

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	
)	
Complainant,)	DOCKET NO. UG-911236
)	
v.)	
)	
WASHINGTON NATURAL GAS COMPANY,)	
)	
Respondent.)	
.....)	
)	
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	
)	
Complainant,)	DOCKET NO. UG-911270
)	
v.)	THIRD SUPPLEMENTAL ORDER
)	REJECTING TARIFFS;
WASHINGTON NATURAL GAS COMPANY,)	AUTHORIZING REILING;
)	
Respondent.)	
.....)	

PROCEEDINGS: Docket No. UG-911236 is a tariff filing by Washington Natural Gas Company ("WNG", "respondent" or "company"). The filing, WNG's 1991-92 Purchase Gas Adjustment (PGA), would reduce the company's rates by \$2,799,000 annually to update the cost acquiring the gas it sells. In Docket No. UG-911270, the respondent seeks approval of a contract and contract amendment for purchase of natural gas from its affiliate, Washington Energy Exploration, Inc. The Commission consolidated the two dockets for hearing and order because the cases contain related issues.

APPEARANCES: D. Scott Johnson, attorney, Seattle, represented respondent Washington Natural Gas Company. Robert Cedarbaum, assistant attorney general, Olympia, represented the Commission Staff. Charles F. Adams and William Garling, Jr., assistant attorneys general, Public Counsel Section, Seattle, represented the public.¹ Edward A. Finklea and Paula E. Pyron, attorneys, Portland, Oregon, represented intervenor Northwest Industrial Gas Users. Giuliana Danon, attorney, Seattle, represented intervenor Washington Energy Exploration, Inc. ("WEEX").

¹Because only one person appeared on any pleading or at any proceeding, we will use a singular pronoun when referring to Public Counsel.

SUMMARY: The Commission approves the gas purchase contract in all terms except price, requiring recalculation of price for ratemaking purposes at the market level. The Commission rejects the company's proposed Purchase Gas Adjustment filing, and requires the company to refile PGA tariffs to reduce rates by \$8,012,000 annually.

I. PROCEDURAL HISTORY

On October 31, 1991, Washington Natural Gas Company filed Docket No. UG-911236, revisions to its Tariff WN U-2, designated as 11th Revision Sheet No. 1101, 67th Revision Sheet No. 1102, and 6th Revision Sheet No. 1112. This is WNG's 1991-92 Purchase Gas Adjustment (PGA) filing; it would reduce the company's rates by \$2,799,000 annually. The stated effective date is December 1, 1991. The Commission suspended operation of the tariff revisions on November 27, 1991, pending hearings concerning their justness and reasonableness. The Commission then entered an order instituting an investigation on January 10, 1992.

On November 7, 1991, the respondent filed Docket No. UG-911270, an application for approval of a contract and contract amendment to purchase natural gas from its affiliate, Washington Energy Exploration, Inc.

The Commission consolidated the two dockets for hearing and decision in its January 10, 1992 order.

The Commission convened a prehearing conference at Olympia on February 25, 1992. Hearing sessions were held at Olympia on March 24 and June 16 and 17, 1992, before Chairman Sharon L. Nelson, Commissioner Richard D. Casad, Commissioner A. J. Pardini, and Administrative Law Judge Elmer E. Canfield of the Office of Administrative Hearings. The Commission convened a hearing session at Olympia on June 19, 1992, to hear testimony from members of the public; no person testified. The parties² filed briefs on July 17, 1992.

II. MEMORANDUM

The PGA filing, Docket No. UG-911236, presents two types of issues: 1) issues related to the costs to be included in respondent's Weighted Average Cost of Gas (WACOG), and 2) issues related to the current status of the company's deferral account and procedures to be followed in future deferrals. The latter have no immediate rate impact, but will affect future filings.

²Intervenor Northwest Industrial Gas Users did not file a brief or take a position on any of the issues.

In Docket No. UG-911270, the company requests Commission approval of a contract to buy gas from an affiliate, Washington Energy Exploration, Inc. We will discuss the contract, which directly affects the PGA filing, when we discuss the PGA issues.

Commission Staff proposes three adjustments to respondent's PGA filing. Staff's recommendation would reduce the company's annual revenues by \$8,366,000. Staff proposes a) to update the company's regulatory fee, reflecting current rates; b) to treat gas purchases from the affiliate at the lower of cost or market; and c) to exclude a prospective Gas Inventory Charge (GIC) by Northwest Pipeline (NWPL). The company accepts the regulatory fee adjustment, but contests the others. Public counsel supports Commission Staff's proposed adjustments.

A. WACOG Issues

1. Revenue Sensitive Adjustment Factor

On May 1, 1992, the Commission's regulatory fee on the company's operations increased from .165 percent to .175 percent of gross revenue. Commission Staff proposes to reflect the new regulatory fee in calculating any rate changes that result from changes in gas costs. Respondent agrees. The Commission adopts this adjustment.

2. Affiliated Purchase Contract; Price Adjustment

Washington Natural Gas Company is a wholly-owned subsidiary of Washington Energy Company. Washington Energy Exploration, Inc. (WEEX) is a wholly-owned subsidiary of Washington Energy Resources Company, a wholly-owned subsidiary of Washington Energy Company. Thus, WNG and WEEX are affiliates as the term is defined in Chapter 80.16 RCW, and are subject to the regulatory requirements of that chapter.

On November 1, 1990, WNG entered a five-year gas purchase contract with WEEX (then called Thermal Exploration, Inc.). WNG and WEEX amended this contract on November 1, 1991. In Docket No. UG-911270, WNG requests Commission approval of the contract and the amendment. For ease of reference, the Commission will refer to both as "the contract."

Commission Staff recommends that the Commission approve the contract, except for the price term. Staff believes that in most regards the contract provides benefits similar to the company's other long-term contracts, that it is reasonable, and

that it may be approved.³ The Staff argues, however, that the contract's price term is not reasonable, Staff urges that the Commission price the contract purchases for ratemaking purposes at the lower of market or WEEX's cost, including a fair return. Staff argues that the lower of market or cost standard recognizes the competitive market available to WNG and that it is consistent with the applicable affiliated interest statutes.⁴ Staff urges the Commission to disallow prices WNG paid to WEEX which exceed the average price WNG paid to its other long term firm gas suppliers.

Public Counsel agrees generally with the Commission Staff, but opposes approving the contract. He argues that the WNG/WEEX relationship was obviously not arms length. He urges that because the Commission has never approved the contract, any payments to WEEX are technically illegal. He contends that the Commission should recalculate the cost of purchased gas at a competitive rate, which he suggests is the price of less-expensive short term spot gas.

The company urges the Commission to approve the entire contract. It argues that benefits from non-price terms⁵ support the contract price. The company characterizes the contract as "...the most arm's length contract we ever negotiated." The Commission Staff and Public Counsel respond that the nature of the affiliation and the relationship of the parties precludes an arms-length transaction under any circumstances. They also contend that the asserted non-price benefits are commonly available in other contracts or do not represent additional quantifiable value.

³RCW 80.16.030 provides that the Commission may approve a contract with an affiliated interest when it is clearly established to be "reasonable and consistent with the public interest".

⁴RCW 80.16.030 requires the Commission to exclude payments to an affiliated company under an existing contract or arrangement ...unless such public service company shall establish the reasonableness of such payment or compensation. In such proceeding the commission shall disallow such payment or compensation, in whole or in part, in the absence of satisfactory proof that it is reasonable in amount.

(Emphasis added.)

⁵The asserted benefits include a right of first refusal to WNG; firm deliverability at Opal, Wyoming, an optimal delivery point for exchange because of pipeline access; increased winter peak deliverability; a 3-year fixed price; and, in the amendment, a reduced summer purchase obligation.

Intervenor WEEEX supports the contract. It characterizes as punitive the Commission Staff's lower of market or cost standard. It stresses the contract's asserted non-price benefits, noted above. WEEEX argues that the contract provides gas at a competitive price and under reasonable terms. It urges the Commission to approve the contract.

Conclusion. The Commission accepts the Commission Staff recommendations that the contract be approved, as to all terms but price. The Commission believes that, except as to price, the contract is reasonable and consistent with the public interest. With appropriate safeguards, the company and the ratepayers can both benefit from the availability of a wide selection of suppliers. As to the contract price, however, the company failed to provide satisfactory proof that the term is reasonable, and the expense must be recalculated for ratemaking purposes.

We reject categorically the idea that the contract represents arms-length negotiations. The negotiators not only owed responsibility to the same shareholders to operate for the shareholders' best interests, they reported to some of the same officers and directors. The closeness of the WNG/WEEEX relationship was demonstrated graphically in the hearing, when WNG allowed WEEEX participation and access to information that a third-party supplier would not have enjoyed; WEEEX' counsel was its negotiator for the contract. The contract was beneficial to WEEEX, whose losses on other gas supply contracts were offset by net income from the WNG contract.

In any event, whether or not the negotiations were arms-length is irrelevant to the test under RCW 81.16.030. The statute recognizes implicitly that the company is the only party with access to all of the information about an affiliated interest transaction and about its reasons for selecting the affiliate as a supplier over other suppliers. The statute does not address whether the transaction is or is not arms-length. The statute requires the Commission to disallow the compensation, in whole or in part, in the absence of satisfactory proof that the payment is reasonable. We find that the company has not provided that proof.

The company argues that the contract's non-price terms, listed in footnote 5, add value to the contract and that the additional value justifies the contract price. Its presentation sought to prove the advantages of those terms to the company and their cost to the affiliate. The Commission acknowledges that some of those terms may be beneficial to the company. It also notes that many of the company's other long-term contracts contain similar terms, and that some of the terms impose offsetting obligations. The company did not provide an objective measure of the value of the asserted benefits.

The Commission cannot on the evidence presented quantify the value of the asserted benefits in order to measure the reasonableness of the price term. The company failed to provide an evaluation of purchasing options that would allow the Commission to find that the price paid for gas under the WEEEX contract is reasonable. In a future proceeding, the company may seek to quantify those benefits and to demonstrate satisfactorily that the contract price is reasonable.

The Commission rejects the company's contention that reasonableness of the contract price should be measured by reference to average city gate cost of all delivered purchased gas. We find persuasive the Commission Staff observation that the city gate price includes costs that the company cannot control and that it cannot negotiate with suppliers; it is not an appropriate test for reasonableness of the price paid to a supplier. We find that including Canadian supplies and the Westcoast Pipeline costs along with ODL-1 charges in other purchased gas is not an appropriate comparison for the WEEEX purchases. Therefore, we will measure the market based on the company's average contract price in its domestic supply contracts.

We conclude that the proof of reasonableness is not satisfactory; that the price term of the contract may not be approved, and that the price must be recalculated for ratemaking purposes.

The Commission has repriced affiliated transactions at the affiliate's cost for the good or service, including a fair return on investment.⁶ Here, however, the average domestic market price is substantially lower than WEEEX' cost including a fair return. The ratepayers should not be required to support a company's purchases from an affiliate at a price greater than the company would pay for comparable supply on the open market.

For the 1991-92 heating season, the Commission calculates the average price paid to the company's domestic independent long term firm gas suppliers. We reduce the allowable expense for purchases from the affiliate by \$2,297,533 for 1991-92. For future periods, the rate will be adjusted by the percentage change in the domestic spot price index as provided in the contract, but within a range no more than 10% above other long term supplies. Doing so establishes an appropriate price for past purchases based on the contract formula and will account for market fluctuations without tying allowable compensation to payments under future contracts with independent suppliers.

⁶See, e.g., WUTC v. Pacific Northwest Bell Tel. Co., Cause No. U-79-66, Second Supplemental Order, August 7, 1980.

3. Gas Inventory Charge (GIC) Adjustment

The second contested WACOG issue is the company's inclusion of an estimated GIC from NWPL. The pipeline charges a GIC to customers who do not maintain a 58% load factor⁷ in a given year. WNG argues that the Commission should accept the GIC charges because, like other allowable gas supply costs, they are known and measurable.

Commission Staff disagrees, although its disagreement lies with the timing of recovery rather than whether the company should recover the charge at all. WNG can delay paying the GIC obligation until the end of the year. Staff argues that if the company actually and reasonably incurs a GIC from NWPL at the end of the year, the company can include the GIC at that time in the gas cost deferral account for later amortization.

Commission Staff argues that by including the GIC in the WACOG and accruing the GIC monthly, the company receives interest-free capital. Excluding the GIC from the WACOG and ending the monthly accruals will prevent recovery of the charge until it is actually paid. The company would earn interest on GIC amounts after it pays the GIC and posts it to the deferral account. Public counsel agrees with Staff that the Commission should not allow the company to include the GIC in rates prospectively.

The Commission agrees with and adopts the approach suggested by Staff. The GIC is a real expense that the company can recover, but it should not be included in the prospective WACOG. The company should not recover this charge until the company incurs it. The company should be neutral relative to the manner in which the GIC is recovered. Under the Commission Staff proposal, the company will begin to accrue interest on the deferred amounts once the GIC is paid. This is reasonable because the company is able to recover the deferrals in the succeeding PGA, when the Commission reviews the company's costs. We accepted the same approach in the recent Cascade Natural Gas case, Docket No. UG-911246.

B. Deferred Accounting Issues

Commission Staff proposes several adjustments to the company's gas costs, and it proposes certain reporting requirements. The company agrees to some adjustments and to the reporting requirements. The Commission adopts those proposals, which we describe briefly, below. We then discuss the three contested issues: demand costs relating to firm gas supply; affiliated purchases; and gas inventory carrying costs.

⁷The company may reduce its purchase from the pipeline if it is able to purchase lower-price spot gas.

1. Uncontested Items

Six elements relating to deferred accounting are uncontested and are adopted. The company has agreed to cease accruing a carrying charge on GIC accruals; to eliminate accruals of certain labor costs to deferral account 191; to include in the deferral account the revenues associated with penalties assessed on overconsumption ("overruns") by interruptible customers; to defer exchange revenues as well as costs; and to include revenues from interstate sales for resale in the deferral account.

In addition, Staff recommends that the Commission order the company to file with the Commission any gas supply contract with a term of one year or longer. The company would file the contract within five days of signing or before incurring costs under the contract, whichever is earlier. The company would also provide a narrative description and an analysis of the cost or benefit of the arrangement. The company agrees to comply with the proposed filing requirements, which are required by this order. Consistent with the approach we adopted in the recent Cascade Natural Gas case, Docket No. UG-911246, the narrative description shall not be confidential.

2. Contested Items

a. Disallowance for Excess Domestic Supplies

The company contracted for various domestic supplies, including the WEEEX contract, to meet its firm peak demand during the winter heating season. In such contracts, the supplier may command a demand charge based upon the volume of gas it commits to make available at peak times. The 1991-1992 demand charges WNG agreed to pay were based on sellers' commitments to provide more gas than the existing pipeline could deliver to WNG's distribution system at a time of peak winter demand. Commission Staff proposes to disallow \$188,000 of the domestic demand charges that the company paid, for supplies exceeding system deliverability on a peak day during the 1991/1992 heating season.

Public Counsel argues that the Commission Staff uses a very narrow definition of excess capacity. He argues that other definitions, such as need to supply only the requirements of firm customers, would show even larger levels of excess capacity. He argues that, at a minimum, Staff's adjustment is proper.

The company opposes Commission Staff's proposal. It points to its obligation to provide service: in response to the needs of its firm customers, WNG attempts to maintain a supply portfolio which is "adequate, but not excessive, to meet firm demand, and which appropriately balances the tradeoffs of reliability, stability, and cost."

WNG argues that Commission Staff did not dispute its gas supply strategy. The company argues that its supply situation allows it flexibility to seek exchange agreements for supplies not requiring transportation through bottlenecks, and potentially to achieve lower-cost resources. The company also argues that its total demand resources did not exceed its calculated demand for the period, which the Staff did not dispute.

On this record, the Commission does not believe that a disallowance for firm peak day excess domestic supplies is justified. The company's obligation to serve its customers requires it to take reasonable steps to meet firm demand. It made reasonable efforts to maintain adequate gas supply and delivery capacity. The company actively pursued exchange agreements. That there was a relatively small mismatch between supply and deliverability does not prove unreasonable demand purchases. The Commission will not penalize the company for erring slightly.

At the same time, the Commission agrees that the concerns raised by Staff and Public counsel are valid. The company should not be able to pass on to consumers automatically any excess demand charges that it has agreed to pay. The Commission expects the company to be as efficient as it is resourceful in finding ways to meet peak demand at the lowest reasonable long term cost. The Commission will examine this issue closely in upcoming filings.

The Commission expects the company to develop and record the factors that surround its specific contract decisions, because these will ensure that audits can accurately assess and the Commission can fully consider the rationale for and the reasonableness of purchase decisions and any resulting inventory charges, gas supply costs, etc. The Commission also expects the Staff, and Public Counsel and intervenors to use those records in developing evidence to support positions and proposals in future proceedings. The company should be prepared to submit such records of its considerations and rationales in future filings.

b. Affiliated Interest Disallowance

We discussed the basis for the affiliated interest adjustment at length above. Staff recommends that we reprice the company's contract purchases from WEEEX for the period November 1, 1990 through October 31, 1991 at the market rate. Staff proposes a \$2,876,000 adjustment to reprice these prior gas purchases.

The company claims, in addition to the concerns discussed earlier, that Commission Staff's proposed treatment is retroactive. Staff responds that the company has been on notice of the Staff's position since the previous PGA case. Staff also points out that the company includes these contract costs in the deferred account, and they remain unamortized. Thus, Staff argues, it is not

retroactive to adjust the unamortized balances to reflect a fair and reasonable market price for those purchases.

The Commission has decided, above, that it will accept the affiliated contract but will reprice purchases for ratemaking purposes at the lower of cost or domestic independent supplier market level. We accept the Commission Staff adjustment in principle, but recalculate it according to our test for reasonable pricing.

The Commission rejects the idea that this adjustment constitutes retroactive ratemaking. The company enters a contract with its affiliate subject to the provisions of RCW 80.16.020 that such contracts must be approved by the Commission and the provision of RCW 80.16.030 that the Commission shall exclude from the company accounts any compensation to an affiliate that is not satisfactorily proved reasonable. The Commission has taken no action inconsistent with the statutory framework and is allowing reasonable compensation in an appropriate proceeding. The Commission recalculates the market price for this period based on the domestic supplies, as discussed above. The resulting adjustment to the deferred gas account is a reduction of \$2,679,153, including interest and taxes, as depicted in Appendix A.

c. Gas Inventory Carrying Costs

The company has been accruing carrying charges on the value of its gas inventory in storage since May, 1989. Staff argues that the treatment is inappropriate--that working gas inventory is a rate base item. The company should not recover interest on rate base until the company demonstrates in a general rate case that the investment has been funded by investors. Staff proposes a \$1,246,000 adjustment.

Public Counsel agrees with Commission Staff's position. He notes that the last company general rate case was in 1984, and he points out that the company is adjusting rate base outside of a general rate case.

The company argues that carrying charges on gas purchase are bona fide gas costs and, as such, they belong in a deferred purchase gas account. The company argues that its inventory practice saves money for the ratepayers as follows. In the past, WNG purchased SGS-1 storage service from North West Pipe Line (NWPL). NWPL owned the gas and charged WNG for the cost of gas and for a return requirement on gas in storage. In May, 1989, WNG elected an option which allows the company to buy its own gas for NWPL storage. The company bought low-cost supplies for storage. While the company avoided the higher NWPL purchase charges, it accrued carrying charges in accounting for the gas it bought. The

company would include these carrying charges in a deferred purchased gas account and recover the costs annually in its purchase gas adjustment.

Although the company acknowledges that this is a rate base item, it contends that this is the only such item directly related to gas supply. The company argues that it would be unfair to pass the benefits of direct purchase to ratepayers without requiring them to pay the associated costs.

Staff responds that the inventory is a short term asset and, like any other short term asset, it may earn a return only if it is purchased with investor-supplied, rather than ratepayer-supplied, capital. Staff contends that its approach allows the investors to recover the full required return on working gas inventory when investor capital is used for the purchase.

Using its new arrangement, the company has been able to make low-cost gas purchases in the spring and summer months for storage and winter withdrawal. The Commission applauds this efficiency and accepts the company's representation that the practice has saved money for the ratepayers. The Commission will not accept the Staff-proposed adjustment for purposes of this proceeding, in order to assure the company recovery of the costs, and to share the benefits, associated with this change.

However, the Commission agrees with the Staff that its recommendation is consistent with the proper method of examining investor supplied working capital requirements in a general rate case. Accordingly, the Commission rules that in future proceedings it will adopt the Staff approach, and it orders the company to stop accruing inventory carrying costs in its deferred purchased gas account. In future proceedings, the company shall consider stored gas as a short term asset and shall recover its capital requirements in the same way it recovers financial support for other short term assets.

III. Conclusion.

The Commission approves the affiliated interest contract proposed in Docket No. UG-911270, provided that price is recalculated for ratemaking purposes as set forth in this order.

The Commission rejects the proposed Purchase Gas Adjustment, but requires the company to refile PGA tariff revisions as set forth in this order.

Appendix A, attached to this order, sets out the parties' positions and the Commission decision on elements of the PGA filing in UG-911236.

FINDINGS OF FACT

Having discussed in detail above the evidence concerning all material matters, and having stated findings and conclusions, the Commission makes the following summary findings and conclusions. Portions of the preceding discussion are incorporated by this reference.

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

2. Washington Natural Gas Company, respondent, is engaged in the business of providing gas service within the state of Washington as a public service company.

3. On October 31, 1991, respondent filed, in Docket No. UG-91236, revisions to its Tariff WN U-2 designated as 11th Revision Sheet No. 1101, 67th Revision Sheet No. 1102, and 6th Revision Sheet No. 1112.

4. The Commission suspended the proposed tariff revisions and started this proceeding to determine whether the revisions would result in rates that are just and reasonable.

5. Washington Natural Gas Company on November 7, 1991, filed in Docket No. UG-911270 an application for approval of a contract and contract amendment for the purchase of natural gas from its affiliate, Washington Energy Explorations, Inc.

6. The contract and the amended contract between Washington Natural Gas Company and Washington Energy Explorations, Inc., are clearly established to be reasonable and are consistent with the public interest in every respect except for the price term. If the price term is recalculated for ratemaking purposes as provided in the body of this order, the contract, and the amended contract, are reasonable and consistent with the public interest.

7. The company's weighted average cost of gas is properly calculated for ratemaking purposes and for the purposes of this proceeding as set out in the body of this order.

8. The deferral element of the company's purchase gas adjustment is properly calculated as set out in the body of this order.

9. The purchase gas adjustment tariff revisions that the respondent filed on October 31, 1991, will produce rates for natural gas that are not just and reasonable. Revisions consistent

with the terms of this order, to reduce annual revenues by \$8,012,533 will produce tariff revisions that will be just and reasonable.

CONCLUSIONS OF LAW

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

2. Respondent's contract and contract amendment with its affiliate Washington Energy Explorations, Inc., the subject of Docket No. UG-911270, should be accepted; provided, that the price term shall be recalculated for ratemaking purposes as set out in the body of this order.

3. Respondent's tariff revisions filed in Docket No. UG-911236 should be rejected.

4. The company should be ordered to file with the Commission any gas supply contract with a term of one year or longer. The company shall file the contract within five days of signing or before incurring costs under the contract, whichever is earlier. The company shall also provide a narrative description and an analysis of the costs and benefits of the arrangement.

5. Respondent should be ordered to file tariff revisions conforming with the terms of this order. Such a filing will result in rates that are just, fair, reasonable and sufficient.

6. All motions made in the course of these proceedings which are consistent with the above findings and conclusions should be granted, and those which are inconsistent should be denied.

7. The Commission should retain jurisdiction in these proceedings to effectuate the terms of this Order.

O R D E R

THE COMMISSION ORDERS That:

1. The tariff revisions filed by Washington Natural Gas Company on October 31, 1991, now under suspension in Docket No. UG-911236, are rejected.

2. The respondent shall refile tariff revisions to replace those rejected in Docket No. UG-911236, in accordance with the terms of this order.

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AND UG-911270

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3. The filing authorized in this order shall bear an effective date which will allow the Commission at least five working days after its receipt to consider it. The filing shall bear the notation, "By authority of order of the Washington Utilities and Transportation Commission, Docket No. UG-911236".

4. The contract and contract amendment submitted for Commission approval in Docket No. UG-911270 are approved, provided that the price shall be recalculated for ratemaking purposes as set forth in the body of this order.

5. The company shall file with the Commission any gas supply contract with a term of one year or longer. The company shall file the contract within five days of signing or before incurring costs under the contract, whichever is earlier. The company shall also provide a narrative description and an analysis of the costs and benefits of the arrangement.

6. The respondent shall cease accruals of carrying charges on storage gas inventory.

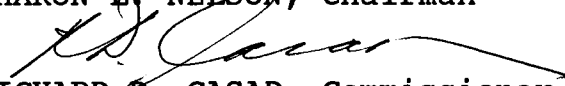
7. All motions consistent with this order are granted, and those inconsistent with it are denied.

8. The Commission retains jurisdiction to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 28th day of September, 1992.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION


SHARON L. NELSON, Chairman


RICHARD D. CASAD, Commissioner


A. J. PARDINI, 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 10 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 or RCW 81.04.200 and WAC 480-09-820(1).

DOCKET NOS. UG-911236 & UG-911270
Appendix A
WASHINGTON NATURAL GAS COMPANY

PGA ISSUES:	Staff	Company	Difference	Commission Decision
Company's original PGA filing:	(\$2,799,000)	(\$2,799,000)	\$0	(\$2,799,000)
Proposed Changes:				
1) Affiliated Purchases	(2,651,000)	0	(2,651,000)	(2,297,533)
2) NWP's Gas Inventory Charge	(2,914,000)	0	(2,914,000)	(2,914,000)
3) Regulatory Fee	(2,000)	(2,000)	0	(2,000)
Subtotal-PGA	<u>(\$8,366,000)</u>	<u>(\$2,801,000)</u>	<u>(\$5,565,000)</u>	<u>(\$8,012,533)</u>
DEFERRED GAS COST ISSUES				
4) Firm Supply Demand Cost Disallowance	(\$188,000)	\$0	(\$188,000)	\$0
5) 10/90 - 11/91 Affiliated Purchases	(2,876,000)	0	(\$2,876,000)	(2,679,153)
6) Gas Inventory Charge Accrual	(43,000)	(43,000)	0	(43,000)
7) Labor Charges	(323,000)	(323,000)	0	(323,000)
8) Gas Inventory Carrying Costs	(1,246,000)	0	(1,246,000)	0
9) Unauthorized Penalty Revenues	Agree	Agree		Accept
10) Exchange Revenues	Agree	Agree		Accept
11) Gains on Sale of Gas	Agree	Agree		Accept
12) Contract Reporting Requirement	Agree	Agree		Accept
Subtotal-Deferral adjustments	<u>(\$4,676,000)</u>	<u>(\$366,000)</u>	<u>(\$4,310,000)</u>	<u>(\$3,045,153)</u>