

ONITA R. KING
Rates and Regulatory Affairs
Tel: 503.721-2452
Fax: 503.721.2516
email: ork@nwnatural.com



September 18, 2015

VIA ELECTRONIC FILING

Steven V. King, Executive Director and Secretary
WASHINGTON UTILITIES &
TRANSPORTATION COMMISSION
1300 S Evergreen Park Drive, SW
Post Office Box 47250
Olympia, Washington 98504-7250

Re: UG-143616 – Investigation of Natural Gas Distribution Infrastructure Expansion
NW Natural's Comments

Dear Mr. King:

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), submits the following comments in response to the Washington Utilities and Transportation Commission's ("Commission") Notice of Opportunity to File Written Comments ("Notice"), issued August 20, 2015, in Docket No. UG 143616, an Investigation of Natural Gas Distribution Infrastructure Expansion.

The Commission requested utilities to submit written comments addressing seven specific questions. Below are NW Natural's responses to the these questions.

Question 1: *Line extension policies are one factor that customers consider when connecting to natural gas service or switching from electric to natural gas service. Are the costs associated with natural gas line extensions recovered in whole through charges to end-users requesting the line extension?*

NW Natural response:

NW Natural uses a portfolio approach to determine average construction costs and customer usage. A new customer is required to pay the difference between the average construction cost and an amount equal to five times the estimated margin revenue that the new consumer would be expected to generate based on the type of gas-fired equipment they install ("construction contribution"). This construction contribution must be paid before a new gas service line will be installed.

Under Schedule E in the state of Washington, when a residential consumer installs gas space and water heating equipment, the five times margin allowance typically covers the cost of setting a new meter and installing a standard service line. Any additional costs are required to be paid in full by the requesting consumer. In nearly all instances, the consumer would be required to pay the entire cost associated with the extension of a main line if it was required in order to provide gas service.

Question 2: *If not, what, if any, incentive is provided in the company's current line extension tariff for new or existing customers to connect to natural gas service? What other incentives does the company provide, if any?*

NW Natural response:

NW Natural does not currently offer incentives to non-customers to offset the cost to extend service or main lines. NW Natural occasionally offers cash incentives toward the purchase of new gas equipment as part of its seasonal conversion campaigns. These incentives may be offered to existing customers and to non-customers. The Schedule E tariff does not apply to existing customers.

Question 3: *Is the company's current natural gas line extension tariff designed to promote a specific policy outcome or outcomes? If so, what are these outcomes, and does the company believe that its current tariff achieves these outcomes? If not, what specific changes need to be made to the company's current natural gas line extension policy? Is additional legislative direction or authority needed in order for the Commission to approve line extension policies designed to promote environmental or economic development outcomes?*

NW Natural response:

The Company's existing Schedule E tariff is designed to minimize cross-subsidization between existing ratepayers and new customers. The five times margin allowance currently supports this objective. However, the current construct results in a significant barrier to service as the up-front cost required of the new customer is quite often cost prohibitive.

While the Company's current Schedule E tariff allows the Company the discretion to invest in main line beyond or up to a bonafide applicant based on an expectation of future customer connections to that main line, the Company is reluctant to invoke this discretion without more assurance that these investments would actually generate sufficient revenue in the short term, and that these investments would not subsequently be disallowed should the added revenue take longer than expected to transpire. Rising construction costs further complicate this issue as it becomes less attractive for the Company to make higher cost investments without a corresponding revenue stream.

The current construct of the Company's line extension tariff fundamentally forces a reactive approach to infrastructure expansion, with new gas service expanding incrementally, one new customer at a time (the inchworm approach). This produces inefficiencies and higher costs to

establish service, ongoing disruptions to roads and other infrastructure, access inequities within communities, and an inability to serve many of the potential customers requesting gas service in Clark County. It is the Company's view that a policy allowing for a broader set of criteria to evaluate the benefits of longer main extensions (which may include economic and environmental benefits), and the ability to proactively invest based on that broader criteria would enable better planning and result in lower overall costs. Examples of cost drivers that could be more effectively managed under a policy that supports proactive investment and longer main extensions include restoration fees associated with increasingly onerous jurisdictional requirements and moratoriums, permitting fees, and the ability to reduce labor costs by more effectively planning and batching work.

At present, there is no mechanism available to assign an economic development or environmental benefit attribute when evaluating whether or not the Company should extend its gas main to reach underserved areas. The Company believes that the Commission has the authority necessary to promote environmental and economic development outcomes and to consider those factors in its prudence evaluation of main extension investments.

NW Natural would welcome Commission direction or regulatory policy promoting proactive infrastructure development that could, in part, be justified on an economic development and/or an emissions reduction basis to support state policy.

Question 4: How does the company determine when it is necessary to revise its line extension tariff? How often should the company adjust line extension rates to account for changes in actual line extension costs?

NW Natural response:

The Company's current tariff allows for the periodic updating of construction costs as required. The frequency of updates is difficult to determine; any updates should focus on adjusting for sustained cost increases without being reactive to year-to-year fluctuations that can be driven by changes in work order types and volumes. Overly frequent adjustments can create consumer and contractor confusion that is difficult and costly to communicate and unnecessarily increases churn and call volumes.

Question 5: What, if any, impacts does the company's current natural gas line extension policy have on existing customers? What is the impact on new and existing customers if a new customer's usage is less than expected?

NW Natural response:

The current policy has no direct financial impact on existing customers. As described in responses to questions 1 and 3, NW Natural's existing program minimizes cross-subsidization between existing and new customers by design. Any usage variances would be captured in the Company's load forecast and would be adjusted in a general rate case.

NW Natural, like all Northwest utilities, aggressively promotes conservation and energy efficiency programs for its customers. Although the customer base continues to expand, per-capita consumption does not, which aligns with the goals of state policies encouraging efficiency and conservation.

However, under the current regulatory framework, line extension allowances are directly tied to customer loads. By embracing conservation and efficiency policies, the longer term effect of this construct is that allowances to serve new customers requesting gas service will be further constrained.

Question 6: *What percentage of natural gas line extensions are installed at the request of 1) residential, 2) commercial, and 3) industrial customers? What percentage of each category is requested by developers? (Please provide data dating back to the last time the company revised its line extension policy, or for as many years as this data is readily available.)*

NW Natural response:

The table below breaks out data for the years 2009-2014 along with year-to-date numbers through July 2015.

		2009	2010	2011	2012	2013	2014	2015 (Jul YTD)
Residential	Customers Requested	20%	26%	21%	16%	10%	8%	6%
	Developers Requested	80%	74%	79%	84%	90%	92%	94%
	TOTAL Residential	78%	73%	63%	69%	86%	87%	93%
Commercial	Customers Requested	97%	53%	94%	74%	86%	68%	59%
	Developers Requested	3%	47%	6%	26%	14%	32%	41%
	TOTAL Commercial	20%	27%	26%	26%	11%	12%	6%
Industrial	Customers Requested	3%	0%	11%	4%	3%	0.3%	1%
	TOTAL Industrial	3%	0%	11%	4%	3%	0%	1%

Question 7: *What information does the company make available to consumers regarding natural gas line extensions? What public outreach activities does the company conduct to encourage customers to connect to natural gas service?*

NW Natural response:

The Company provides and promotes information regarding natural gas service on its website under "Connect to Gas" (www.nwnatural.com/connectogas). This online tool allows consumers to see whether natural gas is available at their location, and the steps necessary to establish gas service.

For those locations that fall outside of available service areas, individuals are encouraged to contact a company representative via a web form to express interest in future gas service. The company does not market natural gas to unserved areas within its service territory as the cost to extend service is prohibitive.

Trade ally and direct marketing programs also provide information and serve to build a preference for natural gas as a fuel of choice.

NW Natural appreciates the opportunity to comment in this docket. We look forward to the September 23, 2015 open meeting and workshop for further discussion on these issues.

Please address correspondence on this matter to me, with copies to the following:

eFiling
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2516
Telephone: (503) 226-4211x 3589
eFiling@nwnatural.com

Sincerely,

/s/ Onita R. King

Onita R. King