropriate to implement for NW Natural at this time and is consistent with Commission policy because the Company is experiencing lost margin due to conservation, its costs of service are outpacing its revenues even though customer count is increasing, and it will be fulfilling new conservation commitments in the Joint Settlement Agreement and the law. The Decoupling Agreement proposes an appropriate decoupling program because it protects customers from company windfalls and large decoupling surcharges and, importantly, determines allowed revenue on a per customer basis. Determining allowed revenue using fixed class amounts, as Public Counsel proposes, would lead to revenue deficiencies and defeat the purpose of decoupling.

**A. The Decoupling Program Proposed by the Settling Parties is the Right Mechanism at the Right Time**

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Under the Commission’s traditional ratemaking authority, the Commission may employ a variety of regulatory mechanisms in order to set rates that meet the standard of being fair, just, reasonable, and sufficient.<sup>29</sup> A decoupling mechanism is such a regulatory mechanism.<sup>30</sup> The full decoupling mechanism proposed by the Settling Parties will support NW Natural’s revenue as the Company maintains its existing conservation programs and complies with the new Gas Conservation Session Law as well as the conservation provisions of the Joint Settlement Agreement. NW Natural could have proposed other regulatory mechanisms to address earnings erosion due to conservation and other factors but the mechanism that is before the Commission is decoupling. As Ms. Liu stated at hearing:

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<sup>29</sup> See RCW 80.04.020; *People’s Organization for Washington Energy Resources v. Wash. Utils. & Transp. Comm’n*, 104 Wn.2d 798, 812 (1985) (“within a fairly broad range, regulatory agencies exercise substantial discretion in selecting the appropriate rate making methodology”). And the Commission is specifically authorized to adopt regulatory mechanisms and other policies that protect a company from earnings loss that may result from utility programs that are designed to increase energy efficiency. RCW 80.28.260(3).

<sup>30</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-170022 and UG-170034, Order 08, ¶ 252 (Dec. 5, 2017) (2017 PSE Order).

As the Company put[s] more efforts to . . . improve their conservation programs, and in theory, more customers will benefit from the conservation program, usage per customer in theory would decline, everything else equal, and then the Company would get less revenue . . . without decoupling. And therefore, the authorized revenue from the GRC may not be sufficient over time. . . . With revenue per customer decoupling we provide compensation on the per customer basis for each customer because we believe there is a clear correlation between the cost, total cost, and the growth in customers. Therefore, we address the revenue sufficiency problem.<sup>31</sup>

15 As Ms. Liu states, the proposed decoupling program will support revenue sufficiency.

This is of timely importance as the Company complies with the potentially more stringent conservation standards in its commitments and in the new law. It is appropriate to implement the proposed decoupling mechanism now, contemporaneous with these new requirements.

**B. The Decoupling Agreement Will Support Current Conservation Efforts as Well as Compliance With New Conservation Legislation**

16 NW Natural has implemented conservation programs for low-income residential customers as well as other residential and commercial customers. As Mr. Walker testified, the Company is experiencing earnings erosion due to its conservation programs.

Implementing decoupling would encourage the Company's ongoing maintenance of these programs.

17 Currently, gas distribution companies must comply with WAC 480-90-238(1), which provides, "Each natural gas utility regulated by the commission has the responsibility to meet system demand with the least cost mix of natural gas supply and conservation." The Commission adopted this rule after passage of the Energy Independence Act (EIA), which requires qualifying electric utilities to "pursue all available conservation that is cost-effective, reliable, and feasible."<sup>32</sup> The new Gas Conservation Session Law adopts language that parallels the EIA, in that it mandates *gas companies* to acquire "all conservation measures that are available and cost-effective." Passage of the Gas Conservation Session Law

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<sup>31</sup> Liu, TR. 105:22 - 106:10.

<sup>32</sup> RCW 19.285.040(1).

demonstrates that conservation continues to be important in terms of state energy policy and that gas utilities will need to work toward increasing conservation in order to comply with the new law.

18           In the Joint Settlement Agreement NW Natural has committed to terms that are very similar to and complementary with the Gas Conservation Session Law. The practical effect is that NW Natural’s conservation commitments in the Joint Settlement Agreement will act as a bridge to the Gas Conservation Session Law, which does not require utilities’ initial conservation targets to take effect until 2022. Pursuant to the Joint Settlement Agreement, NW Natural will effectively implement the Gas Conservation Session Law early. Because of NW Natural’s commitments in the Joint Settlement Agreement, which include identifying and acquiring all available and cost-effective conservation, additional commitments regarding increased conservation are not necessary in the Decoupling Agreement. Implementing a decoupling program, however, will support the conservation commitments made in the Joint Settlement Agreement, many of which are now law. The regulatory mechanism proposed in the Decoupling Agreement will help reduce barriers to the Company in complying with the new law as well as aid its ongoing conservation efforts. So that the Company and its customers can receive the benefits of decoupling, the mechanism should be implemented now, at the same time that the new conservation commitments and requirements go into effect.

**C.     The Decoupling Agreement is Consistent With Commission Policy on Decoupling**

19           In 2010, the Commission issued a policy statement concerning decoupling.<sup>33</sup> The Commission’s policy guidance concerned “regulatory mechanisms designed either to remove

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<sup>33</sup> *In Re the Wash. Utils. & Transp. Comm’n’s Investigation into Energy Conservation Incentives*, Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities

barriers to utilities acquiring all cost-effective conservation or to encourage utilities to acquire all cost-effective conservation.”<sup>34</sup> Under RCW 80.28.260(3), the Commission has authority to consider and adopt policies to protect a company from a reduction of short-term earnings that may be a direct result of utility programs to increase the efficiency of energy use. As noted above, however, the Commission has discretion to adopt a variety of regulatory mechanisms, which may serve multiple purposes.

20           In the Decoupling Policy Statement, the Commission describes three types of regulatory mechanisms. Relevant here is the Commission’s description of a “full decoupling” regulatory mechanism:

Full decoupling [is] designed to minimize the risk to both the utilities and to ratepayers of volatility in average use per customer by class regardless of cause, including the effects of weather.<sup>35</sup>

Full decoupling allocates the risk between the utility and its customers of an unusually cold winter, for example, in which customers use more gas than usual, or conservation, for example, due to which customers use less gas than usual. In a year containing an unusually cold winter, in which volumetric gas sales were higher than the normalized allowed revenue levels, customers will receive a refund the following rate year; and when customers use less gas than usual, due to conservation or anything else, there will be a surcharge. In this way, decoupling smooths monthly rate volatility, which reduces risk for both the utility and its customers. This is exactly what the mechanism proposed by the Settling Parties is designed to do.

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to Meet or Exceed Their Conservation Targets, 4, ¶ 6 (Nov. 4, 2010) (Decoupling Policy Statement).

<sup>34</sup> Decoupling Policy Statement at ¶ 12.

<sup>35</sup> Decoupling Policy Statement at ¶ 12. See also ¶ 11: a “regulatory mechanism designed to make the utilities whole for lost margin should also work to recognize found margin and return it to ratepayers. Termed ‘full decoupling,’ such a mechanism would truly separate or ‘decouple’ the utility’s earnings from its sales.”

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Decoupling policy has evolved as utility after utility has proposed implementing or renewing the mechanism in Washington. Initially, the Commission did not wholeheartedly endorse “full” decoupling.<sup>36</sup> Today, however, all of the investor owned utilities in Washington, both electric and gas, have “full” decoupling programs (except NW Natural, which does not have any decoupling program in Washington).<sup>37</sup> Indeed decoupling has become such a ubiquitous mechanism nationwide that the Commission does not consider implementation of decoupling to have an effect on utility risk that is any different from any other utility.<sup>38</sup> This also represents a change from the 2010 Decoupling Policy Statement.<sup>39</sup>

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Decoupling policy has continued to evolve at the Commission. As the Commission has recognized, policy statements represent guidance only, and the Commission and the entities it regulates may depart from that guidance.<sup>40</sup> Allowing decoupling policy to evolve is appropriate for this complex mechanism and has allowed the Commission to evaluate its experiences and adjust its policies.<sup>41</sup> As Ms. Liu’s testimony indicates, decoupling is a multipurpose mechanism that can reduce barriers to and encourage strong and engaged conservation efforts by utilities while ameliorating revenue insufficiencies from a combination of effects.<sup>42</sup> While this view may depart from portions of the original policy

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<sup>36</sup> Decoupling Policy Statement at ¶ 25 (“full decoupling gives us some pause”).

<sup>37</sup> Liu, Exh. JL-1T at 4:9-12.

<sup>38</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-130137 and UG-130138, Order 14, ¶ 152 (June 29, 2015) (“[w]e find . . . that the effects of decoupling and other risk mitigating factors are reflected in the proxy group data . . . [and] it follows that any ROE we select within [the] range, whether at the low end, middle, or high end, accounts for the effects of decoupling”).

<sup>39</sup> *Id.* at p. 11, n. 33 (“because a decoupling mechanism may provide reduced risk for the company, it stands to reason that such reduced risk may impact the company’s appropriate return on equity”); *id.* at ¶ 27 (“such a mechanism can serve to reduce risk to the company, and therefore to investors, which in turn should benefit customers by reducing a company’s debt and equity costs”).

<sup>40</sup> *See In Re Petition of Puget Sound Energy, Inc., and Northwest Energy Coalition For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms*, Dockets UE-121697 and UG-121705, Order 07, ¶ 111 (June 25, 2013) (2013 PSE Order).

<sup>41</sup> *See* Liu, Exh. JL-1T at 5:1-6.

<sup>42</sup> *See* Liu, TR. 68:20 - 69:4; Tr. 105:12-16 (“[f]undamentally when we . . . try to use the decoupling mechanism to mitigate the negative impact of conservation of Company volumetric revenue, it is a revenue sufficiency question to me.”).

statement that indicate decoupling should address revenue deficiencies stemming only from a company's conservation efforts, the position is consistent with the Commission's description of what "full decoupling" accomplishes: "minimize[s] the risk to both the utilities and to ratepayers of volatility in average use per customer by class regardless of cause."

**D. The Revenue Per Customer Approach to Determining Allowed Revenue is Appropriate for NW Natural Whereas Public Counsel's Fixed Revenue Approach Would Fail the Company and its Customers**

23 In order to decouple a utility's authorized revenue from its sales, it is necessary to decide how to determine the authorized, or allowed, revenue. Then this allowed revenue can be compared with actual sales to determine whether a refund or a surcharge is due. The Decoupling Agreement provides for a revenue per customer approach to determining the allowed revenue. This approach is well established at the Commission, and the Commission has recognized that "there is no doubt that decoupling on a revenue per customer basis removes entirely the so-called throughput incentive."<sup>43</sup> This approach is appropriate for NW Natural because it scales revenues to customer counts. Scaling is important because NW Natural is experiencing customer growth<sup>44</sup> and the incremental costs of serving customers are outpacing incremental revenues.<sup>45</sup> This means that if NW Natural uses an approach that does not scale revenues to customer count (such as Public Counsel's proposed approach) year over year, the Company's revenues are likely to fall further and further behind.

24 Public Counsel advocates a fixed class approach to determining allowed revenue. Public Counsel appears to be dissatisfied with the Decoupling Agreement because the revenue per customer approach in conjunction with continuing customer growth may lead to

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<sup>43</sup> 2013 PSE Order at ¶ 112.

<sup>44</sup> E.g., Walker, TR. 53:9-10.

<sup>45</sup> Liu, Exh. JL-1T at 8:7-18.

annual rate increases through decoupling surcharges.<sup>46</sup> Public Counsel does not recognize the trend at NW Natural that, even with customer growth, average per-customer revenues are insufficient to cover the increasing cost of service per customer.<sup>47</sup> Public Counsel ignores certain costs of serving new customers and “grossly underestimates incremental costs of service.”<sup>48</sup> Because of these costs, customer growth will not result in a windfall to NW Natural under revenue per customer decoupling; rather, the data indicate that costs are likely to continue to outpace revenues, which indicates a revenue insufficiency. Under the Decoupling Agreement, customers would be protected from spiking decoupling surcharges by the soft cap. And the earnings sharing mechanism would protect customers from overearning by the utility.

25           In the most recent case addressing decoupling, the Commission took seriously utility earnings erosion concerns and rejected the arguments of Public Counsel’s that were similar to its advocacy in the instant case. Public Counsel was concerned that the utility’s decoupling program account for “found margin” due to “systematic growth in sales through time caused by the continuous addition of new customers.”<sup>49</sup> The utility countered that its current revenue per customer decoupling program had not resulted in “found margin” and that there could not be any found margin because the incremental cost of serving new customers exceeded the incremental revenue generated from new customers.<sup>50</sup> Staff testified that the utility’s operating expense growth rate outpaced the customer count growth rate and concluded that “the Revenue per Customer approach . . . works well when the delivery costs and customer counts both trend upwards.”<sup>51</sup> The Commission accepted the arguments of Staff and the

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<sup>46</sup> See Rubin, Exh. SJR-1T at 19:8-16.

<sup>47</sup> See Liu, Exh. JL-1T at 8:14-16.

<sup>48</sup> Liu, Exh. JL-5Tr at 16:21 - 17:1.

<sup>49</sup> 2017 PSE Order at ¶ 290.

<sup>50</sup> 2017 PSE Order at ¶ 291.

<sup>51</sup> 2017 PSE Order at ¶ 292.

utility, stating, “We are persuaded by the evidence discussed above that the Commission’s approach to decoupling, going forward, should continue to use a revenue-per-customer approach for most costs” and “[w]e reject the “complete decoupling” approach advocated by Public Counsel and The Energy Project because it fails to take into account all relevant factors and ignores salient facts, as discussed above.”<sup>52</sup>

26           Like the utility in this last case, NW Natural also is experiencing growth in customers and growth in fixed costs. Where customer growth is faster, as may be the case with NW Natural, rising costs of service will also be more precipitous. Ignoring the fact that NW Natural’s costs of service have been trending upward and adopting the fixed class decoupling methodology that Public Counsel advocates would sabotage the conservation incentive and revenue stabilization benefits of the revenue per customer approach to decoupling.

27           Under Public Counsel’s proposal, NW Natural’s rates would become insufficient during the term of the decoupling program. Ms. Liu compares the projected revenues from residential customers who heat with natural gas under the Decoupling Agreement and under Public Counsel’s proposal. She testifies that, by the end of the decoupling program, under Public Counsel’s fixed class decoupling, the effective residential rate would decrease by 16 percent.<sup>53</sup> This number, 16 percent, represents a sizeable revenue deficiency.

28           Baking in a revenue deficiency is counterproductive in the context of a decoupling mechanism in that it would *discourage* conservation rather than support it and would expose the utility to more risk of revenue deficiency than without a decoupling program. The Commission must set rates that are sufficient and should not adopt a mechanism that will result in insufficient rates. Accordingly, the Commission should reject Public Counsel’s proposed fixed class approach.

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<sup>52</sup> 2017 PSE Order at ¶ 294.

<sup>53</sup> Liu, Exh. JL-5Tr at 20:11-13.



#### IV. CONCLUSION

29 Implementing a decoupling mechanism for NW Natural is an appropriate step in light of NW Natural's ongoing conservation programs, its new conservation commitments through the Joint Settlement Agreement and the Gas Conservation Session Law, and the earnings erosion it is experiencing due to a variety of effects. Although NW Natural is experiencing customer growth, this does not change the earnings erosion it is experiencing in that the costs of service are outpacing revenues. For a decoupling mechanism to be effective for NW Natural and its customers, the mechanism must incorporate the revenue per customer approach to determining allowed revenue. Public Counsel's fixed class allowed revenue proposal must be rejected; otherwise, due to the increasing incremental cost of service, earnings erosion will occur at an even faster pace than would occur without decoupling. Revenue per customer decoupling will not only ameliorate lost margin due to conservation but will also generally support revenue sufficiency, ultimately benefitting NW Natural's customers as well as the Company. The Commission should adopt the Decoupling Agreement and allow NW Natural to implement revenue per customer decoupling.

Respectfully submitted,

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