

BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	DOCKET NO. UG-031885
	)	
Complainant,	)	
	)	ORDER NO. 04
v.	)	
	)	
NORTHWEST NATURAL GAS	)	ORDER APPROVING AND
COMPANY,	)	ADOPTING SETTLEMENT
	)	STIPULATION AS AMENDED
Respondent.	)	
.....	)	
	)	

*Synopsis: The Commission approves and adopts the amended Settlement Stipulation entered into by all parties as a reasonable resolution of all the issues in Northwest Natural Gas Company's general rate filing.*

I. INTRODUCTION

- 1 **Proceeding.** Docket No. UG-031885 is a general rate filing by Northwest Natural Gas Company that would increase charges and rates for service by approximately 15% for a total revenue increase of approximately \$7.9 million.
- 2 **Appearances.** James Van Nostrand, attorney, Stoel Rives LLP, Seattle, WA, and Jennie Bricker, attorney, Stoel Rives LLP, Portland, OR, represent Northwest Natural Gas Company (NW Natural or the Company). Greg Trautman and Christopher G. Swanson, Assistant Attorneys General, Olympia, WA, represent the Commission's regulatory staff (Commission Staff). Robert Cromwell, Assistant Attorney General, Seattle, WA, represents the Public Counsel Section, Office of Attorney General (Public Counsel). Edward A. Finklea, attorney, and Chad Stokes, attorney, Energy Advocates LLP, Portland, OR, represent Northwest Industrial Gas Users (NWIGU).

Ronald L. Roseman, attorney, Seattle, WA, represents Citizen's Utility Alliance of Washington (CUA or Alliance).

- 3 **Procedural History.** On November 19, 2003, NW Natural filed proposed tariff revisions designed to effect a general increase in its rates for natural gas service. The cumulative effect of the tariff filing would be to increase annual revenues by \$7,894,383. The Commission, by Order entered December 10, 2003, suspended the operation of the tariff revisions pending hearing or hearings concerning such changes and the justness and reasonableness thereof.
- 4 The Commission convened a prehearing conference in this matter in Olympia, Washington, on January 7, 2004, before Administrative Law Judge Karen Caillé. Among other things, the Commission granted NWIGU's petition to intervene,<sup>1</sup> invoked the discovery rule, entered a protective order, and established a procedural schedule, including two days for settlement discussions, three weeks prior to the filing of testimony by Staff, Public Counsel, and intervenors.
- 5 On May 14, 2004, the Parties filed a Stipulation that would resolve all issues in this proceeding, including NW Natural's overall revenue requirement, rate spread, rate design, and ratemaking issues associated with a low-income weatherization program, the South Mist Pipeline Extension (SMPE), Interstate Storage Services, the Company's new Vancouver Service Center, and the Company's decoupling proposal. The Stipulation, Exhibit No. 1, is attached to this Order as Appendix A.
- 6 Immediately prior to the hearing on the proposed settlement, the Parties filed an Amendment to Stipulation which amended paragraph 5 of the Stipulation to provide for one of three options to serve as the rate of return applicable to SMPE investment. The Amendment to Stipulation, Exhibit No. 1a, is attached to this Order as Appendix B. The Stipulation and the Amendment to Stipulation are hereafter referred to collectively as the Settlement Stipulation.
- 7 On June 10, 2004, the Commission convened a hearing on the proposed Settlement Stipulation before Chairwoman Marilyn Showalter, Commissioner Richard

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<sup>1</sup> The Commission granted CUA's petition to intervene in its Prehearing Conference Order, Order No. 2, entered January 14, 2004.

Hemstad, Commissioner Patrick J. Oshie, and Administrative Law Judge Karen Caillé. The Commission received into evidence the testimony and exhibits previously filed in this docket and previously marked for identification. In addition, the Commission received into evidence Exhibit No. 70T, the written comments of twenty-six NW Natural customers. A panel of witnesses representing NW Natural, Commission Staff, Public Counsel, NWIGU, and CUA sponsored the Settlement Stipulation and responded to inquiry from the Bench.

## II. MEMORANDUM

8 **Settlement Stipulation.** The Parties agree to an increase in the annual revenue requirement of \$3.5 million, which represents a \$4.4 million reduction from the Company's original request. The Parties arrive at this revenue requirement amount by removing approximately \$1.1 million associated with the Vancouver District Office and approximately \$800,000 associated with the SMPE.<sup>2</sup> The Parties also agree to remove approximately \$2.4 million in other non-identified items.

9 In addition, the Parties agree that the rate of return applicable to SMPE investment will be based on the rate of return approved for the Puget Sound Energy (PSE) and Pacific Power & Light (PacifiCorp) pending general rate filings.<sup>3</sup> If the Commission has not approved a rate of return for PSE or PacifiCorp 30 days prior to the SMPE effective date, then the rate of return for the SMPE will be the most recent rate of return authorized for NW Natural by the Oregon Public Utility Commission.<sup>4</sup>

10 Under the Settlement Stipulation, the Company will implement a low-income weatherization program in a manner consistent with its program in Oregon,<sup>5</sup> allocate the \$3.5 million revenue requirement according to an agreed-upon

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<sup>2</sup> During the hearing, the Parties confirmed that the costs associated with the Vancouver Office would be presented in a future rate case. Similarly, the rate impacts of the SMPE will be addressed in the Company's next Purchased Gas Adjustment filing.

<sup>3</sup> Appendix B to this Order, Amendment to Stipulation, p. 1, (a) and (b).

<sup>4</sup> *Id.* p. 1, (c). During the hearing, the Company stated that the most recent rate of return authorized by the Oregon Commission occurred in September 2003. The Oregon Commission approved an overall rate of return of 8.62%.

<sup>5</sup> Stipulation, p. 2, Attachment B.

methodology,<sup>6</sup> and implement rate design changes to consolidate schedules.<sup>7</sup> In addition, the Company withdraws its decoupling proposal from this proceeding.<sup>8</sup>

11 **Discussion and Decision.** The ultimate determination to be made by the Commission in this proceeding is whether the Settlement Stipulation is appropriate and consistent with the public interest, and whether the rates proposed in the Settlement Stipulation are fair, just, reasonable, and sufficient pursuant to RCW 80.28.020. We resolve these questions by reviewing the Settlement Stipulation, the testimony submitted in support of the Settlement Stipulation, and the Company's prefiled exhibits.

12 Based on the record before us, we find the issues are adequately addressed and resolved by the terms of the Settlement Stipulation and Attachments A and B to the Stipulation as supported by the testimony of witnesses and representations of counsel at the June 10, 2004, hearing on the proposed settlement. Under these circumstances, we are satisfied that the rates proposed in the Settlement Stipulation and Attachment A are fair, just, reasonable and sufficient, that the Settlement Stipulation is appropriate and consistent with the public interest, and that the Settlement Stipulation should be approved and adopted as a full and final resolution of all issues pending in Docket No. UW-031885. The Commission determines that it is appropriate that NW Natural be authorized to file compliance tariffs by noon on June 28, 2004, to become effective on July 1, 2004.

### III. FINDINGS OF FACT

13 Having discussed above all matters material to our decision, and having stated our findings and conclusions, the Commission now makes the following summary findings of fact. Those portions of the preceding discussion that include findings pertaining to the ultimate decisions of the Commission are incorporated by this reference.

14 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules,

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<sup>6</sup> Stipulation, p. 2, Attachment A.

<sup>7</sup> *Id.*

<sup>8</sup> Stipulation, p. 3.

regulations, practices, and accounts of public service companies, including natural gas companies.

- 15 (2) Northwest Natural Gas Company serves 49,000 natural gas customers in three Washington counties: Clark, Skamania and Klickitat.
- 16 (3) On November 19, 2003, NW Natural filed certain tariff revisions designed to effect a general increase in its rates for natural gas service.
- 17 (4) NW Natural's currently effective rates are insufficient to yield reasonable compensation to NW Natural for the services rendered.
- 18 (5) The rates proposed by NW Natural's tariff revisions that are the subject of the Commission's complaint and inquiry in this proceeding, if implemented, would not be just and reasonable.
- 19 (6) The rates that result from the application of the Settlement Stipulation are just, reasonable, and compensatory.
- 20 (7) The rates that result from the application of the Settlement Stipulation are neither unduly preferential nor discriminatory.

#### IV. CONCLUSIONS OF LAW

21 Having discussed above in detail all matters material to our decision, and having stated general findings and conclusions, the Commission now makes the following summary conclusions of law. Those portions of the preceding detailed discussion that state conclusions pertaining to the ultimate decisions of the Commission are incorporated by this reference.

- 22 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and all parties to, these proceedings. *RCW 80.01.040, Chapter 80.04 RCW, Chapter 80.28 RCW.*
- 23 (2) Northwest Natural Gas Company is a public service company as defined in RCW 80.04.010.

- 24 (3) The Stipulation with Attachments A and B (Appendix A to this Order) and the Amendment to Stipulation (Appendix B to this Order) (referred to collectively herein as the Settlement Stipulation), considered together, fully and fairly resolve the issues pending in this proceeding, and are consistent with the public interest. *RCW 80.01.040.*
- 25 (4) The Settlement Stipulation (Appendix A to this Order) and the Amendment to Stipulation (Appendix B to this Order), considered together, result in rates for prospective application that are just reasonable, and compensatory; and that are neither unjustly discriminatory nor unduly preferential. *RCW 80.28.010, RCW 80.28..020, RCW 80.28.090, RCW 80.28.100.*
- 26 (5) The Commission should retain jurisdiction over the subject matter of and the parties to this proceeding to effectuate the provisions of this Order.

## V. ORDER

### THE COMMISSION ORDERS That:

- 27 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of and the parties to these proceedings.
- 28 (2) The proposed tariff revisions filed by NW Natural on November 19, 2003, and suspended by prior Commission order, are rejected.
- 29 (3) The Stipulation (Appendix A to this Order) and the Amendment to Stipulation (Appendix B to this Order) (referred to collectively herein as the Settlement Stipulation) are approved, adopted, and made part of this Order.
- 30 (4) Northwest Natural Gas Company is authorized to make appropriate compliance filings no later than noon, June 28, 2004, to effectuate the terms of the Settlement Stipulation and this Order.
- 31 (5) The Commission Secretary may approve by letter the compliance filing.

- 32 (6) The Commission retains jurisdiction over the subject matter and the parties to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 23rd day of June, 2004.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner

**NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.**

**ADDITIONAL SIGNATURE PAGES  
AND  
ATTACHMENT A, PAGE 1  
NW NATURAL  
(Application of Revenue Requirement to Rates  
on an Equal Percentage of Margin Basis)**

**Available in pdf format only**



# APPENDIX A

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Complainant,

v.

NORTHWEST NATURAL GAS COMPANY,

Respondent.

**DOCKET NO. UG-031885**

**STIPULATION**

This Stipulation is entered into by all parties in Docket No. UG-031885 for the purpose of resolving all issues in this Docket, a general rate filing by Northwest Natural Gas Company ("NW Natural" or the "Company").

1. The parties to this Stipulation are NW Natural, the Staff of the Washington Utilities and Transportation Commission ("Staff"), the Public Counsel Section of the Washington State Attorney General's Office ("Public Counsel"), the Northwest Industrial Gas Users ("NWIGU"), and the Citizens' Utility Alliance of Washington ("CUA") (each, a "Party"; collectively, the "Parties").

2. On November 19, 2003, NW Natural filed revised tariff schedules to effect an overall average 15 percent rate increase for Washington natural gas customers, representing a total revenue requirement request of \$7,894,383. The Company based its filing on the 12-month test period ending June 30, 2003. The filing was suspended by the Commission at its December 10, 2003 public meeting.

3. Following extensive discovery by the Parties with respect to the Company's direct case, the Parties held settlement conferences in this Docket on April 15 and April 22, 2004. As a result of the settlement conferences, the Parties

have agreed to a resolution of all issues in this Docket, including NW Natural's overall revenue requirement, rate spread, rate design, and ratemaking issues associated with a low-income weatherization program, the South Mist Pipeline Extension ("SMPE"), Interstate Storage Services, the Company's new Vancouver Service Center, and the Company's decoupling proposal.

4. The Parties therefore adopt the following Stipulation, which the Parties have entered into voluntarily to resolve matters in dispute among them and to expedite the orderly disposition of this proceeding. The Parties submit this Stipulation to the Commission and request that the Commission approve the settlement as presented.

## AGREEMENT

### 1. Revenue Requirement

The Parties agree to an overall revenue requirement increase for the Company's Washington operations of \$3.5 million. The Parties have negotiated this revenue requirement increase without regard to any specified adjustments to revenue, expense, rate base items, cost of capital components, or the Company's capital structure, except as provided in paragraph 5 (SMPE) and paragraph 6 (the Vancouver Service Center).

### 2. Rate Spread

The Parties agree to the following methodology to allocate the Company's total \$3.5 million revenue requirement increase in this proceeding. First, the revenue requirement increase will be spread on an equal percent of margin basis to all rate schedules in NW Natural's current tariff. Second, following the consolidation of particular rate schedules, as set forth in paragraph 3 below, rates will be reallocated to the schedules resulting from the Company's new rate design. This agreed-upon methodology is presented in tabular format on **Attachment A** to this Stipulation.

### 3. **Rate Design**

The Parties agree that the Company's rates will be redesigned to consolidate schedules and to implement other rate design changes, as described in **Attachment A**. The Parties acknowledge that the rates reflected in the new rate schedules (as set forth in **Attachment A**) may increase as a result of the rate increase associated with the inclusion of the SMPE investment in NW Natural's permanent rates, as provided in paragraph 5 below. The Parties further acknowledge that margin adjustments in the future arising from factors not addressed in this Docket may affect the rates listed in the new rate schedules set forth in **Attachment A**.

### 4. **Low-Income Weatherization Program**

The Parties agree that the Company will implement a low-income weatherization program under the terms set forth in **Attachment B** to this Stipulation. The Company may defer and seek recovery of costs associated with the low-income weatherization program in a manner consistent with the recovery of cost-effective conservation costs, as allowed in the Order Granting Accounting Petition in Dockets UG-011230 and UG-011231. Consistent with current cost-recovery methodology, such costs will be allocated to gas sales rate schedules.

### 5. **South Mist Pipeline Extension**

The revenue requirement impacts associated with SMPE will be removed from this Docket. The Parties agree that the revenue requirement impacts (including costs and benefits) associated with the SMPE investment shall be reflected in permanent rates, and Interstate Storage Services benefits shall be recovered coincidentally through the Purchased Gas Adjustment, on the SMPE Rate Effective Date (defined below); provided, however, that the Company's construction and associated costs will be subject to audit by the Commission to ensure that only actual, prudently incurred costs are included in rates. In the event such audit is not completed by the SMPE Rate Effective Date, the portion of the rate change reflecting the revenue requirement impact of SMPE shall be placed into effect subject to refund, pending the outcome of such audit.

For purposes of this paragraph 5, "SMPE Rate Effective Date" means either October 1, 2004, or November 1, 2004, or December 1, 2004, as determined in accordance with the following provisions.

The Parties anticipate that the SMPE will be in service and the Commission's audit will be complete prior to the next available Purchased Gas Adjustment filing, to be effective as of October 1, 2004. So long as the SMPE facilities are placed into service as of such date, the associated costs and benefits shall be reflected in rates as well. The revenue requirement impact associated with inclusion of SMPE shall be spread on an equal percent of margin basis to all firm and interruptible sales rate schedules in NW Natural's then-existing Washington tariff. Within each such rate schedule, the per-therm charge for that schedule will be developed on an equal cents per therm basis using settled volumes grossed up for the future SMPE in-service rate year.

In the event the SMPE facilities are not placed into service as of October 1, 2004, the effective date of such Purchased Gas Adjustment Filing may be delayed to no later than December 1, 2004. In the event the SMPE facilities are not placed into service by December 1, 2004, the associated costs shall not be included in permanent rates pursuant to this Stipulation. Nothing in this Stipulation will prevent the Company from seeking inclusion of such costs in a subsequent general rate filing, in response to which all Parties are free to take whatever position they choose.

#### **6. Vancouver Service Center**

The revenue requirement impacts associated with the Company's proposed new Vancouver Service Center and the treatment of gain on sale of the old facility will be removed from this Docket. The Parties acknowledge that nothing in this Stipulation affects or limits NW Natural's ability to request, in a subsequent general rate filing, that the revenue requirement associated with the Vancouver Service Center be included in rates at that time. All Parties are free to take whatever position they choose in response to a subsequent general rate filing.

#### **7. Decoupling**

The Company withdraws its decoupling proposal in this proceeding. The Parties acknowledge that nothing in this Stipulation affects or limits NW Natural's

ability to submit a decoupling proposal in any subsequent filing. All Parties are free to take whatever position they choose in response to a subsequent filing.

**8. Rate Effective Date**

The Parties agree that the Company's new rates under the terms of this Stipulation will take effect on July 1, 2004, except as provided in paragraph 5 (South Mist Pipeline Extension).

**9. General Provisions**

(a) The Parties acknowledge and intend that this Stipulation represents a complete settlement of issues in this Docket. The Parties recommend that the Commission resolve all issues in this Docket as set forth in this Stipulation. The Parties agree to support the resolution of issues set forth in this Stipulation.

(b) The Parties agree that this Stipulation is in the public interest and, if implemented, will result in rates that are fair, just, reasonable, and sufficient.

(c) The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, and no Party shall be deemed to have agreed that this Stipulation as a whole is of any precedential value.

(d) The Parties shall cooperate in submitting this Stipulation to the Commission for acceptance. Each Party agrees to (i) support this Stipulation throughout this proceeding and any appeal, (ii) provide a witness to sponsor this Stipulation at a Commission hearing, and (iii) recommend that the Commission issue an order adopting the settlements contained herein.

(e) In the event the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation,

each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within 15 days of the Commission's order, to withdraw from this Stipulation. In such event, the Parties agree to cooperate in setting a revised procedural schedule in this Docket that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in preparing testimony, participating in hearings, and preparing briefs.

(f) The Parties have negotiated this Stipulation as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Stipulation in its entirety.

(g) This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: May 13, 2004.

NORTHWEST NATURAL  
GAS COMPANY

CHRISTINE O. GREGOIRE,  
WASHINGTON ATTORNEY GENERAL

By: \_\_\_\_\_  
C. Alex Miller  
General Manager,  
Rates & Regulatory Affairs

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