SCHEDULE 159

NATURAL GAS DECOUPLING RATE ADJUSTMENT

PURPOSE:

This Schedule is a program to allow the Company to recover costs associated with providing Natural Gas distribution service as authorized by the Commission in the Company’s last general rate filing.

APPLICABLE:

To Natural Gas Customers served under General Service Schedule 101.

MONTHLY RATE:

$0.00499 per therm

The monthly rate set forth above reflects the recovery of 80% of the lost margin realized by the Company from July 2008 through June 2009 for Schedule 101, as described in more detail below. This lost margin results from lower customer usage due to the implementation of natural gas conservation measures.

SPECIAL TERMS AND CONDITIONS:

Monthly Revenue Deferral Calculation

Following the end of each month, the Company will compute a deferred revenue amount to be recorded in a special account. This deferred revenue amount can be either a debit or credit and will be determined as follows:

1. The difference in weather-corrected therm sales for the current month (Current Therm Sales) and the Base Therm Sales for the corresponding month (June to June) will be calculated for Schedule 101. Base Therm Sales shall be the monthly weather-corrected therm sales from the Test Year reflected in the Company’s most recent Commission-approved general rate filing. Prior to calculating the difference between Current Therm Sales and Base Therm Sales, Current Therm Sales will be adjusted for: 1) a New Customer Adjustment, reflecting the reduction of total usage during the current month for new customers added to the Company’s natural gas system since the corresponding month of the Test Year and 2) a Schedule Shifting Adjustment, reflecting the usage of customers that have switched to or from Schedule 101 (from another rate schedule) since the corresponding month of the Test Year.
2. The difference in usage determined in (1) will be multiplied by $0.24216. This rate represents the margin (rate less gas costs) under Schedule 101.
3. If the result calculated in (2) above is a negative amount, 45% of that amount will be recorded as a debit to the deferred revenue account, representing a potential surcharge. If the result is a positive amount, 45% of that amount will be recorded as a credit to the deferred revenue account, representing a potential rebate.

SCHEDULE 159A

NATURAL GAS DECOUPLING RATE ADJUSTMENT

Annual Decoupling Filing

On or before September 1st each year, the Company will file a request with the Commission to surcharge or rebate the amount accumulated in the deferred revenue account for the prior July through June period. The amount of deferred revenue that the Company can request to surcharge is subject to limitation based on the two “tests” described in (1) and (2) below. The tests will be calculated independently and the test resulting in the lowest surcharge amount will be used.

1. Earnings Test

The Company cannot request to implement a surcharge amount that would cause it to exceed its most recent authorized rate of return. The Company will use the rate of return determined in its filed natural gas Commission-basis report for the most recent calendar year. If the rate of return from that report exceeds the authorized rate of return, the amount of the deferred revenue to be surcharged will be reduced by an amount that would reduce the rate of return to the authorized level.

1. Demand Side Management (DSM) Test

The amount of deferred revenue that the Company can recover/surcharge under this Schedule is also subject to the amount of gas conservation savings for Washington customers achieved through Company-sponsored DSM programs during the prior calendar year. An annual DSM target will be established each year based on the Company’s annual natural gas DSM goal set forth in its most recent Integrated Resource Plan. The amount of “lost margin” (as determined in (3) under Monthly Revenue Deferral Calculation, prior to the application of 45%) that the Company can recover through a surcharge, will be based on the following table:

Actual vs Target DSM Savings Surcharge vs Lost Margin

< 70% 0%

> 70% and < 80% 15%

> 80% and < 90% 25%

> 90% and < 100% 35%

>100% 45% (amount deferred)

SCHEDULE 159B

NATURAL GAS DECOUPLING RATE ADJUSTMENT

2% Annual Rate Increase Limitation

Following the application of the Earnings and DSM tests described above, the amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 2% rate increase. This will be determined by dividing the incremental annual revenue to be collected (proposed surcharge revenue less present surcharge revenue) under this Schedule by the total “normalized” revenue for Schedule 101 for the most recent July – June period. Normalized revenue is determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental amount of the proposed surcharge exceeds 2%, only a 2% incremental rate increase will be proposed and any remaining deferred revenue will be carried over to the following year.

After determining the amount of deferred revenue that can be recovered through a surcharge (or refunded through a rebate), the proposed rate under this Schedule will be determined by dividing the deferred revenue to be recovered by the estimated therms sales for Schedule 101 during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a Decoupling Balancing Account and the actual revenue received under this Schedule will be applied to the Account to reduce (amortize) the balance. Interest will be accrued on the unamortized balance in the Decoupling Balancing Account at the quarterly rate published by the FERC.

DSM Target for Annual Rate Adjustment

The DSM Target to be used for the DSM Test in the annual rate adjustment filing is the annual Washington DSM goal for the previous calendar year reflected in the Company’s most recent Natural Gas Integrated Resource Plan.

(N)

* 2009 DSM Target – 1,581,828 therms (1,043,087 therms from Washington)