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October 24, 2017

NWN WUTC Advice No. 17-12 / UG-\_\_\_\_\_

**VIA ELECTRONIC FILING**

Steven King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive, S.W.  
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Re: New Multi-Family Tariff (Optional); Application for an Accounting Order  
Rate Schedule 7 “Residential Multi-Family Service”  
Schedule 405 “Builder/Developer Program (Optional) Multi-Story Multi-Family”

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), files herewith the revisions and additions to its Tariff WN U-6 listed on the attached Table of Tariff Sheet Revisions and stated to become effective with service on and after **December 1, 2017**:

The first purpose of this filing is to request approval of two new Tariff schedules; Schedule 405 “Builder/Developer Program (Optional) Multi-Story Multi-Family” and Schedule 7 “Residential Multi-Family Service” that together comprise an optional program designed to improve residential customer access to end-use natural gas appliances in the multi-story, multi-family residential market.

The second purpose of this filing is to make revisions to certain other tariff sheets that are part of WN U-6 which include Tariff index sheets, certain definitions, certain general rules and regulations, and certain rate schedules, as listed on the attached Table of Tariff Sheet Revisions. The proposed revisions to these sheets directly relate to the addition of the two new tariff schedules referenced above.

**Background**

NW Natural’s Southwest Washington service territory has experienced an increase in new construction multi-story, multi-family buildings. NW Natural understands that this trend is in accordance with regional planning efforts and direction, and expects that it will continue going forward as well. Unfortunately, NW Natural does not currently have a tariff that is tailored to the specific circumstances of multi-family, multi-story residential units. This has resulted in a situation where multi-family, multi-story buildings often make use of natural gas as a commercial customer for centralized uses only, such as boilers for water heat or to serve ground-floor commercial spaces. However, there is usually no availability of natural gas to the individual residential tenants of these buildings. This means that tenants of these buildings are unable to

use natural gas for cooking, clothes drying, or barbequing, even though natural gas appliances for these purposes are often preferred by tenants.

Through discussions with developers NW Natural has confirmed that the cost of the houseline (the piping necessary to deliver gas from the commercial meter to the individual units), which is a cost borne by developers, is the most significant barrier to expanding access to natural gas to individual units. Thus, in many buildings, natural gas is already on site and the developer has paid all costs necessary to have a main (if required), service line, and meter installed, but because houseline is not installed to tenant units, the use of gas is not available to individual tenants.

In light of this situation, NW Natural sought to develop a simple optional tariff that could be available to building developers and tenants that desire to have access to natural gas for low-use gas appliances within multi-family, multi-story buildings. With this filing, NW Natural requests approval to implement tariffs that do this by 1) providing a means by which ready access to natural gas is available to individual tenants in multi-family, multi-story buildings, and 2) containing all of the costs of such tariff within the class of customers that choose to take service under it.

Specifically, the proposed Schedule 405 would allow NW Natural to invest \$750 per tenant unit to partially offset developers' first-costs of installing houseline to those units. Then, under a newly proposed Rate Schedule 7, NW Natural would recover its investment from the individual tenants through a reasonable monthly fixed charge.<sup>1</sup> Together, Schedules 7 and 405 make access to natural gas in individual tenant units in multi-story, multi-family developments an affordable endeavor for both the developer and for the end-use tenant. And, they do so in a manner that does not affect the rates or services of other NW Natural customers.

A more detailed discussion of each of the proposed schedules is provided below.

#### **Schedule 405: "Builder/Developer Program (Optional) Multi-Story Multi-Family"**

Under proposed Schedule 405, NW Natural would invest \$750.00 per residential tenant unit where low-use gas appliances (range/cooktop, dryer, or barbecue) are installed by a developer of a qualifying multi-story multi-family building. To qualify, the building must be a minimum of three stories with two or more residential living units stacked vertically<sup>2</sup> ("Qualified Multi-Family Building") and must have centralized use gas equipment installed and served under a commercial service rate schedule. In order to receive payment, the developer must complete the following steps:

- Install houseline from the commercial meter connection to the individual tenant units in which one or more low-use gas appliance is installed.
- Install shut-off valves along the houseline for each tenant unit, and at any other locations within the building that NW Natural deems necessary.
- Install in-unit gas appliances, inspected and approved by NW Natural.

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<sup>1</sup> NW Natural anticipates that these rate schedules would only be used for newly constructed buildings, as it is not cost effective to retrofit a multi-story, multi-family building with gas houseline if not already installed at construction.

<sup>2</sup> Two-story buildings or "side-by-side" multifamily buildings that are not stacked do not face the same logistical issues with the installation of natural gas piping or meters.

The proposed program requires the installation of shut-off valves to each individual tenant unit. The required shut-off valves will enable the Company to perform disconnection and reconnection of service for non-payment and/or for tenant turnover, and will also provide the ability to isolate the flow of gas on an individual unit and/or floor-by-floor basis should it be necessary. This will serve to materially enhance the level of control of natural gas (for safety or other purposes) beyond what typically exists in centrally-metered multi-story, multi-family buildings.

The \$750.00 investment is designed to only partially cover the expected costs to the developer to complete the required houseline and shut-off valve installations.<sup>3</sup> It does, however, represent a meaningful portion of the costs developers incur to install houseline, and is also set at a level that ensures that individual tenant customers pay a low monthly rate (which is calculated to recover the cost of service on the per-unit investment, as described more fully below).

As proposed, Schedule 405 provides that the builder/developer shall be responsible to ensure that the building manager/owner informs every tenant about the gas service associated with the unit prior to signing any lease agreement. In addition, the builder/developer would be responsible to ensure that the installation of gas piping and gas appliances installed under the program remain in place should the building be sold after construction is complete.

Nothing in Schedule 405 or Rate Schedule 7 modifies the terms of NW Natural's line extension policies in force today under Schedule E. Schedule 405 and Rate Schedule 7 only operate with respect to the incremental investment in houseline beyond the meter, and provide for traditional ratemaking to recover that incremental investment from those for whom the investment provides service. Any costs associated with mains or service lines up to the point of the meter at the building will be made in accordance with Schedule E, and paid for, as appropriate by the commercial customer.

This filing proposes language additions to the Company's three non-residential rate schedules (Schedule 3, Schedule 41, and Schedule 42) that clarify the obligations of any Schedule 405 participant building manager/customer to ensure that the Schedule 405 obligations are honored. Also in support of the proposed Schedule 405 program, the Company proposes revisions to General Rule 10 'Gas Delivery and Measurement' and General Rule 8 'House Piping and Gas Appliance Standards.'

### **Rate Schedule 7: "Residential Multi-Family Service"**

The purpose of Rate Schedule 7 is to establish the monthly fixed charge applicable to individual tenants of Schedule 405 participant buildings that enroll in natural gas service. The monthly fixed charge is derived using a standard cost-of-service rate model and a 25-year amortization period. The total capital investment per unit is \$790 (\$750 incentive plus \$40 for the shut-off valve). The cost of service model also includes a component to cover annual incremental O&M expense associated with the customer. After adjusting for applicable taxes and depreciation plus a return on the capital investment at the Company's authorized weighted

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<sup>3</sup> The estimated cost came in at \$1,125 per unit. The estimate came from an engineering firm hired by the Company to develop a cost estimate for per-unit houseline costs in the Portland-metro area. Given the proximity to the Company's Washington service territory, the Company believes that figure is representative of Washington experience.

average cost of capital (7.51%), the result is an annual cost of service of \$124.22 per unit, which results in a monthly customer charge of \$10.35. See Supporting Materials, pages 1-2.

The use of the traditional cost-of-service rate model ensures that other ratepayers do not subsidize any portion of the Schedule 405 program, and that the Company is fully compensated for its investment directly from the Rate Schedule 7 customers. To ensure this balance is maintained throughout the life of the program, the monthly rate under Rate Schedule 7 would be adjusted in the event of any change to the Company's authorized rate of return and/or O&M expense approved in the context of any subsequent general rate proceeding.

Under Rate Schedule 7, customers will not be billed for gas usage. Instead, all gas usage will be measured through the commercial meter and billed to the account associated with the commercial meter (*i.e.* the building owner/operator).<sup>4</sup> The Schedule G energy efficiency conservation programs would be available to the commercial building, but not to the occupants served under Rate Schedule 7. Because Rate Schedule 7 does not include charges related to natural gas, Rate Schedule 7 customers would not be eligible to participate in the Company's low-income programs (Schedule I 'Washington Low-Income Energy Efficiency (WA-LIEE) Program' and Schedule J 'Gas Residential Energy Assistance Tariff (GREAT)'<sup>5</sup>.

Except with regard to the programs referenced above, a Rate Schedule 7 customer will in all other respects be subject to the same terms and conditions of service applicable to any other residential customer. This includes, but is not limited to, requirements for the application for service and establishment of credit, payment of deposits, disconnection of service for non-payment, free appliance inspection and adjustment, etc. Because the monthly bill for a Rate Schedule 7 account will be fixed, the Company proposes with this filing to add to General Rule 3 'Deposits' a new deposit amount of \$20 that would apply only to the Rate Schedule 7 service. The \$20 represents approximately two months of Rate Schedule 7 charges, which is similar to the manner in which a deposit amount is determined under WAC 480-90-113(3).

Any disconnection of service to a Rate Schedule 7 customer will be performed by closing the shut-off valve dedicated to that tenant unit. Similar to the typical disconnection of service, the Company will be required to visit the site to perform the disconnection of service and to subsequently reactivate service. As with any other residential customer, access to the gas equipment at the time of reconnection will be required.

In addition to the change to General Rule 3, the Company proposes as part of this filing some minor housekeeping changes to General Rule 1 'Service Application and General Terms of Service' and General Rule 4 'Billing, Payment Responsibilities, and Payment Arrangements' that support the addition of the proposed Rate Schedule 7 service to the Company's tariff.

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<sup>4</sup> NW Natural notes that Rate Schedule 7 pertains only to low-use non-heating appliances for which there are no energy efficiency offerings, which should alleviate any concerns about individual customers not directly paying for their specific use.

<sup>5</sup> The low-income WA-LIEE and GREAT programs are designed to assist space heating customers, and Rate Schedule 7 will not serve space heating usage.

### **Program Accounting**

Under the proposed tariff, amounts paid to builder/developers under Schedule 405 will be placed into an asset account. The amortization component of amounts paid by participant building tenants through their monthly bill payments will be applied to the asset account to pay down the balance in that account. This approach ensures that the Company can recover the costs associated with providing the Schedule 405 and Rate Schedule 7 services, and that it will do so only from customers receiving services under those schedules.

To implement this tailored accounting approach, NW Natural seeks an accounting order that authorizes NW Natural to 1) establish a regulatory asset to record (a) payments made to builders/developers under Schedule 405, and (b) the collection of amortized amounts from NW Natural's Rate Schedule 7 Residential customers; and 2) include the regulatory asset net of amortizations in rate base (with the recovery of the return on that asset being a component of the Rate Schedule 7 rate).

### **Change in Annual Revenue**

WAC 480-80-104(7) requires NW Natural to set forth the change in annual revenues associated with the tariff filing. Because NW Natural is unable, at this time, to forecast the number of customers that may take service under Rate Schedule 7, NW Natural cannot determine the change in annual revenues to the Company associated with the filing. However, NW Natural expects that the annual revenue impact will be small, and it will be equal to the annual cost of service of the incentive that it pays to developers under Schedule 405. For example, if 1,000 units of multi-family, multi-story residential buildings were to become NW Natural Rate Schedule 7 customers (which is greater than the amount the Company would expect, especially during the first year after the tariff's implementation), then NW Natural would expect to receive revenues of about \$156,000.

### **Proposed Review of Program**

The Company expects that it could take about 18 months from the start of building construction before any amounts under Schedule 405 are disbursed and the first Schedule 7 customer activates service. Because this is a new endeavor for the Company, and stakeholders and the Commission may be interested in monitoring its success, NW Natural proposes to incorporate a subsequent program review. Toward that end, the Company proposes to submit a program review after 5-years of program operation. This review would include a description of the uptake of service under Rate Schedule 7 and the Company's revenues from the rate schedule.

**Requested Action**

The Company respectfully requests that the tariff sheets and application for an accounting order filed herein be approved by the Commission to become effective with service on and after December 1, 2017.

As requested by WAC 480-80-103(4)(a), I certify that I have authority to issue tariff revisions on behalf of NW Natural.

A copy of this filing is available for public inspection in the Company's main office in Portland, Oregon and on its website at [www.nwnatural.com](http://www.nwnatural.com).

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

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Sincerely,

*/s/ Onita King*

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Attachments:

UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet v – 10-24-2017  
UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet vii – 10-24-2017  
UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet 00.6 – 10-24-2017  
UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet 00.7 – 10-24-2017  
UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet 00.8 – 10-24-2017  
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UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet 1.3 – 10-24-2017  
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UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Sheet 107.1 – 10-24-2017  
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UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Exhibit A – 10-24-2017  
UG-\_\_\_-NWNs WUTC Advice 17-12\_Multi-Family\_Exhibit A\_xlsx – 10-24-2017

**TABLE OF TARIFF SHEET REVISIONS**  
**PROPOSED TO BECOME EFFECTIVE December 1, 2017**

<b>Sheet I.D.</b>	<b>PROPOSED REVISION</b>	<b>CANCELED REVISION</b>	<b>SCHEDULE TITLE</b>
V	Sixth Revision	Fifth Revision	Tariff Index (continued)
vii	Fifteenth Revision	Fourteenth Revision	Tariff Index (continued)
00.6	Seventh Revision	Sixth Revision	General Rules and Regulations; Definitions (continued)
00.7	Sixth Revision	Fifth Revision	General Rules and Regulations; Definitions (continued)
00.8	Fourth Revision	Third Sheet	General Rules and Regulations; Definitions (continued)
1.2	Second Revision	First Sheet	General Rule 1 "Service Application and General Terms of Service (continued)"
1.3	Second Revision	First Revision	General Rule 1 "Service Application and General Terms of Service (continued)"
3.1	Second Revision	First Revision	General Rule 3 "Deposits"
4.1	Fourth Revision	Third Revision	General Rule 4, "Billing, Payment Responsibilities and Payment Arrangements"
4.1.1	Third Revision	Second Revision	General Rule 4, "Billing, Payment Responsibilities and Payment Arrangements (continued)"
8.1	First Revision	Original Sheet	General Rule 8, "House Line and Gas Appliance Standards"
10.1.1	First Revision	Original Sheet	General Rule 10 "Gas Delivery and Measurement (continued)"
103.1	Fifteenth Revision	Fourteenth Revision	Rate Schedule 3, "Basic Firm Sales Service Non-Residential"
107.1	Original Sheet	N/A	Rate Schedule 7, "Residential Multi-Family Service"
141.2	Seventh Revision	Sixth Revision	Rate Schedule 41, "Non-Residential Sales and Firm Transportation Service (continued)"
141.3	Fifth Revision	Fourth Revision	Rate Schedule 41, "Non-Residential Sales and Firm Transportation Service (continued)"
141.3.1	First Revision	Original Sheet	Rate Schedule 41, "Non-Residential Sales and Firm Transportation Service (continued)"
142.2	Seventh Revision	Sixth Revision	Rate Schedule 42, "Large Volume Non-Residential Sales and Transportation Service (continued)"
142.3	Seventh Revision	Sixth Revision	Rate Schedule 42, "Large Volume Non-Residential Sales and Transportation Service (continued)"
142.3.1	First Revision	Original Sheet	Rate Schedule 42, "Large Volume Non-Residential Sales and Transportation Service (continued)"
405.1	Original Sheet	N/A	Schedule 405, "Builder/Developer Program (Optional) Multi-Story Multi-Family"
405.2	Original Sheet	N/A	Schedule 405, "Builder/Developer Program (Optional) Multi-Story Multi-Family (continued)"