

Agenda Date: March 31, 2005  
Item Numbers: C1

**Dockets:** UG-050369

**Subject:** Consider Negotiated Rulemaking regarding “decoupling” of natural gas volumetric sales from fixed cost revenue requirements in order to eliminate gas conservation and energy efficiency disincentives and other revenue variables associated with commodity sales volumes.

**Staff:** Roger A. Braden, Rulemaking Lead  
Jim Russell, Energy Accounting Manager  
Mike Parvinen, Regulatory Analyst  
Joelle Steward, Regulatory Analyst  
Christian Ward, Regulatory Analyst  
Dennis Moss, Administrative Law Judge  
Bob Cedarbaum, Assistant Attorney General  
Julia Ojard, Administrative Support – Energy Section

**Recommendation:**

Direct the Secretary to file a Preproposal Statement of Inquiry (CR-101) in Docket UG-050369 to review whether the Commission should adopt rules relating to “decoupling” of natural gas volumetric sales from fixed cost revenue requirements for gas companies and, in conjunction with such review, directing Staff to engage in negotiated rulemaking with interested parties in accordance with RCW 34.05.310(2).

**Background:**

There is an inherent conflict of interests between traditional recovery of gas company fixed costs through volumetric commodity sales and state and national policies encouraging energy efficiency and conservation. If gas companies actively support energy efficiency and conservation, their revenues are reduced in direct proportion to the resulting reduction in commodity sales volumes. The gas companies are concerned that this variability creates substantial risks of under recovery of fixed infrastructure and operating costs.

RCW 80.28.074(2) establishes it as the policy of Washington State to advance the efficiency of natural gas services to the residents of the state. Subsection (4) of that statute also permits the development of “flexible pricing” of natural gas services. These policy statements, when read together, may be interpreted to allow the Commission to consider possible means of promoting efficiency of gas usage through, among other means, alternative pricing models. RCW 80.28.025 expressly directs the Commission to adopt policies to encourage gas companies to conserve energy through improvement of “...efficiency of energy end use.” There is also a requirement in RCW 80.28.010(2) that gas services be “efficient.”

The Commission has the authority to make rules effectuating the foregoing energy conservation and efficiency policies. RCW 80.01.040(4) provides the Commission with general rule making authority associated with carrying out its powers and duties. RCW 80.04.160 grants the Commission authority to make such rules and regulations as appropriate for the furnishing and supply of natural gas, and all services concerning the same, and further authorizes such rules as pertain to the comfort and convenience of the public concerning such services.

Over the past several years, companies providing natural gas service in Washington and elsewhere have expressed concerns about the economic issues associated with recovery of their fixed costs when consumers reduce their consumption due to conservation, improved appliance efficiency or other factors beyond the control of the utilities. Because their opportunity for fixed cost recovery is based on normalized commodity consumption patterns, any significant reductions in consumption results in under recovery of those costs. This creates a significant disincentive for the gas companies to promote conservation and efficiency. Several interested parties, such as the Natural Resources Defense Council and other environmental and energy conservation groups, have also expressed concern about the effects of this volumetric cost recovery approach on conservation and efficiency efforts.

In response to such concerns, Staff is recommending that the Commission initiate an inquiry through the Administrative Procedures Act to investigate alternative means of addressing these issues in the context of natural gas service through a negotiated rule making process.

**Conclusion:**

Staff recommends that the Commission direct the Secretary to file a Preproposal Statement of Inquiry (CR-101) in Docket UG-050369.