

NWN Advice No: WUTC 00-1

January 21, 2000

Ms. Carole Washburn, Secretary  
Washington Utilities and Transportation  
Commission  
1300 S. Evergreen Park Drive, S.W.  
P. O. Box 47250  
Olympia, Washington 98504-7250

Re: General Rate Increase Filing

Dear Ms. Washburn:

Northwest Natural Gas Company ("NW Natural" or "company") files herewith, in triplicate, replacement tariffs bearing the issue date of January 21, 2000, and stated to become effective with service on and after February 21, 2000. These tariffs effect a general increase in the company's Washington rates. Also enclosed are twenty (20) copies of the documentation, including testimony and exhibits supporting the requested tariff sheets, as required by *WAC 480-09-330*.

#### Purposes of the Filing

There are two purposes of this general rate increase filing. The first is to implement revised rates in Washington on a state allocated basis, as required by *WAC 480-90-031*. The second purpose of this filing is to recover the costs of customer-service related investments the company has made since the company's last general rate case in Washington in 1997. In total, this filing applies a general rate increase averaging 18.8 percent in the company's gas service rate schedules, and a total revenue increase of \$6,204,367 per year.

#### Effect of the Filing on Class Prices

Residential class average rates will increase by 10.972 cents per therm, commercial class average rates by 10.965 cents per therm, industrial firm class average rates by 9.419 cents per therm, and industrial interruptible class average rates by 6.923 cents per therm. The percentage increases by rate class are 17.8 percent for residential customers, 18.4 percent for commercial customers, 18.2 percent for industrial firm customers, and 17.6 percent for industrial interruptible customers served under Scheduled 23. The bill of the

average residential customer on Schedule 2 using about 65 therms per month would increase by \$7.39 per month, from \$43.59 to \$50.98.

### Reasons For the Rate Increase

When NW Natural filed its last general rate case in Washington (using a 12 months ended June 30, 1996 test year), NW Natural reported to the Commission that the company's Washington operations were substantially changed since the company's next most recent case, completed in 1986. Since 1986, NW Natural's Washington customer base shifted from a primarily industrial customer base to one that is predominantly a residential and small commercial customer base. That trend has continued since the company's 1997 case. Another continuing trend is the rapid pace of customer growth in NW Natural's Washington service territory. Growth in Washington continues to outpace the rate of growth in the company's Oregon operations, which is itself fast-growing. The company's rate of growth in Washington since 1997 continues to average about 12 percent annually, while the company's overall system growth (Washington and Oregon) has averaged about five percent since 1997.

Customer growth is the primary reason for this case. NW Natural was able to accommodate growth without rate case for most of the late 1980s and the 1990s by managing its costs and focusing on "profitable" growth. However, key aspects of the company's operations needed to be replaced or expanded in order to continue quality and reliable customer service. The first was expansion of the company's underground storage facilities at Mist, Oregon. The company's Integrated Resource Planning processes have repeatedly shown that market area underground storage is the least cost option for serving the peak heating needs of the company's growing residential and commercial customers. In November 1998, NW Natural added new reservoir capacity at Mist (called the Phase II expansion). In November 1999, NW Natural "looped" the South Mist Feeder, which improved the take-away pipeline capacity necessary to move storage gas into the company's load centers. This part of the Mist expansion is called Phase III. Neither Mist Phases II nor III are currently in Washington rates.

Due to growth and other factors the company was required to replace its 1960s-vintage customer information computer system. The company's old computer system was completely inadequate to serve the changing business needs of the company's growing customer base, and it would not have survived the calendar change to year 2000. NW Natural developed a new CIS, which was placed in service in November 1997. The CIS investment is not currently in Washington rates.

Finally, higher levels of customer growth in Washington have, over time, resulted in a mis-match of costs and revenues between the company's Washington and Oregon service territories. The rapid change in the character of

the company's Washington customer base, combined with the relative "newness" of NW Natural's investment in Washington, has resulted in the company's Oregon service territory bearing a disproportionate share of the company's system costs. NW Natural undertook a collaborative study with Washington and Oregon Commission Staff about how to implement a state allocation to address the issue. The allocation method resulting from the collaboration is reflected in this filing. Washington Staff has reserved the right to challenge the allocation based on their review of this filing. NW Natural will file to implement the state allocation in Oregon effective on December 1, 2000.

The effect of calculating rates on a state allocated basis, including an allocation of new investments in Mist and CIS, has been to erode the company's return on equity in Washington to 1.31 percent. The rate increase sought in this filing includes a return on equity of 11.25 percent, and a return on rate base of 9.17 percent.

#### Washington Industrial Rates

Effective on June 1, 1999, NW Natural, WUTC Staff, Public Counsel, and certain business customers in Clark County, Washington agreed to the implementation in Washington of unbundled firm and interruptible transportation rates. The agreement included a year-by-year phase-in of the new rates so that the impact on residential and small commercial customers would be mitigated. With this filing, NW Natural proposes a full implementation of the agreement to be effective on February 21, 2000, or on such date as the Commission approves the rates and revenues sought in this filing.

#### Request for Waiver

The company requests waiver of the Commission's requirement, stated in Fourth Supplemental Order in Cause No. U-86-100 at p. 11, that general rate increase filings include a class cost of service study. NW Natural has not conducted an independent embedded class cost of service study, but has examined how its rates compare to the rates of other Washington gas utilities which have recently undertaken and implemented rate spreads according to the Commission's policies regarding rate spread. As described in more detail in the testimony of Dr. Francis P. Ferguson, the company's rates achieve a spreading of costs that is very similar to the gas rate spreads of these other companies, Avista and Puget Sound Energy.

It appears that a formal (and costly) embedded cost of service study in accordance with Washington policies would not indicate a substantially different rate spread than currently exists in the company's Washington tariff. Accordingly, the company has spread the revenue requirement sought in this filing on an equal-percent-of-margin basis, and respectfully requests that the Commission waive its requirement of an embedded cost of service study.

### Phased Implementation

NW Natural recognizes that the rate increase sought in this filing is large, and hereby indicates its willingness to phase implementation of the final Commission-approved or stipulated increase. NW Natural suggests implementation on three separate dates beginning on May 1, 2000, a second phase on December 1, 2000, and a last phase on May 1, 2001.

### Other Matters

In support of this filing, the company submits the prepared testimony and exhibits of Bruce R. DeBolt, Kevin S. McVay, Thomas M. Zepp, Francis P. Ferguson, Randolph S. Friedman, Charles E. Stinson, John A. Hanson, Charles A. Beyer, and Stephen P. Feltz.

The company stands ready to respond to any requests for data and information by telephone, or in writing, and to schedule any audit time that may be necessary. Please call Ms. Susan Ackerman at 503.721.2452 to make these arrangements.

A notice of the filing, a copy of the filing, and the supporting testimony and exhibits will be made available for public inspection in the company's Portland, Oregon office and in its district office in The Dalles, Oregon. A notice of the filing will also be posted in each of the company's pay stations. Further notice will be sent directly to each customer in Washington. Copies of the notices are included with this filing. Finally, consistent with *WAC 480-09-330(4)*, the company submits this cover letter and a copy of the summary of the request to the master service list for the company's most recent general rate case (UG-970932), including Public Counsel and other interested intervenors in other rate proceedings in the last five years.

Please place the following names on the service list in this docket on behalf of the company:

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Please do not hesitate to contact me if you have any questions.

Sincerely,

Mark S. Dodson

cc: UG-970932 Service List  
Mr. Simon ffitch – Public Counsel  
Mr. Robert Schaefer, Esq.  
Mr. Robert Levin – CREDA  
Mr. Joe Kalinowski – Wafertech  
Mr. Steve Stenberg – SEH America