SCHEDULE 199

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DECOUPLING MECHANISM – NATURAL GAS

**PURPOSE:**

This Schedule establishes balancing accounts and implements an annual rate adjustment mechanism that decouples or separates the recovery of the Company’s Commission authorized revenues from the therm sales to customers served under the applicable natural gas service schedules.

**APPLICABLE:**

To Customers in the State of Washington where the Company has natural gas service available. This schedule shall be applicable to all retail customers taking service under Schedules 101, 111, 112, 121, 122, 131, and 132. This Schedule does not apply to Schedule 146 customers (Transportation Service For Customer-Owned Gas) or Schedule 148 customers (Special Contracts). Applicable Customers will be segregated into two (2) distinct Rate Groups:

Group 1 – Schedule 101

Group 2 – Schedules 111, 112, 121, 122, 131, 132

**MONTHLY RATE:**

Group 1 – $0.00000 per therm

Group 2 – $0.00000 per therm

SCHEDULE 199A

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DECOUPLING MECHANISM – NATURAL GAS

**DESCRIPTION OF THE NATURAL GAS DECOUPLING MECHANISM:**

Calculation of Monthly Allowed Delivery Revenue Per Customer:

Step 1 – Determine the Total Retail Revenue - The Total Retail Revenue is equal to the final approved base rate revenue approved in the Company’s last general rate case, individually for each Rate Schedule.

Step 2 – Determine Amount of Revenue related to Natural Gas/PGA Costs - The Normalized therms by rate schedule from the last approved general rate case are multiplied by the approved Schedule 150 rates to determine the total PGA Revenue.

Step 3 – Determine Total Revenue Excluding Gas Costs – To determine the Total Revenue Excluding Gas Costs, the mechanism subtracts the PGA Revenue from the Total Retail Revenue.

Step 4 – Remove Fixed Revenues – included in the Total Revenue Excluding Gas Costs are revenues that are recovered from customers in Basic and Minimum charges (“Fixed Charges”). Because the decoupling mechanism only track revenues that vary with customer energy usage, the revenue from Fixed Charges is removed. The number of Customer Bills in the test period, multiplied by the applicable Fixed Charges determines the total Fixed Charge revenue by rate schedule.

Step 5 – Determine Allowed Non-PGA Revenue –Allowed Non-PGA Revenue is equal to the Total Revenue Excluding Gas Costs (Step 3) minus the Fixed Charge Revenue (Step 4).

Step 6 – Determine the Allowed Non-PGA Revenue per Customer – To determine the annual per customer Allowed Non-PGA Revenue, divide the Allowed Non-PGA Revenue (by Rate Group) by the Test Year number of Customers (by Rate Group) to determine the annual Allowed Non-PGA Revenue per Customer (by Rate Group).

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DECOUPLING MECHANISM – NATURAL GAS

Step 7 – Determine the Monthly Allowed Non-PGA Revenue per Customer - to determine the monthly Allowed Non-PGA Revenue per customer, the annual Allowed Non-PGA Revenue per customer is shaped based on the monthly therm usage from the test year. The mechanism uses the resulting monthly percentage of usage by month and multiplied that by the annual Allowed Non-PGA Revenue per Customer to determine the 12 monthly values.

Calculation of Monthly Decoupling Deferral:

Step 1 – Determine the actual number of customers each month.

Step 2 – Multiply the actual number of customers by the applicable monthly Allowed Non-PGA Revenue per Customer. The result of this calculation is the total Allowed Non-PGA Revenue for the applicable month.

Step 3 – Determine the actual revenue collected in the applicable month.

Step 4 – Calculate the amount of fixed charge revenues included in total actual monthly revenues.

Step 5 – Subtract the fixed charge revenue (Step 4) from the total actual monthly revenue (Step 3). The result is the Actual Non-PGA Revenue.

Step 6 – The difference between the Actual Non-PGA Revenue (Step 5) and the Allowed Non-PGA Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company.

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SCHEDULE 199C

DECOUPLING MECHANISM – NATURAL GAS

**ANNUAL NATURAL GAS DECOUPLING RATE ADJUSTMENT:**

On or before September 1st each year, the Company will file a request with the Commission to surcharge or rebate, by Rate Group, the amount accumulated in the deferred revenue accounts 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 Earnings Test. The first deferral period would be the six-month time period of January 1, 2015 through June 30, 2015, and would then be based on a July – June deferral period thereafter.

The proposed tariff revisions included with that filing would include a rate adjustment that recovers/rebates the appropriate deferred revenue amount over a twelve-month period effective on November 1st. The deferred revenue amount approved for recovery or rebate would be transferred to a balancing account and the revenue surcharged or rebated during the period would reduce the deferred revenue in the balancing account. Any deferred revenue remaining in the balancing account at the end of the July - June year would be added to the new revenue deferrals to determine the amount of the proposed surcharge/rebate for the following year.

After determining the amount of deferred revenue that can be recovered through a surcharge (or refunded through a rebate) by Rate Group, the proposed rates under this Schedule will be determined by dividing the deferred revenue to be recovered by Rate Group by the estimated therm sales for each Rate Group 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.

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SCHEDULE 199D

DECOUPLING MECHANISM – NATURAL GAS

**EARNINGS TEST:**

The Mechanism is subject to an Earnings Test. The Earnings Test is based on the Company’s annual “Commission-basis” operating results, which are filed with the Commission by April 30 for the previous calendar year results. If the Commission-basis rate of return for the Company’s Washington natural gas operations exceeds the most recently authorized rate of return, the amount of the proposed surcharge (amount transferred to the balancing account) is reduced or eliminated to move the rate of return down to, or toward, the Commission-authorized level.

**3% ANNUAL RATE INCREASE LIMITATION:**

Following the application of the Earnings Test described above, the amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 3% 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 the two Rate Groups 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 3%, only a 3% incremental rate increase will be proposed and any remaining deferred revenue will be carried over to the following year. There is no limitation for rate decreases.