

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	DOCKET NO. UG-000073
	)	
vs.	)	
	)	SETTLEMENT AGREEMENT
NORTHWEST NATURAL GAS COMPANY,	)	
d/b/a NW Natural,	)	
	)	
Respondent.	)	
_____	)	

This Settlement Agreement is entered into by all parties to this proceeding for the purpose of resolving all issues in Northwest Natural Gas Company's pending general rate filing in the above docket.

1. The parties to this Stipulation are Northwest Natural Gas Company (the Company), Staff of the Washington Utilities and Transportation Commission (Staff), the Public Counsel Section of the Office of the Attorney General, Northwest Industrial Gas Users, SEH America, Inc., and Washington Food Industries, Inc. (collectively, the Parties).

2. On January 21, 2000, the Company filed tariff revisions (NWN Advice No. WUTC 00-1) designed to implement a general rate increase for gas service in the Company's Washington territory of \$6,204,367 in annual revenue. The Washington Utilities and Transportation Commission (Commission) suspended the Company's filing with an order dated February 9, 2000.

3. On July 21, 2000, Staff and the Company filed with the Commission a Partial Stipulation resolving cost of capital issues in this proceeding. By letter dated August 2, 2000, the Commission approved the Partial Stipulation and stated that its approval would be incorporated formally into its final order.

4. Following discovery and the pre-filing of all direct, rebuttal and cross-answering testimony and exhibits, the Parties commenced settlement discussions for purposes of resolving the contested issues in this proceeding. The Parties have reached agreement on the contested issues in this proceeding and wish to present their agreement for the Commission's consideration. The Parties therefore adopt the following Settlement Agreement (Settlement), which is entered into by the Parties voluntarily to resolve matters in dispute among them and to expedite the orderly disposition of this proceeding.

5. This Settlement is presented for the Commission's approval under WAC 480-09-465 (Alternative Dispute Resolution) as a full settlement of the issues raised in this proceeding. The Parties agree that this Settlement is in the public interest and will provide rates for the Company that are just, fair, reasonable and sufficient.

### **I. INTRODUCTION OF EVIDENCE**

1.0 The testimony and exhibits previously filed in this docket by the Parties and previously marked for identification, except for Exhibits 55, 67, 68, 69, 89, and 90, are jointly offered into evidence in this record without objection. The Parties agree that comments of the public, already filed and including those to be made at the public hearing on this case, are admitted to the record without objection.

## **II. REVENUE REQUIREMENT**

2.0 The Parties agree to an overall revenue requirement increase for the Company's Washington operations of \$4.3 million. The following issues will receive the accounting treatment indicated.

2.1 Year 2000 Costs. The Company will transfer Washington's share of the Company's Year 2000 (Y2K) expense to a separate account, and commence a forty-eight month amortization to expense of Washington's allocated Y2K costs, amortization to begin as of the date Phase 1 of the rate changes goes into effect. The Parties agree that the Y2K deferral will not be included as an element of rate base.

2.2 Customer Information System. The Parties agree to a gross plant amount for the Company's investment in its residential and commercial customer information system (CIS) of \$32 million, consistent with the Oregon Public Utility Commission's decision respecting CIS plant, Order No. 99-697 (Docket No. UG 132). The Company agrees to make appropriate adjustments to gross plant, accumulated depreciation, depreciation expense and deferred taxes to reflect Washington's allocated share of CIS gross plant of \$32 million.

2.3 Volumes. For purposes of establishing rates to implement the increased revenues agreed to in this Settlement, the Parties agree to use the industrial volumes stated in the Company's filing in this docket (Exhibit 64, page 8). The Parties further agree to the use of residential class volumes of 30,483,836 annual therms and commercial customer class volumes of 19,119,368 annual therms, for total annual deliveries of 76,366,346 therms.

2.4 Late Fee. The Company will implement a late payment fee of 1.0 percent, with a minimum charge of \$1.00. The estimated annual revenue impact (\$41,028) from late fees for use

in determining the net revenue requirement to be recovered from customer and energy charges is as shown on the attached spreadsheet Exhibit A relating to rate spread.

### **III. REVENUE AND RATE PHASE-IN**

3.0 Phase 1. The \$4.3 million revenue increase referenced in Paragraph 2.0 of this Settlement will be implemented in two phases. The first phase of the rate change will be a \$3 million revenue increase (8.43%) effective after the Commission issues an order approving this Agreement, but no earlier than November 1, 2000. The Parties agree to support Commission approval of the first phase of the revenue increase as of November 1, 2000, or as early as the Commission may make a decision regarding this Agreement.

3.1 Phase 2. The second phase of the rate change will be a further \$1.3 million revenue increase (3.37%) effective on October 1, 2001. The Company will file to implement Phase 2 of the revenue increase 30 days prior to October 1, 2001.

3.2 Phase 3. The third phase of the rate changes will be a filing to implement new Schedules 90 and 91 in Washington effective June 1, 2002, as indicated in paragraph 4.4 below. This third phase implements rate changes for the referenced schedules only, and does not effect a change in revenue requirement.

### **IV. RATE SPREAD**

4.0 Rate Spread Exhibit. The rate spreads for the Phase 1 and Phase 2 rate changes will be developed for each rate schedule consistent with the spreadsheet relating to rate spread attached as Exhibit A. The rate spread for the Phase 1 rate changes is generally consistent with equal percentage of margin principles, except that the revenue increases in some schedules will be reduced and reallocated in accordance with the agreements of the Parties, as reflected in

Exhibit A. The rate spread for Phase 1 rate changes is as shown on Exhibit A, line 4. The rate spread for Phase 2 rate changes will be as shown on Exhibit A, line 5.

4.1 Schedules 2 and 24. The total revenue increase assigned to Schedules 2 and 24 will be allocated between the two schedules on a uniform cents/therm basis, as indicated in Exhibit B, columns c and e, for Schedules 2 and 24.

4.2 Special Contracts. Collection of the revenue allocated to Special Contracts in Exhibit A is subject to the Company's ability to collect under the terms of the Company's individual special contracts.

4.3 Rate Spread Non-Precedential. Nothing in this Settlement relating to the rate spread in Exhibit A or Exhibit B will be precedential in a future general rate case with respect to the results or methodology of cost of service studies to be applied to the Company. For purposes of this Settlement, the Parties agree that none of the cost of service methodologies in the record are precedential for future filings.

4.4 Schedules 90 and 91. Effective with the Phase 1 rate changes, the Company will implement in each current rate block in Washington Schedules 90 and 91 the rate levels in the equivalent rate blocks in Oregon Schedules 90 and 91 that were in effect in April 1999. Effective with the Phase 2 rate changes, the Company will implement in each current rate block in Washington Schedules 90 and 91 the rate levels in the equivalent rate blocks in Oregon Schedules 90 and 91 that are in effect as of September 1, 2000 (the post-Oregon Docket No. UG 132 rates). As Phase 3 of the rate changes, the Company will file, proposed to be effective on June 1, 2002, rate changes in these schedules designed to converge the rates between Oregon and Washington by implementing in each current rate block in Washington Schedules 90 and 91 the

rate levels in the equivalent rate blocks in Oregon Schedules 90 and 91 that are in effect on that date. The Company's agreement to file the Phase 3 rates in Schedules 90 and 91 will not bind any other party to this proceeding as to their positions on the Phase 3 filing, or the Commission as to its disposition of that filing.

4.5 In connection with all rate changes in Schedules 90 and 91, Washington temporary rate increments will be substituted for Oregon temporary rate increments; the Schedule 211 surcharges will be removed; and new schedule-specific rate increments will be applied for recovery of FAS 106 costs, as required. The Company will not offset the revenue reductions due to the Phase 2 and Phase 3 rate changes in Washington Schedules 90 and 91 through revenue increases spread to other rate schedules in this proceeding. The Company is not waiving its right, however, to file for recovery of revenues lost from these schedules through future general rate increases in these or other schedules, subject to the rate moratorium constraint set forth below in Section VII.

## **V. RATE DESIGN**

5.0 The rate design to be implemented in the Phase 1 rate change is depicted in Exhibit B, column d, of this Settlement. The rate design to be implemented in the Phase 2 rate change is depicted in Exhibit B, column f, of this Settlement.

5.1 The customer charges for Schedules 2 and 24 shall remain at \$4.00 through the Phase 1 rate change, with all of the increase spread to the commodity blocks on a uniform cents per therm basis. At the time of the Phase 2 rate change, the customer charge shall be increased to \$4.25, and the balance applied to the commodity blocks on a uniform cents per therm basis. The Company, Staff, Public Counsel and other interested parties will conduct discussions following

conclusion of the rate case in an effort to develop reasonable changes to the design of the Company's residential rate schedules for future application either inside or outside a general rate case context. Any such redesign of residential rates is not subject to the rate moratorium set forth below in Section VII.

#### **VI. JOINT METER READING**

6.0 The Company will initiate discussions with Clark County Public Utility District relating to the potential for joint meter reading and joint billing of overlapping gas and electric customers in Clark County. The Company will report to the Parties in this proceeding on the progress of these discussions at the time of the company's filing to implement Phase 2 of the rate change.

#### **VII. RATE MORATORIUM**

7.0 The Company agrees not to file for another general rate increase in Washington before June 1, 2002. If the Company does file a general rate case on or after June 1, 2002, then new rates from that case will not take effect before April 1, 2003, unless there is an agreement by the parties in that case, approved by the Commission, that rate changes may take effect earlier.

7.1 A general rate case filing may be made by the Company before June 1, 2002, however, if interim rate relief is warranted under the six-part standard adopted by the Commission in *WUTC v. Pacific Northwest Bell Telephone Company*, Cause No. U-72-30 (October 1972).

7.2 The moratorium on general rate filings described in Paragraph 7.0 of this Settlement does not preclude the Company from requesting, or the Commission from approving,

tariff or rate changes to implement purchased gas adjustments, technical rate adjustments, new service offerings, special contract filings, or intra-class rate redesigns that do not shift costs from one class to another class.

### **VIII. GENERAL PROVISIONS**

8.0 The Parties agree to support this Settlement as a settlement of all contested issues in this proceeding. The Parties understand that this Settlement is not binding on the Commission in ruling on the Company's rate filing. Except for Phase 1 and Phase 2 rate change filings, nothing in this Settlement binds the Parties to take any particular position with respect to filings which the Company is authorized to make under this Settlement, nor is the Commission bound to take any particular action with respect to such filings.

8.1 The Parties agree that this Settlement represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Settlement shall not be admissible as evidence in this or any other proceeding.

8.2 The Parties have negotiated this Settlement as an integrated document. Accordingly, the Parties recommend that the Commission adopt the Agreement in its entirety.

8.3 The Parties shall cooperate in submitting this Settlement promptly to the Commission for acceptance. The Parties agree to support the Settlement throughout this proceeding, provide witnesses to sponsor the Settlement at a Commission hearing, and recommend that the Commission issue an order adopting the Settlement.

8.4 In the event that the Commission rejects all or any material portion of this Settlement, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within seven (7) days of the Commission's order, to withdraw from the



Settlement. In such event, the Parties will jointly request the reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case (including hearings and briefs). The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties participating in hearings and preparing briefs. The Company agrees to an extension of the suspension period for such period as is reasonably necessary to accommodate the revised procedural schedule.

8.5 The Parties enter into this Settlement to avoid further expense, inconvenience, uncertainty and delay. By executing this Settlement, no Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed in arriving at the terms of this Settlement, nor shall any Party be deemed to have agreed that any provision of this Settlement is appropriate for resolving issues in any other proceeding.

8.6 This Settlement may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 26th day of September, 2000.

NORTHWEST NATURAL GAS  
COMPANY

CHRISTINE O. GREGOIRE  
Attorney General

---

By: MARK S. DODSON  
Sr. Vice President, Public Affairs  
Division, and General Counsel

---

ROBERT D. CEDARBAUM  
Senior Counsel  
Attorneys for WUTC Staff

NORTHWEST INDUSTRIAL  
GAS USERS

CHRISTINE O. GREGOIRE  
Attorney General

---

By: EDWARD S. FINKLEA  
Attorney at Law

---

ROBERT CROMWELL  
Assistant Attorney General  
Public Counsel Division

SEH AMERICA

DAVISON VAN CLEVE, P.S.

---

By: ROBERT S. SCHAEFER  
Attorney at Law

---

MELINDA DAVISON  
Attorneys for Washington Food Industries