

WUTC Workshop

Rulemaking to Review Natural Gas Decoupling

Docket No. 050369

Presentation By

Cascade Natural Gas Corporation

May 12, 2005



Conservation Rewards



Benefit All
Stakeholders



Conserve
Energy



Lower Winter
Bills



*Promote
Conservation*



Business Focus



Corporate Culture



Agenda

- **Introduce A New Payment Stabilization Mechanism**
- **Describe The Customer Benefits**
- **Design Of The Mechanism**
- **Tariff Requirements**
- **Alternative Mechanisms & Rate Designs**

Status of the Gas Industry

**It's Now Easier
Being Green**

Status of the Gas Industry

- Energy Efficiency Benefits Consumers
- Conservation Helps The Nation By Conserving A Valuable Domestic Resource
- Utilities That Promote Conservation Are Given High Marks By Their Customers
- Current Ratemaking Principals Create Financial Impediments For The Utility To Promote Conservation.

The Distribution of Natural Gas

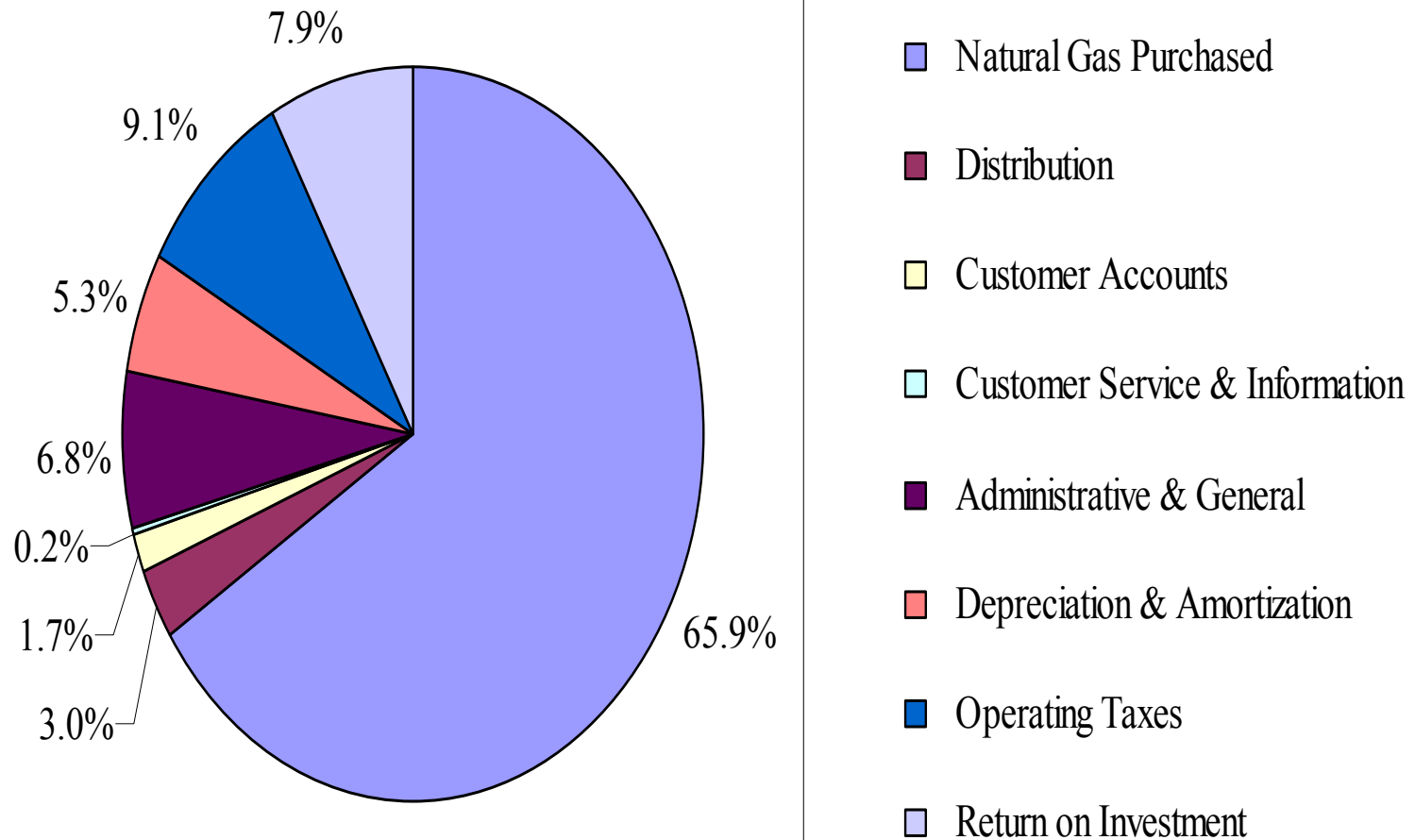


Gas Utility Costs

- Natural Gas Purchased
- Distribution O & M
- Customer Accounts
- Customer Service & Information
- Administrative & General
- Depreciation & Amortization
- Operating Taxes
- Return on Investment

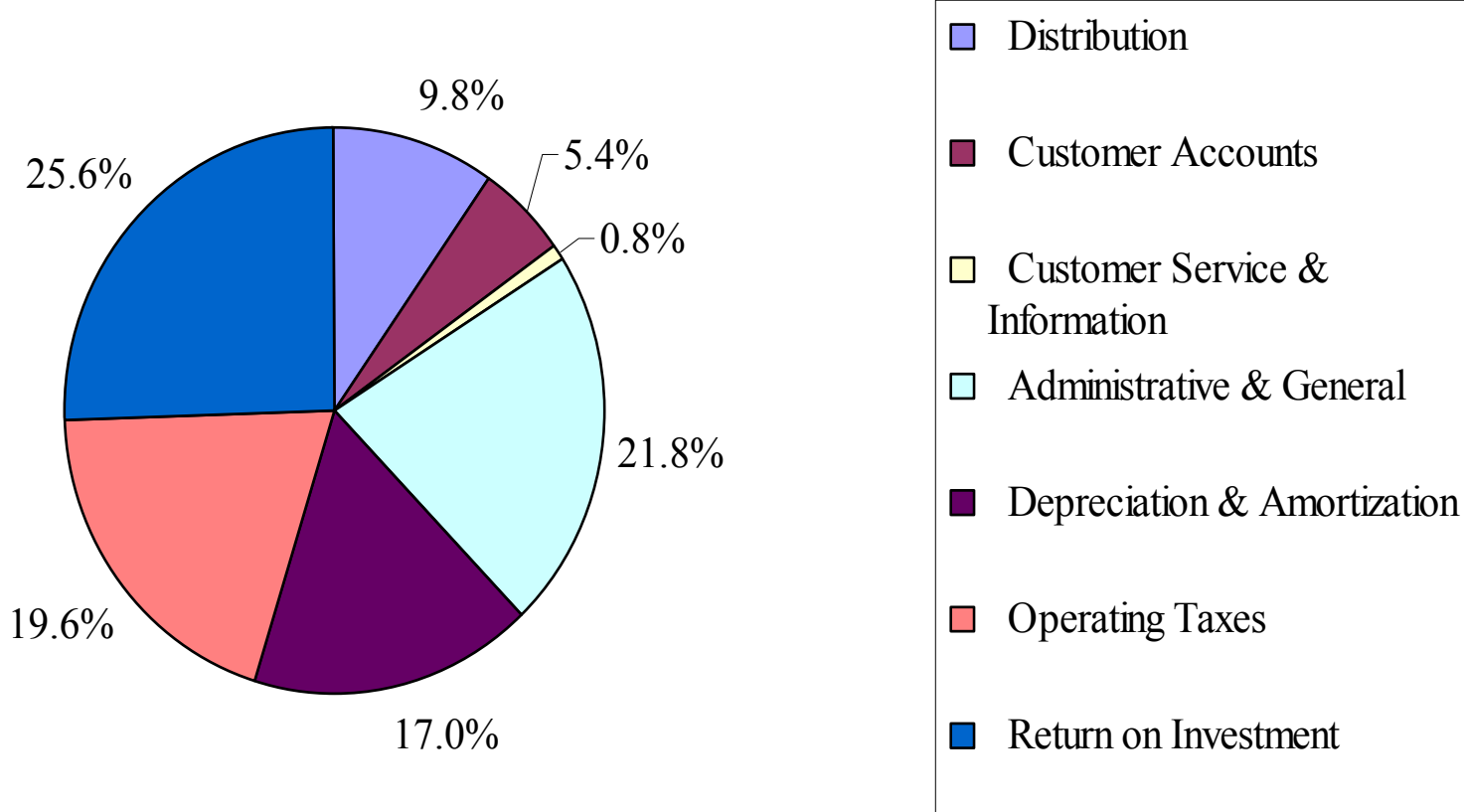
Gas Utility Costs

Current Cost Components



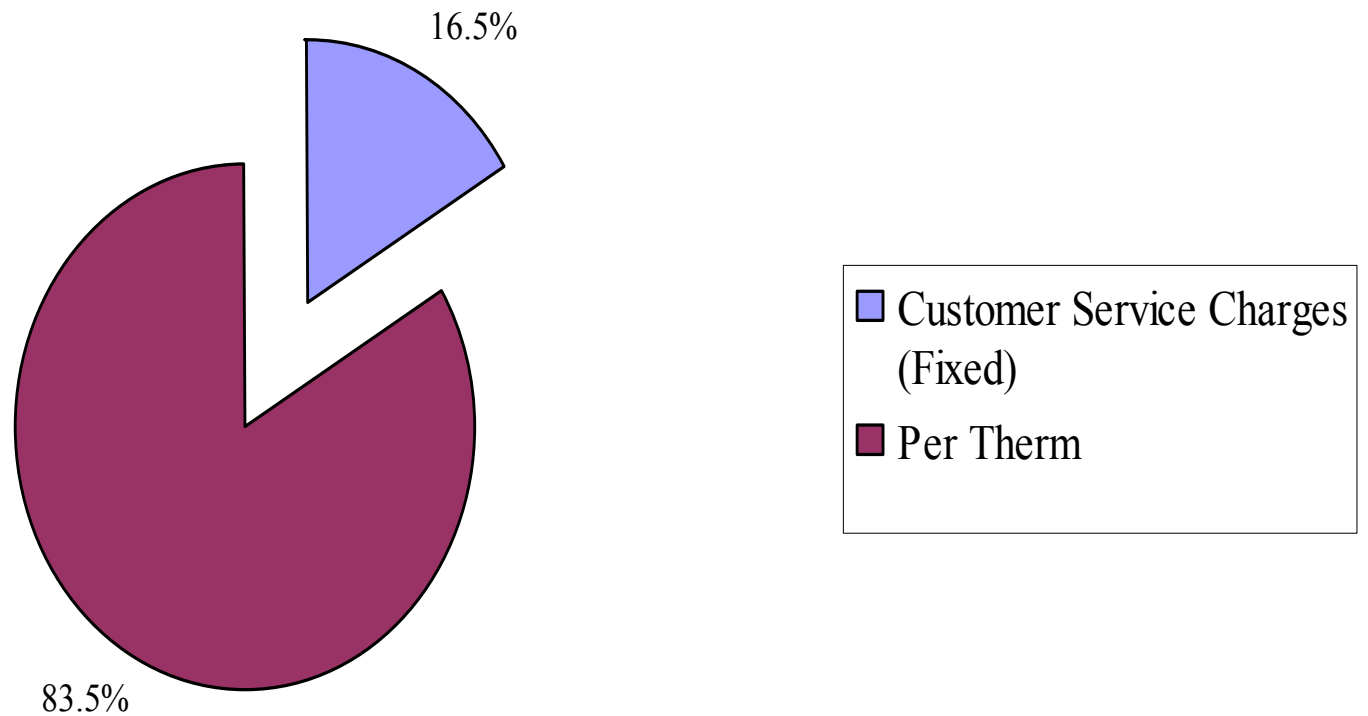
Gas Utility Margin Components

Costs Other Than Gas Cost



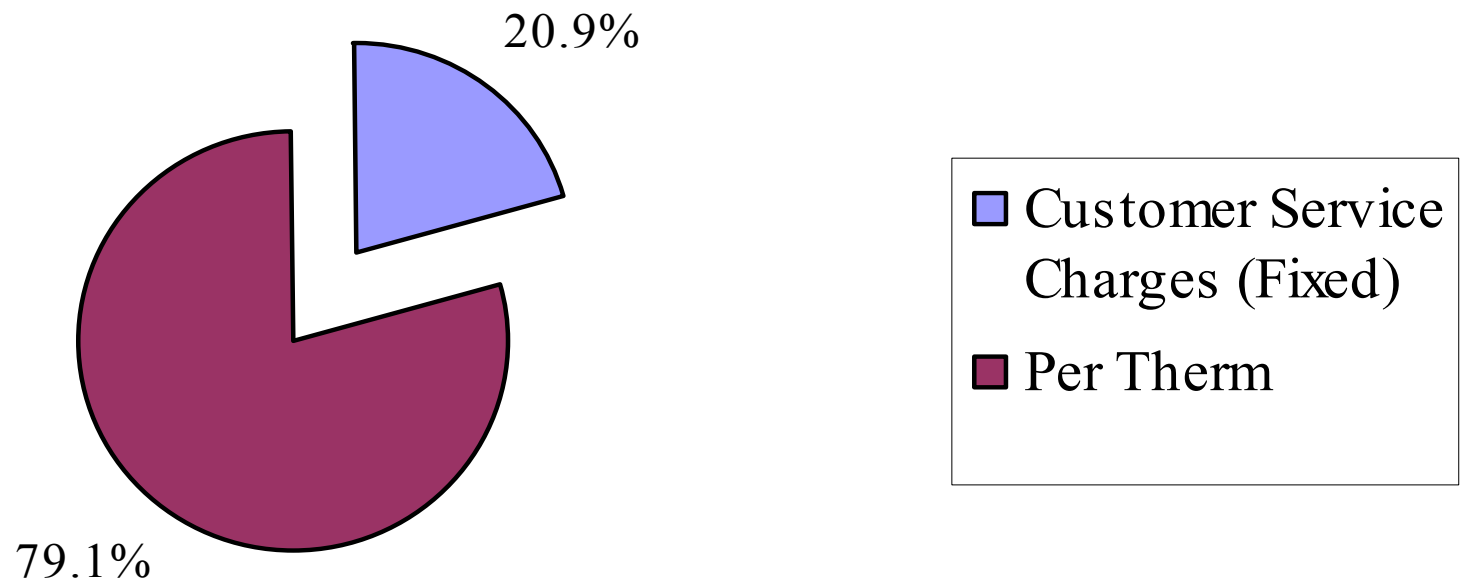
Fixed & Variable Cost Recovery

Total Core Revenues



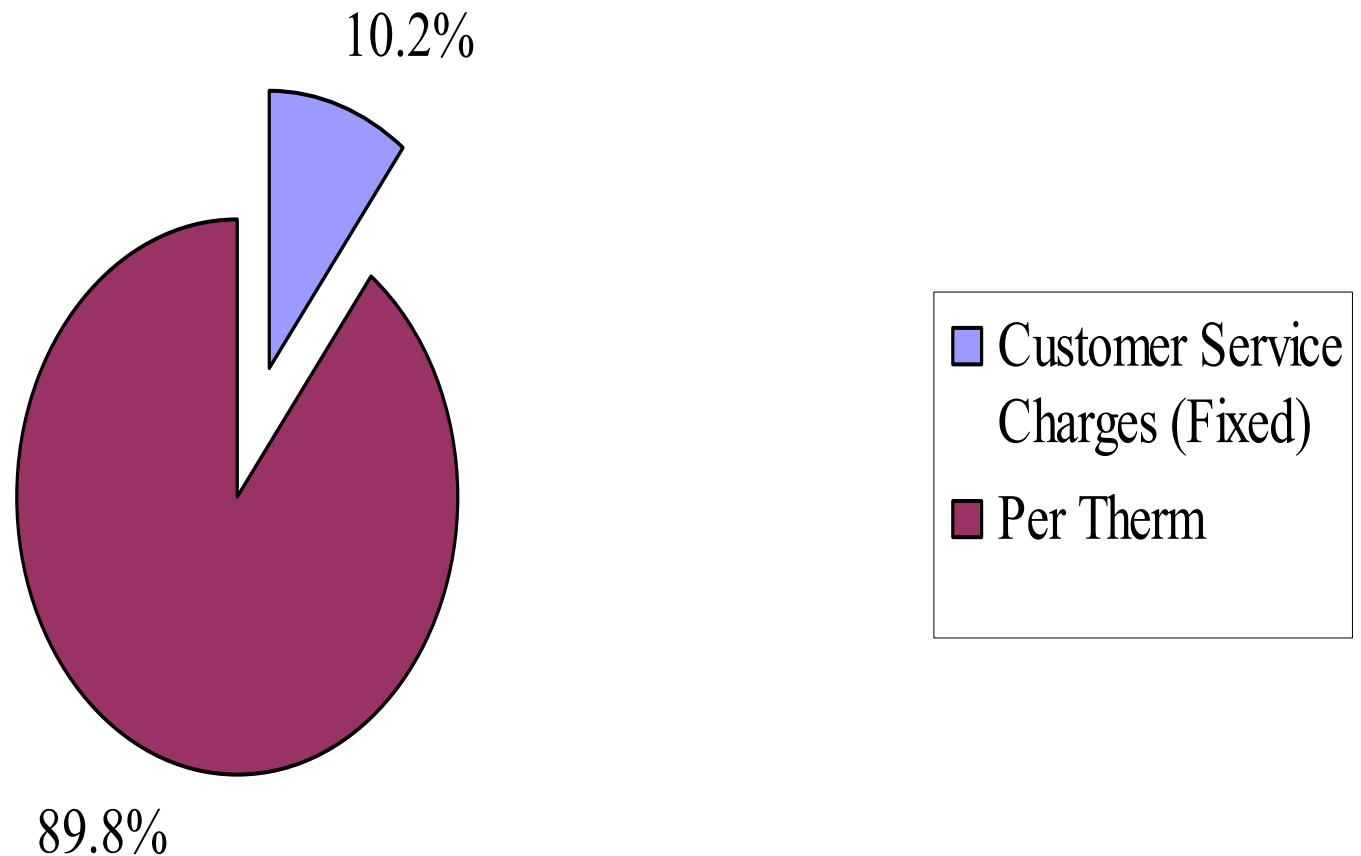
Fixed & Variable Cost Recovery

Residential General Service



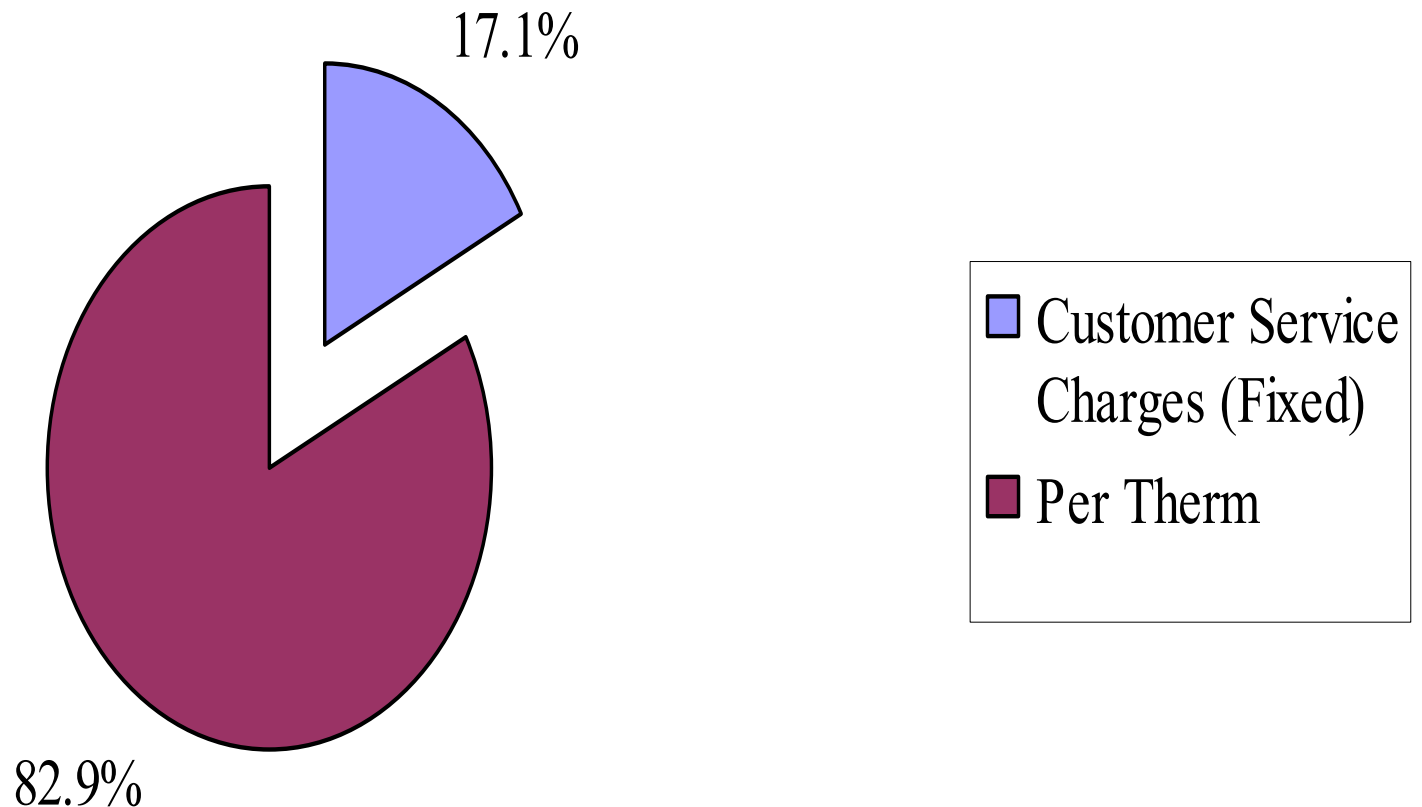
Fixed & Variable Cost Recovery

Commercial General Service



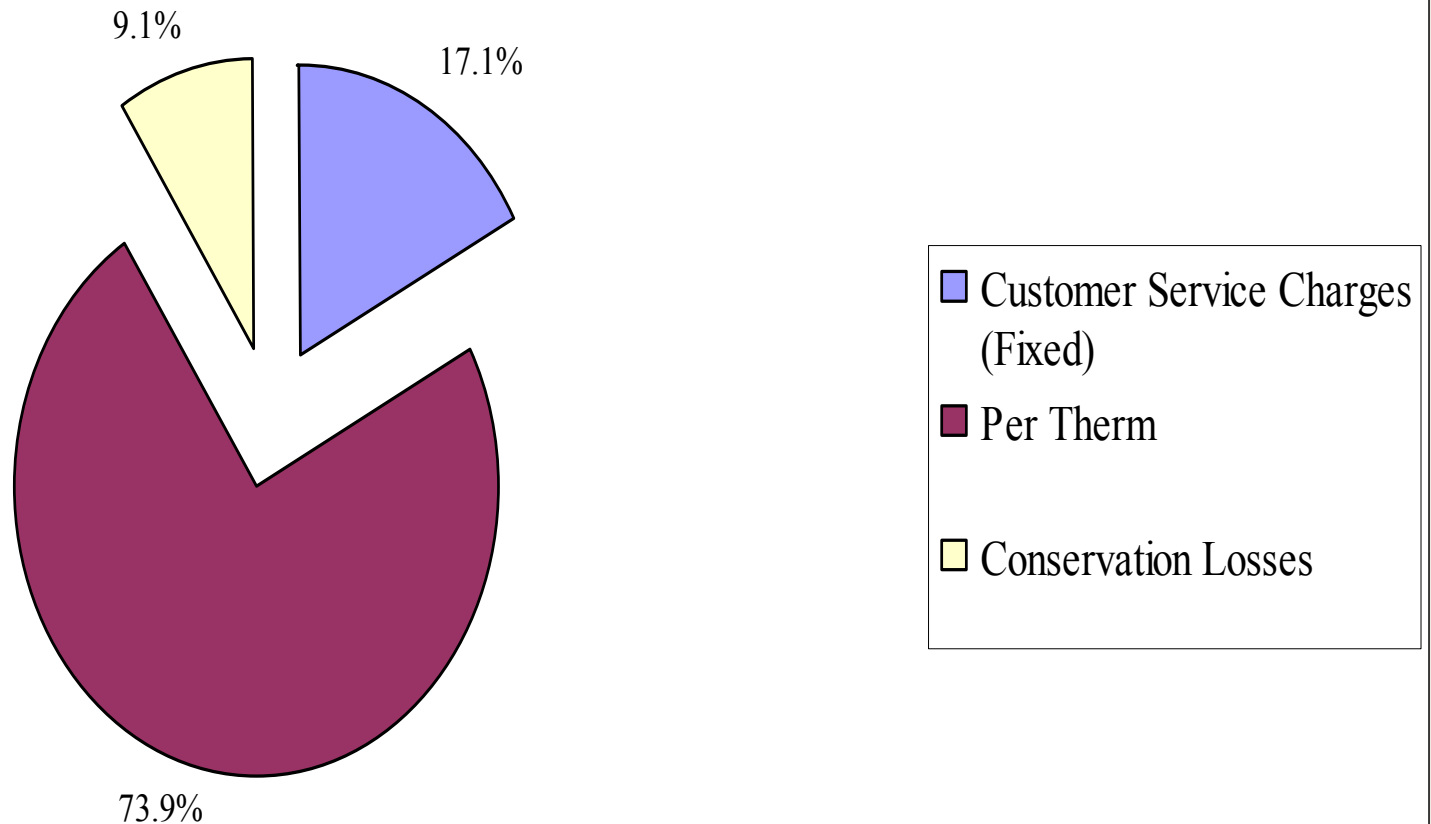
Fixed & Variable Cost Recovery

R & C General Service



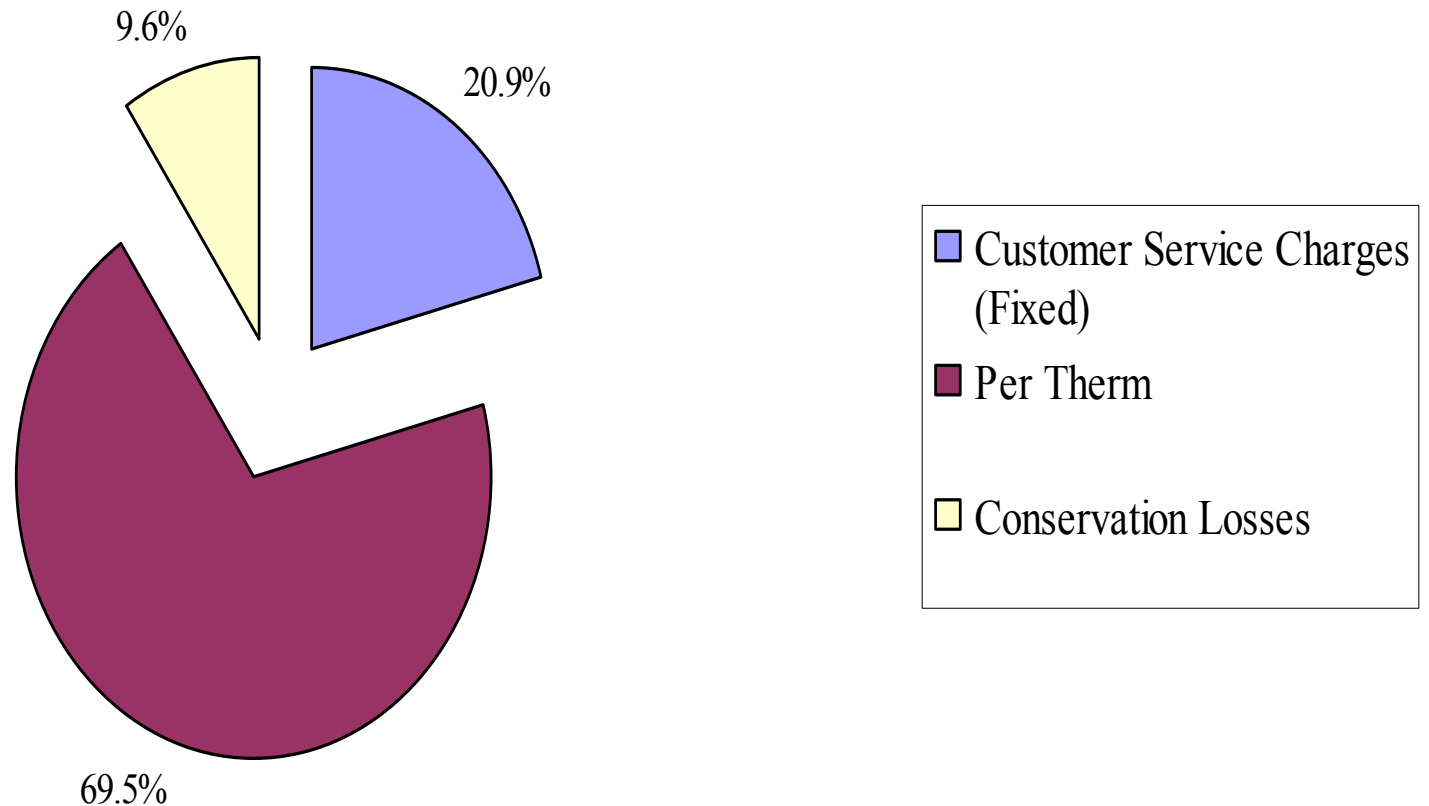
Fixed & Variable Cost Recovery

R & C General Service With Conservation Losses



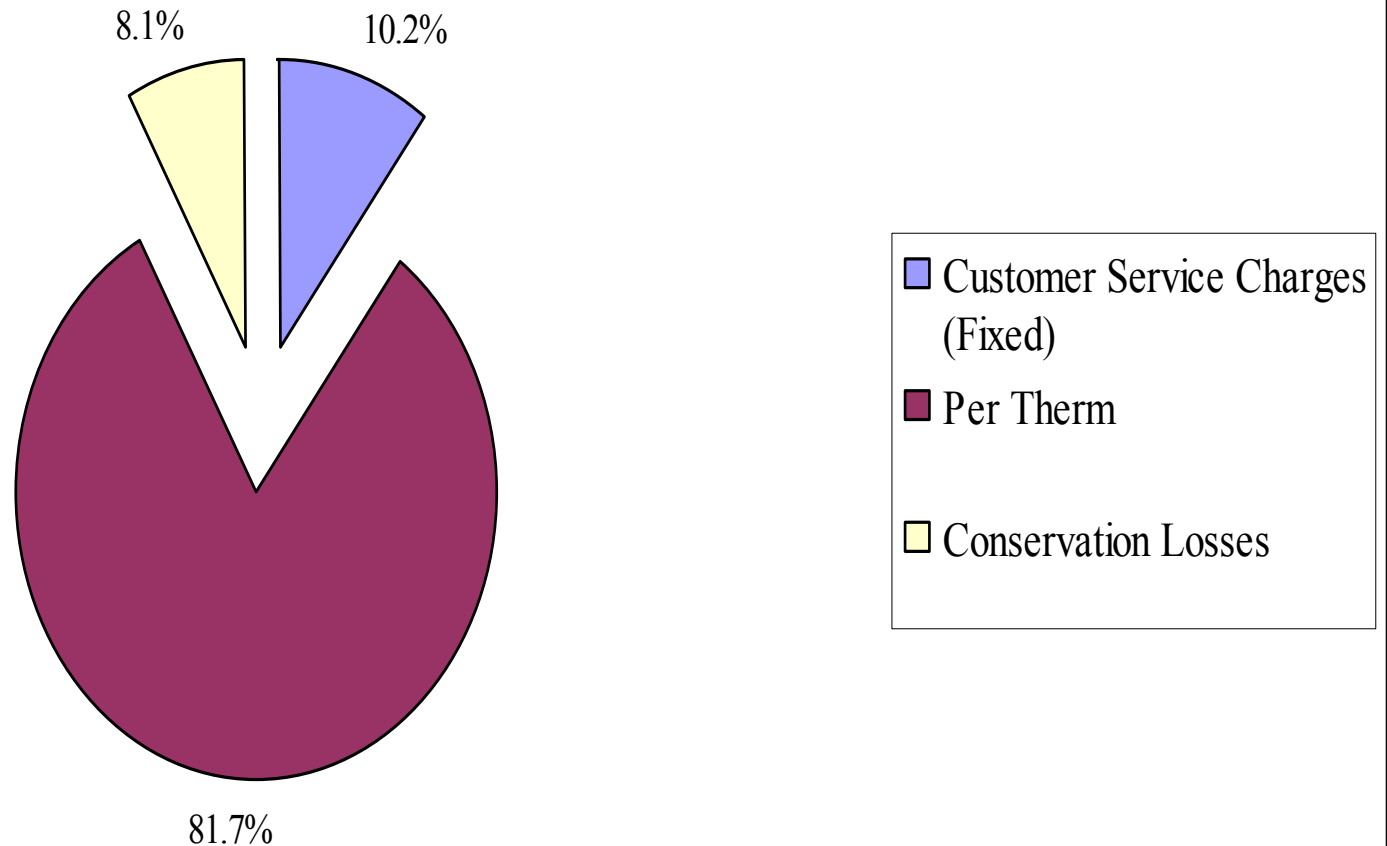
Fixed & Variable Cost Recovery

Residential With Conservation Losses



Fixed & Variable Cost Recovery

Commercial With Conservation Losses



**Conservation
or
Profitability**

Promote Conservation And Energy Efficiency

- NARUC Summer Meeting Statement:
 - The statement encouraged “innovative programs that reward utilities for encouraging conservation and managing customer bills to avoid certain negative impacts associated with colder-than-normal weather”

Payment Stabilization Mechanism

Decoupling

- **Maximize the benefits to all stakeholder groups**
- **Sever the relationship between cost recovery and throughput**
- **Promote Conservation**
- **Easy to understand**
- **Easy to implement**
- **Reward our customers for conserving**
- **Engage our customers in the pursuit of energy efficiencies**

Conservation
Rewards
Plan



Delivery Billing Units

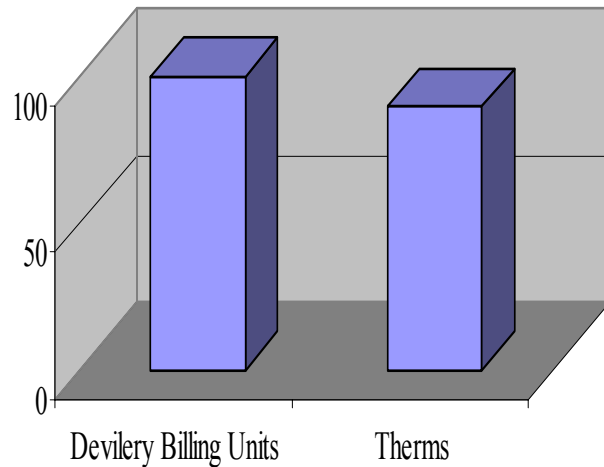
	Therms		Therms		Therms
July-02	10	July-03	8	July-04	12
August-02	8	August-03	10	August-04	11
September-02	10	September-03	8	September-04	12
October-02	40	October-03	38	October-04	45
November-02	80	November-03	62	November-04	55
December-02	120	December-03	100	December-04	120
January-03	130	January-04	180	January-05	170
February-03	140	February-04	145	February-05	140
March-03	80	March-04	70	March-05	80
April-03	50	April-04	30	April-05	55
May-03	20	May-04	25	May-05	20
June-03	15	June-04	10	June-05	10
Total	703	Total	686	Total	730

Calculation Of Billing Unit Rate

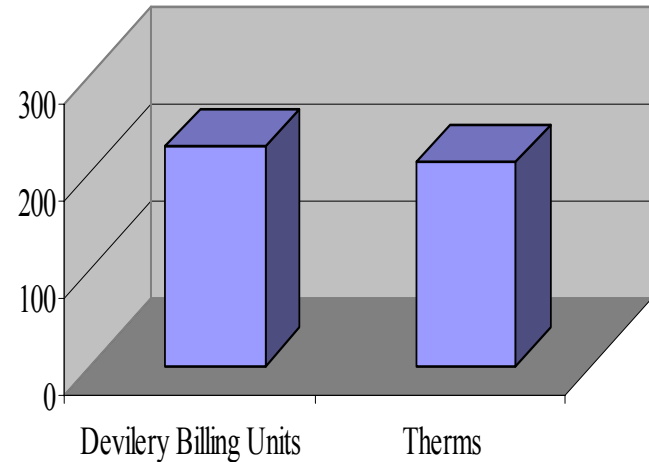
- Revenue Requirement By Rate Schedule:
 - Multiply current customer count by the appropriate average margin per customer amount.
 - Equals the numerator.
- Sum The Total Annual Volume Of Billing Units By Rate Schedule
 - Equals the denominator.
- Divide the numerator by the denominator to determine new billing unit rate for the upcoming year.

Customer Invoice

This Month



Year To Date



You saved 10 therms this month compared to the same month of your historical low consumption year

You have saved 55 therms so far this year. You are well on your way toward lowering next year's delivery charges

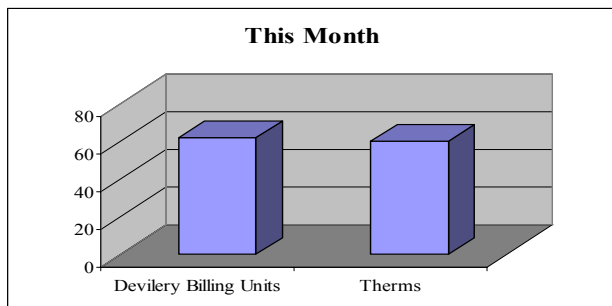
Delivery Billing Units

	Therms		Therms		Therms
July-03	8	July-04	12	July-05	8
August-03	10	August-04	11	August-05	9
September-03	8	September-04	12	September-05	8
October-03	38	October-04	45	October-05	35
November-03	62	November-04	55	November-05	60
December-03	100	December-04	120	December-05	97
January-04	180	January-05	170	January-06	165
February-04	145	February-05	140	February-06	140
March-04	70	March-05	80	March-06	60
April-04	30	April-05	55	April-06	35
May-04	25	May-05	20	May-06	26
June-04	10	June-05	10	June-06	8
Total	686	Total	730	Total	651

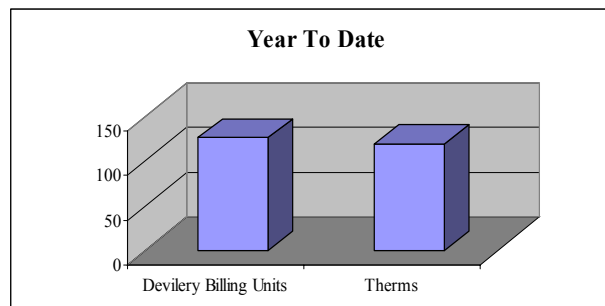
Typical Bill Display

November 2005 Invoice

	Therms	Rate	Amount
Customer Service Charge			\$ 4.00
Conservation Rewards Delivery Charge	62	\$ 0.28132	\$ 17.44
Natural Gas Used	60	\$ 0.69372	<u>\$ 41.62</u>
Total			\$ 63.06



You saved 2 therms this month compared to the same month of your historical low consumption year

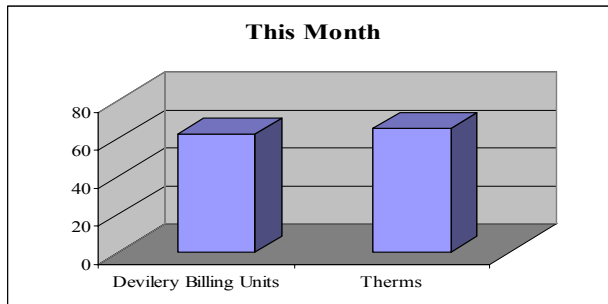


You have saved 6 therms so far this year. You are well on your way toward lowering next year's delivery charges

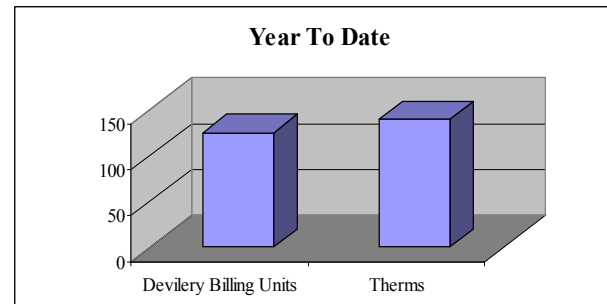
Typical Bill Display

November 2005 Invoice

	Therms	Rate	Amount
Customer Service Charge			\$ 4.00
Conservation Rewards Delivery Charge	62	\$ 0.28132	\$ 17.44
Natural Gas Used	65	\$ 0.69372	<u>\$ 45.09</u>
Total			\$ 66.53



You consumed 3 therms this month compared to the same month of your historical low consumption year



You have consumed 14 therms more than your historical low so far this year.

Customer Benefits

- Discount During a Cold Winter Event
- Protection Against Colder than normal Winter
- Rewarded For Conservation Efforts
- Individual Delivery Charges Based Upon Lowest Annual Consumption of Previous Three Years
- Alignment of Company and Customer Interest

Comparison With The Decoupling And WARM Mechanisms

- Eliminates The Need For Two Separate Mechanisms
- Simpler To Administer
- Easier To Understand
- Easier To Implement

Mechanism Tariff Requirements

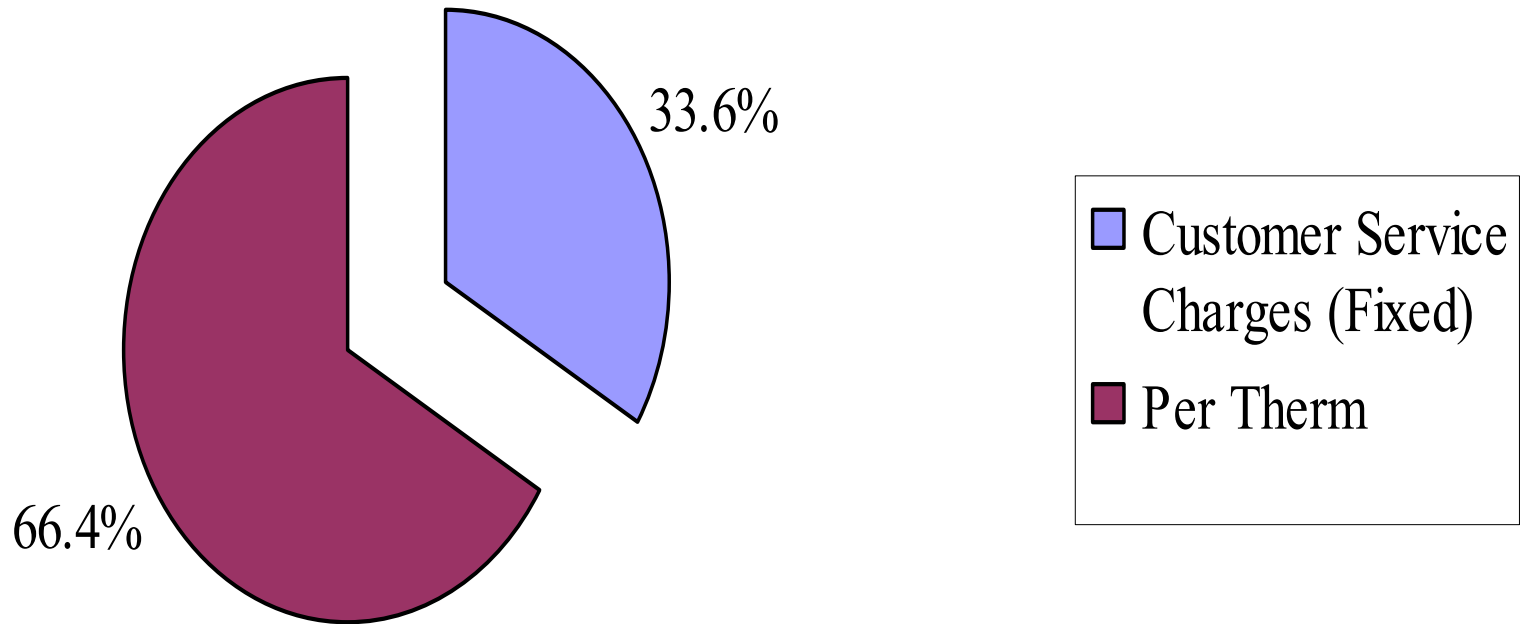
- **A Tariff that establishes the process for The Conservation Rewards Plan**
- **Similar to the PGA tariff**
- **File concurrent with the PGA**

Alternative Mechanisms & Rate Designs

- **Increased customer service charges**
- **Demand charges**
- **Declining Block Rates**
- **Other Decoupling Mechanisms.**
 - **Deferred Accounting**
 - **Elasticity Adjustments**
 - **WARM**

Increased Customer Service Charges

R & C General Service



Declining Block Rates

- More Of The Revenue Requirements In The Lower Consumption Blocks
- Margin Associated With The Tail Block Is In Jeopardy
- Conservation Results in Lost Margins

Other Decoupling Mechanisms

- Involve Deferred Accounting
- Elasticity Or Other Economic Adjustments
- Deferred Accounting For Weather Can Create Large Revenue Swings From Year To Year
- The Conservation Rewards Plan Essentially Eliminated The Need For Deferral Accounting

Summary

■ Customer Benefits

- Delivery billing units based upon historical low
- Lower rates during colder than normal weather
- Engaged in conservation
- Small customers are not disadvantaged

■ Consumer and Environmental Advocates Benefits

- Promotion of conservation
- Actual conservation helps the nation by conserving a valuable domestic resource
- Low income DSM programs are more effective

Summary (Continued)

■ Commission Benefits

- Provides an opportunity to adopt policies to encourage gas companies to conserve energy through improvement of "...efficiency of energy end use in compliance with RCW 80.28.025

■ Company Benefits

- Fixed cost recovery no longer tied to volume
- Increased customer satisfaction
- Improved financial profile with the investment community

Questions?