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March 27, 2015

VIA ELECTRONIC FILING

Steven V. King, Executive Director and Secretary
WASHINGTON UTILITIES &
TRANSPORTATION COMMISSION
1300 S Evergreen Park Drive, SW
Post Office Box 47250
Olympia, Washington 98504-7250

Re: Docket No. U-150040
Investigation of possible ratemaking mechanisms to address utility earnings attrition

Dear Mr. King:

Northwest Natural Gas Company, d.b.a. NW Natural ("NW Natural" or "Company") provides the following comments in response questions the Commission posed regarding an investigation of possible ratemaking mechanisms to address utility earnings attrition. Specifically, the Notice dated February 5, 2015 asked five questions concerning our perspective of attrition and our preferences for mechanisms to mitigate attrition. The Company's response to each of the five questions is provided below.

1) **Your organization's perspective on the cause(s) of utility earnings attrition, e.g. high inflation, aggressive capital investment in infrastructure, low/no load growth.**

   NW Natural believes that the primary cause of earnings attrition is the use of an historic test period for purposes of general rate case filings. Because a utility has the opportunity to file a rate case at any time, it can obtain rate recovery for new and higher expenses required to operate the utility on a current or ongoing basis, including expenses related to plant investment. On the other hand, the utility cannot catch up to systematic increases of existing costs caused by inflation, when revenue recovery commensurate with new rates reflects costs that occurred more than a year previously.

2) **Your organization's preferred ratemaking mechanism(s) for addressing each of the forms of earnings attrition identified in (1) above, e.g., an attrition allowance, pro forma plant in rate base, construction work in progress (CWIP) in rate base, or future test year. Please include a discussion of the benefits and shortcomings of your preferred mechanism and of alternative mechanisms. Also discuss whether the**

different causes of attrition require different ratemaking solutions, in your respective view.

NW Natural's preference would be to adopt the use of forecast test periods in general rate case filings. It is understood that using a forecast involves the use of data that is not known and measurable, but there are rate case items such as customer usage that are normalized in the historic rate case environment, primarily with regard to several years of history. A forecast test period would merely broaden the use of different methods of normalization.

3) If your organization prefers the Commission adhere to a historical test year ratemaking approach, please discuss why it would or not it would be appropriate to consider potential earnings attrition in that historical year context.

The Company does not prefer the use of an historic test year for ratemaking.

4) If your organization has a preferred mechanism(s), please discuss the requirements and parameters necessary for calculating the adjustment(s). Please include in your comments responses to the following questions:
a. Should an attrition analysis include historical data only?
b. Should rate-year capital budgets be considered?
c. Should there be a "bright-line" cutoff date for including pro forma plant in rate base?
d. What level of precision should be expected for projected capital budgets (budgeted to actual) for ratemaking?

The use of a forecast test period requires projections of all revenue requirement components. Revenue and cost components would likely be calculated based on forecasts of customer counts and the traditional use-per-customer numbers, particularly for residential and commercial. Industrial use could be based on a recent multi-year averages or a 12-month history with exceptions normalized. Current revenue rates and gas cost increments would then be applied. O&M could be forecast based in part on expected wage growth resulting from cost of living and other adjustments. Non-labor O&M could be based on recent trending in those cost areas, or alternatively on inflation over a base period. Taxes tend to be a function of other elements. Plant would be tied to the capital budget, particularly for capital expense related to new customer additions (tied to the customer counts used for revenue purposes). Other new capex that is material in size could be included, possibly with an assurance that the new plant would be used and useful prior to the effective date of new rates.

5) Please provide any other information, discussion, analysis, or documentation you believe would help inform the Commission on this issue.

NW Natural has no further comments or information at this time.

NW Natural appreciates the opportunity to provide comments in this proceeding, and we look forward to participating in the open meeting on April 16, 2015.

Please address correspondence on this matter to me with copies to the following:

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Sincerely,

NW NATURAL

/s/ Mark R. Thompson

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