

Agenda Date: December 10, 2003
Item Number: A3

Docket: UG-031885
Company: Northwest Natural Gas Company

Staff: Joanna Huang, Regulatory Analyst
Assigned Rate Case Team

Recommendation:

Issue a complaint and order suspending the filing in Docket UG-031885 and set the matter for hearing.

Discussion:

On November 19, 2003, Northwest Natural Gas Company (NW Natural or Company) filed a general rate increase for its gas service in Washington, effective December 23, 2003. The proposed filing would increase the Company's annual revenue from its Washington operation by \$7,894,393 or 15% (34% on NW Natural's margin).

Background:

NW Natural serves approximately 47,103 residential customers and 4,280 business and industrial customers in Vancouver and surrounding areas of southwest Washington. The Company's last general rate filing was on January 21, 2000. The Company is requesting a return on common equity of 11% with an overall rate of return of 8.97%, on a pro forma rate base of \$111 million.

The Company addressed three primary reasons for the proposed rate increase. The first reason is to recover revenue losses due to declines in gas usage per customer. The second reason is to recover costs arising from additional facilities required to continue providing reliable and safe service in Washington. These two additional facilities are the Vancouver district office and its underground gas storage facilities (Mist) and related pipelines. The last reason is to recover cost increases in other areas beyond the Company's control such as pension cost, employee health insurance expense, corporate liability insurance, and other business risk insurance.

In addition, NW Natural is also proposing a sale and revenue decoupling mechanism, a rate redesign for its industrial customers, and a new revenue sharing mechanism for its interstate storage services.

Summary:

The impact of this rate increase to an average residential customer under Schedule 24 will be a net increase of about \$11.49 per month (based on 80 therms). The effect of the proposed general rate increase by customer class is as follows:

	Revenue Impact	Percent Change
Residential:	\$ 5,179,320	16.0 %
Commercial	2,333,001	14.1%
Industrial-firm	134,078	13.9 %
Interruptible	<u>247,994</u>	<u>11.6 %</u>
Total	<u>\$ 7,894,393</u>	<u>15.0 %</u>

Conclusion:

The Company's proposal to implement a general rate increase of such magnitude (15%) will create a major financial burden on its Washington customers. The Company has not yet demonstrated whether the proposed tariff revisions are fair, just, reasonable, and sufficient. Therefore, Staff recommends the Commission issue a complaint and order suspending the filing in Docket UG-031885 and set the matter for hearing.