

SERVICE DATE

MAY 1 1 1995

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Washington Utilities and	)	
Transportation Commission,	)	DOCKET NO. UG-950278
	)	
Complainant,	)	
	)	
v.	)	
	)	THIRD SUPPLEMENTAL ORDER
Washington Natural Gas Company,	)	REJECTING TARIFF FILING;
	)	AUTHORIZING REFILING
Respondent.	)	
.....	)	

This proceeding involves a filing of Washington Natural Gas Company, presented to the Commission on March 3, 1995 and deemed filed pursuant to permission on March 17, 1995, seeking a general increase of \$35.4 million in its rates and charges for providing natural gas to customers within the State. The Company also asked authority to collect interim rates producing \$17.83 million per year while the Commission considered the general rate filing.

The parties were represented as follows: David S. Johnson and Matthew R. Harris, attorneys, Seattle, represented Washington Natural Gas Company. Anne Egeler, assistant attorney general, Olympia, represented the Staff of the Commission. Carol Arnold, attorney, Seattle, represented intervenor Partnership for Equitable Rates for Commercial Customers (PERCC). Paula Pyron and Edward Finklea, attorneys, and Mary Ann Hutton, Executive Director, Portland, represented intervenor Northwest Industrial Gas Users (NWIGU). Frederick O. Frederickson, attorney, Seattle, represented intervenor Seattle Steam Company. Donald T. Trotter, assistant attorney general, Seattle, acted as Public Counsel to represent the interests of members of the public in the proceeding.

After the rate filing, the parties entered a period of negotiation. As a result of the negotiations, all parties reached substantial agreement and most of the parties reached total agreement as to an appropriate level for Company rates. The proposal would authorize the Company an increase of \$17.7 million on an annual basis.

The parties waived the requirement of notice for a hearing session to describe the settlement agreement to the Commission, and did so on May 2, 1995, at a hearing session previously scheduled to receive the parties' evidence on the request for interim rates. The parties agreed on the record to a hearing session on May 10, 1995 at 1:30 p.m. in Olympia, allowing for public comment on the proposed settlement.

I. The Settlement Proposal.

- \* The Company withdraws its petition for interim rate relief.
- \* The Company's general rate request is submitted to the Commission upon the joint request of the parties with a stipulated annual revenue increase of \$17.7 million.
- \* The stipulated increase is intended to allow the Company to earn a return on equity of 11.0 to 11.25%. The Company's actual return may exceed this range if it is able to manage its costs of providing service.
- \* The parties propose a spread of rates that they contend is consistent with the Commission's Fifth Supplemental Order, without precedent as to result or methodology.
- \* The parties request the Commission to expedite its decision so that rates may be implemented by May 15, 1995.
- \* The Company will file gas tracker and Purchase Gas Adjustment (PGA) filings to be effective on less than statutory notice on May 15, 1995.
- \* The Company will begin amortizing pre-1995 DSM costs over a 5-year period and will cease to accrue an Allowance for Funds Used to Conserve Energy on costs deferred through Dec. 31, 1994. DSM costs accrued Jan. 1, 1995, and later will be treated consistently with the methodology approved in Docket No. UG-950287.<sup>1</sup>
- \* The Company agrees to study Public Counsel's proposal in Docket No. UG-940814 to provide a credit for curtailment in interruptible schedules but to otherwise consider the service firm and to present the results of its study in its next general rate case.
- \* The parties request that the Commission give the parties three days' notice of any ordered modifications to the agreement to allow them to determine whether to accept the modifications.

II. PERCC's Rate Design issue.

PERCC's single disagreement with the proposed settlement is with rate design. PERCC does not object to spread of rates, but to the design of rates -- especially among three

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<sup>1</sup>Although the Settlement Agreement states this number as UG-930278, we understand that reference to be a typographical error and we substitute this number. If the parties had a different docket in mind, they may bring that to the Commission's attention in a request for clarification or reconsideration.

rate blocks within the transportation schedule, Schedule 57. That proposed schedule is steeply sloped, with relatively high charges for the first three blocks (that PERCC points out pick up all of the increase in the rate case settlement over the pending prior compliance filing). This design favors large customers, PERCC says, and operates in conjunction with the high monthly fee and the proposed large tail block to bar smaller customers from transportation. PERCC contends that the proposed rate structure moves to create a greater difference rather than to reduce the differences, contrary to directions in the Fifth Supplemental Order to make the transportation schedule and margin of the interruptible schedules parallel. PERCC proposes that we order changes in the rates of the first three blocks to moderate the effect on smaller transportation customers. PERCC's witness is Mr. Carter.

The Company presented Mr. Amen in support of the settlement proposal, contending that the proposed schedule reflects costs of providing service and sends proper price signals to customers faced with choosing sales or transportation service. NWIGU presented Mr. Schoenbeck, who contends that the PERCC proposal minimizes disincentives to switch services and shifts responsibility for the Schedule 57 customer charge from those taking fewer than 50,000 therms to those taking more.

The Commission rejects PERCC's challenge to the settlement proposal. We are satisfied from the evidence that the rate proposal is reflective of costs and that, on balance, it is within a range that is fair, just, reasonable and sufficient.

III. The Settlement.

Having determined that the challenge to a portion of the settlement should be rejected, the Commission's next task is to consider the settlement as a whole. Our job is to determine whether the settlement is consistent with the public interest and whether the rates produced thereby are fair, just, reasonable and sufficient.

Mr. Davis, a witness representing the Company on policy matters, testified regarding the settlement. He stated that the proposal allows the company the opportunity to achieve an appropriate rate of return. He noted that the Company is in an improved financial situation because of internal business restructuring it has accomplished and because of recent Commission decisions restructuring rates to meet costs of growth, minimizing attrition, and granting a new line extension policy. The Company believes that it can grow economically while maintaining rates at the proposed levels.

The Commission scheduled two hearings for members of the public to offer testimony. First, it heard comments on the company's request for interim rates on April 21, 1995. A hearing session on May 10, 1995 was scheduled for comment on the rates a level proposed in the settlement agreement. Public Counsel has also submitted written comments of consumers. In general, the comments oppose any rate increase. The Commission respects the concerns voiced to it, largely from persons with

fixed or limited incomes, and acknowledges that the concerns are real and are serious to the commenters.

The Commission believes, nonetheless, that the proposed rates are cost-based, that the proposal produces rates that are fair, just, reasonable, and sufficient, and that acceptance of the stipulation protects the public from a possible higher rate increase as well as costs of litigation if the matter were pursued through a full hearing. It also provides assurances that the Company will not file a general rate increase for another two years.

The Commission has reviewed the proposed settlement carefully. It believes that the settlement is consistent with the public interest and that the rates that it produces are fair, just, reasonable, and sufficient. The Commission accepts the settlement.

IV. Conclusion.

The Commission accepts the Settlement Agreement that the parties have proposed. It will authorize the company to file permanent rates consistent with the Settlement Agreement to take effect on Monday, May 15, 1995. The Commission today by separate order rejects the compliance filing in Docket No. UG-940814 because it will be superseded by the filing approved herein.

The Commission by separate orders in Docket Nos. UG-950498 and UG-950499 also authorized tariff revisions to take effect altering the rate for gas sales because of changes in the Company's cost of gas and changes in its deferred gas cost accounts, respectively. The net result of all of these changes for most customers purchasing gas from Washington Natural Gas is a rate decrease.

The Commission acknowledges the diligent and strenuous efforts of all parties to resolve the issues in this proceeding by agreement, and believes that the result offers true benefits for all of the participants.

FINDINGS OF FACT

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with authority to regulate rates, services, facilities, practices, rules, accounts, and transfers of public service companies including natural gas distribution companies.

2. Respondent Washington Natural Gas Company is engaged in the business of furnishing natural gas to customers within the state of Washington as a public service company.

3. On March 17, 1995, respondent filed revisions to its tariff WN U-2 that

were designed to designed to effect an increase in the rates and charges made by the respondent for natural gas service. The company also asked that a portion of the general rate increase be allowed to go into effect on an interim basis. On March 22, 1995 the Commission suspended the operation of the tariff revisions pending an investigation into and hearings upon the reasonableness and justness of the proposed rates.

4. The parties on April 27, 1995 submitted to the Commission a stipulation for submission and decision (settlement agreement). The parties waived notice of hearing and described the settlement to the Commission at a hearing session on May 2, 1995. A copy of the agreement is attached to this order as Appendix A.

5. The agreement proposes an increase in annual revenue of \$17.7 million, to be spread among the company's rate schedules as set forth in Exhibit 16, attached to the Settlement Agreement. The parties request expedited review by the Commission, so that rates may be effective on May 15, 1995.

6. Intervenor Partnership for Equitable Rates for Commercial Customers objected to a portion of the proposed settlement. PERCC witness George Carter III contended that the design of the first three rate blocks of the six blocks in the transportation schedule, Schedule 57, unfairly discriminated against smaller transportation customers and were inconsistent with Commission directions in a prior order. Witnesses Ronald Amen, representing the Company, and Donald Schoenbeck, representing intervenor NWIGU, testified in opposition to PERCC's proposal and in support of the settlement rates.

7. The proposed rate design for Schedule 57 is consistent with cost information available of record.

8. The Settlement agreement as presented to the Commission is consistent with the public interest and is acceptable to the Commission.

9. The tariff revisions authorized in this Order will result in rates that are fair, just, reasonable, and sufficient.

10. The tariff revisions filed on March 17, 1995 are rejected. The Company will be authorized to file revisions to its tariff that produce additional annual revenue in the amount of \$17.7 million, consistent with this Order and its adoption of the proposed Settlement Agreement.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of and the parties to this proceeding.

2. PERCC's challenge to a portion of the proposed settlement agreement should be rejected. The proposed settlement agreement should be accepted.

3. The tariff revisions now under suspension should be rejected.

3. The Company should be authorized to refile tariff revisions that are consistent with this order. Tariff revisions prepared in accordance with the provisions of this order will result in rates that are fair, just, reasonable, and sufficient.

On the basis of the foregoing findings of fact and conclusions of law, the Commission hereby makes and enters the following Order.

ORDER

THE COMMISSION ORDERS:

1. PERCC's challenge to a portion of the proposed settlement agreement is rejected. The proposed settlement agreement is accepted.

2. The tariff revisions now under suspension in this Docket are rejected.

2. The Company is authorized to refile tariff revisions that are consistent with this order, to be filed no later than 11:00 a.m. of the day following entry of this order, and bearing an effective date of May 15, 1995.

3. This authorization for filing is strictly limited in scope to those provisions necessary to effectuate the terms of this order. The tariff revisions shall bear the notation on each sheet, "By authority of the Washington Utilities and Transportation Commission's Third Supplemental Order in Docket No. UG-950278."

4. Notice of the filing authorized herein shall be posted at each of the Respondent's business offices on or before the date of filing with the Commission. The notice shall remain posted until the Commission has acted on the filing and the filing has become effective.

5. The Commission retains jurisdiction to effectuate the provisions of this order, including the Settlement Agreement adopted herein.

DATED at Olympia, Washington and effective this 11th day of May, 1995.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R. GILLIS, 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 ten days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-09-820(1).



APPENDIX A

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BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Washington Utilities and Transportation Commission,  
Complainant,  
vs.  
Washington Natural Gas Company,  
Respondent.

DOCKET NO. UG-950278

STIPULATION FOR SUBMISSION AND DECISION

Washington Natural Gas Company (hereinafter "the Company"), Public Counsel, Commission Staff, Seattle Steam Company, and Northwest Industrial Gas Users, which shall collectively be referred to herein as "the Parties", do hereby stipulate and agree as follows:

Recitals

1. On March 3, 1995, the Company filed certain revisions to its WN U-2 tariff. The filing (hereinafter "the General Case") sought to increase the Company's annual revenues by \$35,399,000. The General Case was assigned Docket No. UG-950278.
2. Also on March 3, 1995, the Company filed a Petition for Interim Rate Relief (hereinafter "the Petition"). The Petition was originally assigned Docket No. UG-950279, but was later re-docketed under the General Case filing in Docket No. UG-950278.
3. The Washington Utilities and Transportation Commission (hereinafter "the Commission") has

1 suspended the Company's tariff revisions in Docket No. UG-950278.

2 4. Seattle Steam Company, Northwest Industrial Gas Users, and Partnership for Equitable Rates  
3 for Commercial Customers have intervened in Docket No. UG-950278.

4 5. The Parties believe that a settlement on the terms presented in this stipulation is preferable to  
5 a fully litigated resolution of the filings made in Docket No. UG-950278.

6 6. In consideration for the terms presented herein, the Parties submit the Petition and the General  
7 Case for decision by the Commission on the basis of this stipulation.

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9 Stipulation

10 1. Except as provided in Paragraph 6, below, the Company withdraws the Petition and the  
11 testimony and exhibits submitted in support of the Petition. The withdrawal shall take effect the date the  
12 Commission approves the settlement on the terms presented in this stipulation.

13 2. The General Case is submitted to the Commission for decision based upon a stipulated annual  
14 revenue increase in the amount of \$17,700,000 (hereinafter "Stipulated Increase"). The Parties submit the  
15 General Case for decision recommending acceptance of the total amount of the Stipulated Increase.

16 3. The Stipulated Increase is intended to allow the Company an opportunity to realize a return  
17 on equity of 11.0% to 11.25%. In order to provide the Company with an incentive to pursue cost control  
18 efforts, the Company's actual return on equity may exceed this range if the Company is able to reduce or  
19 otherwise efficiently manage its cost of service.

20 4. The Stipulated Increase shall be spread among the Company's rate schedules in a manner  
21 consistent with the cost of service and rate design principles that the Commission enumerated in its Fifth  
22 Supplemental Order in Docket No. UG-940814, dated April 11, 1995. The rate spread is set forth in the  
23 attached Exhibit 15, which the Parties stipulate to admission. Sheet 2 of Exhibit 15 shows gas volumes by rate  
24 schedules. The methodology used in Exhibit 15 to determine gas volumes is non-precedential. This means  
25 that, for purposes of future proceedings, the Parties do not stipulate to the method or the theory underlying the  
26 volume determination, specifically the methodology for normalizing volumes. The Parties stipulate to the rate

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1 spread in Exhibit 15 for purposes of Docket No. UG-950278. Each Party reserves the right in any other  
2 proceeding to advocate different methods for determining rate spread.

3         5.         The Parties agree that the rate design set forth in the attached Exhibit 16 is consistent with the  
4 principles referenced in Paragraph 4, above. The Parties further agree that this rate design should be  
5 implemented as part of the settlement, and therefore stipulate to the admission of Exhibit 16. The Parties  
6 stipulate to the rate design in Exhibit 16 for purposes of Docket No. UG-950278. Each Party reserves the right  
7 in any other proceeding to advocate different methods for rate design.

8         6.         This stipulation is submitted for Commission consideration and decision based on the record  
9 created through and including the hearing scheduled for May 2, 1995. The Parties stipulate to admission of  
10 the direct testimony and exhibits filed by the Company in support of the General Case, and agree to waive their  
11 right to cross-examination thereof. In addition to the foregoing exhibits and the exhibits referenced in  
12 paragraphs 4 and 5, above, the Parties stipulate to admission of the following attached exhibits: 1) Exhibit  
13 8, representing the Company's Summary of Operations and Adjustments for Ratemaking Purposes as filed in  
14 support of the Petition; and 2) Exhibit 17, representing Commission Staff's summary of operations for cost of  
15 service purposes. Hearings for purposes of taking testimony from members of the public shall proceed as  
16 scheduled or on an earlier schedule.

17         7.         Exhibit 8 supports the amount of the Stipulated Increase, whereas Exhibit 17 supports the  
18 return on equity stated in Paragraph 3, above, and the Company's cost of service for the test year. The  
19 methodologies used in the respective exhibits are non-precedential. This means that, for purposes of future  
20 proceedings, the Parties do not stipulate to the method or the theory underlying the adjustments stated in the  
21 respective exhibits.

22         8.         The Parties submit this stipulation directly for Commission consideration and decision, and  
23 specifically waive any right to a proposed Order, Findings of Fact, or Conclusions of Law from the  
24 Administrative Law Judge.

25         9.         The Parties request the Commission to expedite its decision and the issuance of its final order  
26 in Docket No. UG-950278, so that the Company may place into effect rates pursuant to such order not later  
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1 than May 15, 1995. The Parties also request that these rates go into effect at the same time that rates go into  
2 effect in compliance with the Fifth Supplemental Order in Docket No. UG-940814.

3 10. The Company agrees to file a gas cost tracker filing and a purchase gas adjustment filing  
4 (collectively "PGA Filings") not later than April 27, 1995. Also, the Company agrees to provide the other  
5 Parties with workpapers, supporting the revenue change in the PGA Filings, not later than April 21, 1995.  
6 The other Parties agree to promptly review the PGA Filings and present any recommendations to the  
7 Commission, such that implementing rates may take effect not later than May 15, 1995. The Company  
8 requests a waiver of the 30-day notice requirement so that implementing rates may go into effect by May 15,  
9 1995. Since the PGA Filings are expected to mitigate the impact upon sales customers of the rate changes that  
10 result from Docket Nos. UG-940814 and UG-950278, the timing commitments of this paragraph -- coupled  
11 with the provisions of Paragraph 9, above -- are intended to avoid multiple offsetting and, most importantly,  
12 confusing price signals to customers.

13 11. If this stipulation is accepted by the Commission, the Company agrees that it shall not, prior  
14 to May 15, 1997, make a tariff filing for a general rate increase. The Company may, however, make 1) gas  
15 tracker and purchase gas adjustment filings caused by changes in the level of the Company's purchased gas  
16 and pipeline cost; 2) filings which the Company is required to make by Commission order or as otherwise  
17 required by law or rule; and 3) filings involving propane service, new area rates, demand side management  
18 (DSM) filings (including associated customer charges if any), city gate sales service, affiliated interest  
19 contracts, incentive rate mechanisms for gas costs, and special contracts for service. The Company may also  
20 file for increased revenues prior to May 15, 1997, but only if the Company in good faith asserts those  
21 conditions necessary for interim/emergency rate relief as adopted by the Commission. Nothing in this  
22 paragraph shall be construed as a waiver by any party of any objection that may be raised in connection with  
23 any such filings by the Company.

24 12. The Company agrees to begin amortizing DSM costs incurred through December 31, 1994,  
25 over a five-year period. The Company will cease accruing an allowance for funds used to conserve energy  
26 (AFUCE) on those costs deferred through December 31, 1994. DSM costs incurred after December 31, 1994,  
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1 will continue to be treated consistent with the accounting methodology approved in Docket No. UG-930278.

2 13. In Docket No. UG-940814, Public Counsel proposed that customers under Rate Schedules 85,  
3 86, and 87 receive a credit when sales service is curtailed, and that service under these schedules be otherwise  
4 considered firm. The Company agrees to study Public Counsel's proposal and, in the Company's next tariff  
5 filing for a general rate case, present the results of its study.

6 14. The Parties agree that this stipulation represents a negotiated settlement in the public interest  
7 with respect to the matters as agreed to in this stipulation for the sole purpose of settlement of the matters  
8 agreed to in this stipulation. The Parties individually and collectively do not waive the right to assert any  
9 position in any other proceeding before the Commission.

10 15. The Parties request that, if the Commission wishes to modify any matter agreed to in this  
11 stipulation, the Commission so notify the Parties in writing of the modification. If any Party does not agree  
12 with the modification within three business days from receipt thereof, all Parties shall jointly request that the  
13 matter be sent back for further proceedings and the record reopened for the purpose of receiving the direct  
14 testimony of the Company with cross-examination thereon. If the record is reopened accordingly, no Party  
15 shall be bound by the provisions of this stipulation.

16 16. This stipulation and the attached exhibits represent an integrated agreement among the Parties  
17 with respect to the settlement. There are no other agreements or understandings (written or oral) which modify  
18 any part of the settlement, as expressed herein.

19 17. This stipulation may be executed in multiple counterparts and, if so executed, shall have the  
20 same force and effect as if executed in one document. This stipulation may be filed with facsimile signatures,  
21 provided that original signatures are filed thereafter.

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23 DATED: 4-27-95

WASHINGTON NATURAL GAS COMPANY

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By David S. Johnson  
David S. Johnson  
Attorney

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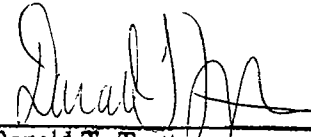
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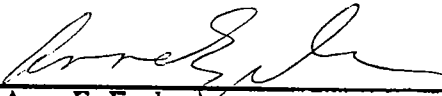
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PUBLIC COUNSEL

By   
Donald T. Trotter  
Assistant Attorney General

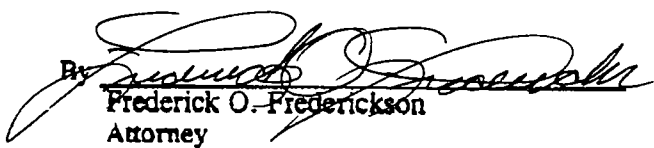
DATED: 5/2/95

COMMISSION STAFF

By   
Anne E. Egeler  
Assistant Attorney General


DATED: May 2, 1995

SEATTLE STEAM COMPANY

By   
Frederick O. Frederickson  
Attorney

DATED: April 26, 1995

NORTHWEST INDUSTRIAL GAS USERS

By   
Paula E. Pyron  
Attorney

DATED: \_\_\_\_\_

PARTNERSHIP FOR EQUITABLE RATES  
FOR COMMERCIAL CUSTOMERS

By \_\_\_\_\_  
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