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November 17, 2014 NWN OPUC Advice No. 14-25

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
Post Office Box 1088
Salem, Oregon 97308-1088

Attention: Filing Center

Re: **Revisions to Schedule T – Imbalance Penalties and Overrun/Underrun Charges**

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith, the following revisions to its Tariff P.U.C. Or. 25, stated to become effective on and after January 1, 2015:

First Revision of Sheet T-4,
Schedule T,
"Customer-Owned Natural Gas Transportation Service (continued);" and

First Revision of Sheet T-5,
Schedule T,
"Customer-Owned Natural Gas Transportation Service (continued);" and

First Revision of Sheet T-6,
Schedule T,
"Customer-Owned Natural Gas Transportation Service (continued)."

The purpose of this filing is to revise Schedule T to change the pipeline overrun and underrun charges and the monthly imbalance thresholds to mirror changes approved by FERC for Northwest Pipeline ("Pipeline") on October 23, 2014 in Docket No. RP14-1283-000.

<u>Overrun and Underrun Charges</u>

The Pipeline's daily overrun penalty has changed from $5/dekatherm ("Dth") (50 cents per therm) for the first 2 percent of unauthorized quantities and $10/Dth ($1.00 per therm) for unauthorized quantities over 2 percent, to an overrun penalty of the greater of $10/Dth ($1.00 per therm) or 150% of the highest spot price index for the day in question. For this purpose, the spot price index will be the midpoint prices at NW Wyo. Pool, NW s. of Green

River, Stanfield Ore., NW Can. Bdr. (Sumas), Kern River Opal, or El Paso Bondad supply pricing points (as reflected in the Daily Price Survey published in “Gas Daily”).

The Pipeline’s underrun penalty rate has also changed to a flat rate of $10/Dth for all unauthorized underrun quantities rather than the current tier penalty rates of $5/Dth for the first 5 to 10 percent of unauthorized quantities and $10/Dth for any additional unauthorized quantities above 10 percent.

In support of these changes, the Pipeline noted in its filing that last winter the highest reported price of spot gas on Northwest was $30.38/Dth, which is considerably higher than the $5 or $10/Dth penalties. The large difference between the Pipeline’s unauthorized overrun charge penalty and the price of spot gas creates an economic incentive for transportation customers to choose to purchase less gas than they know they will use. That is, it may be cheaper to pay the $5 and $10 unauthorized overrun charge penalties and buy lower priced replacement gas a month or two later to make up for the imbalance, rather than purchase much more expensive gas supplies during the entitlement event itself. NW Natural knows of at least one transportation customer on the Company’s distribution system that took advantage of this economic “opportunity” last winter.

The Pipeline proposed, and FERC agreed, that to maintain operational integrity of the system, the penalty for unauthorized overrun gas must be higher than the then current daily price of gas. NW Natural agrees with this position, and expects that the increase proposed in this filing will serve to mitigate the same potential for transportation customers to threaten the Company’s distribution system operations by choosing to pay a lower penalty rate rather than pay for the delivery of higher priced gas supplies.

<u>Monthly Imbalance Threshold</u>

The monthly imbalance threshold has been changed by the Pipeline to three percent (3%) above or below total monthly confirmed nominations during the August through February period, with an imbalance threshold of five percent (5%) above or below confirmed nominations during the March through July period. The Pipeline states in its filing that reducing the upper imbalance limit from 5% to 3% from the end of August through the end of February will allow the Pipeline to utilize its system balancing flexibility in a more equitable manner in meeting peak heating season demands.

NW Natural agrees with the Pipeline’s position and is proposing here to adopt the same monthly imbalance thresholds.

The Company has historically attempted to mirror Pipeline’s tariff provisions for imbalances and overrun and underrun charges in the Schedule T Tariff. The last time there were changes to the monthly imbalance provisions was in 1995, and the last time that changes to the overrun entitlement provisions were made was in September 2003.

The Company respectfully requests that the tariff sheet filed herewith be permitted to become effective with service on and after January 1, 2015.

Copies of this letter and the filing made herewith are available in the Company's main office in Portland, Oregon, and on the Company’s website at www.nwnatural.com.

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

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

Sincerely,

NW NATURAL

/s/ Onita R. King

Onita R. King
Rates & Regulatory Affairs

Attachments:
FERC Order in Docket No. RP14-1283-000

SCHEDULE T
CUSTOMER-OWNED
NATURAL GAS TRANSPORTATION SERVICE
(continued)

BALANCING OF RECEIPTS AND DELIVERIES:
Balancing of receipts and deliveries shall be accomplished on a daily basis to the extent possible. Cumulative Imbalances in receipts and deliveries will be carried over to the next Billing Month. If a Customer's cumulative Imbalance in any Billing Month during the period August through February is more than three percent (3%) above or below total Confirmed Nominations for that Billing Month, or if a Customer's cumulative imbalance in any Billing Month during the period March through July is more than five percent (5%) above or below total Confirmed Nominations for that Billing Month, such Customer will be notified by the fifteenth (15th) day of the following Billing Month that the Imbalance exceeds the allowed tolerance, and such Customer will receive a minimum of forty-five (45) non-restricted days ("Balancing Period"), which may or may not be consecutive, from the date of notification by the Company to eliminate the Imbalance. A non-restricted day is any day where there is no Entitlement, Curtailment, or Pre-emption Order in effect. (C) | (C)

If a Customer's cumulative Imbalance comes within the applicable tolerance range as stated above, or if the balance is less than ten (10) therms, or the Imbalance has moved from negative to positive, or from positive to negative at the end of a Billing Month within a Balancing Period, that Balancing Period will end. (C)

If by the end of the Balancing Period an Imbalance is not eliminated in a manner described above, Customer will be required to choose one of two options to clear the Imbalance:

Option 1. Pay a Balancing charge of $1.00 per Therm on all Imbalance Therms and the Imbalance volumes will carry to the next Balancing Period. The Imbalance charge will be billed on the Customer's next monthly bill and will be due and payable in addition to Customer's normal charges.

Option 2. Buy out the Imbalance. If the Imbalance is negative, Customer may buy out the entire negative Imbalance volume by paying the Company a price per Therm that is the greater of: (a) the highest Monthly Incremental Cost of Gas calculated in accordance with **Schedule 150** over the previous three (3) month period, or (b) 150% of the Company's current Annual Sales WACOG. If the Imbalance is positive, the Company will pay the Customer on all positive Imbalance volumes a price per Therm that is the lesser of: (a) the lowest Monthly Incremental Cost of Gas calculated in accordance with **Schedule 150** over the previous three (3) month period, or (b) 50% of the Company's current Annual Sales WACOG. Following a buyout, Customer's cumulative Imbalance will be eliminated and that Balancing Period will end.

Customer must notify the Company in writing of its intent to exercise Option 2 not later than the fifteenth (15th) day of the Billing Month in which imbalance charges would be assessed. If a Customer exercises Option 2 in the month following the end of a Balancing Period, such Customer's cumulative Imbalance will be eliminated, but such Customer will be responsible for the payment of any Balancing charge assessed for the prior period.

Balancing gas is not available when Entitlement, Curtailment or Pre-emption has been ordered, except, during an Entitlement, to the extent of the Threshold Percentage tolerance levels.

Imbalances incurred as a direct result of a meter error or malfunction shall be resolved on a case-by-case basis between the Company and the Customer. In such an event, Customer shall notify the Company prior to purchasing Imbalance volumes from third party suppliers. The Company shall not be responsible to Customer for any costs incurred should Customer fail to make such appropriate notification.

(continue to Sheet T-5)

SCHEDULE T
CUSTOMER-OWNED
NATURAL GAS TRANSPORTATION SERVICE
(continued)

CURTAILMENT AND ENTITLEMENT:
Any restrictions of service to Customer when Curtailment or Entitlement conditions exist will be made in accordance with the Rules of this Tariff, and in accordance with currently effective Company policies and procedures, as circumstances dictate. Entitlement, Curtailment and Pre-emption of service may exist concurrently during any one episode. However, not more than one Entitlement, Curtailment, or Pre-emption condition will exist at any one time.

Restrictions of service under Curtailment conditions will be made in accordance with **Rule 13** and **Rule 14**. Curtailment of Customer-Owned Gas due to Force Majeure conditions or due to capacity limitation on the Company's system shall not be considered a Pre-emption of Customer-Owned Gas. Gas taken by a Customer due to a failure to comply with a Curtailment order will be considered unauthorized, and subject to charges set forth in **Schedule C**.

Restrictions of service under Entitlement conditions will be made as follows:

Overrun Entitlement. In an Overrun Entitlement condition the following threshold percentage levels will be effective:

Stage 1:	Three percent (3%) of Confirmed Nominations; or if ordered within two (2) hours of the start of the Gas Day; five percent (5%) of Confirmed Nominations
Stage 2:	Eight percent (8%) of Confirmed Nominations
Stage 3:	Thirteen percent (13%) of Confirmed Nominations

The Company will specify the applicable threshold percentage in its Entitlement notice.

The overrun charge that will apply during any Overrun Entitlement episode will equal the greater of $1.00 per therm or 150% of the highest spot price index for the day in question. (C)

For this purpose, the spot price index will be the midpoint prices at NW Wyo. Pool, NW s. of Green River, Stanfield Ore., NW Can. Bdr. (Sumas), Kern River Opal, or El Paso Bondad supply pricing points (as reflected in the Daily Price Survey published in "Gas Daily"), converted from dollars per dekatherm to dollars per therm by dividing by ten (10).

(C)

(continue to Sheet T-6)

SCHEDULE T
CUSTOMER-OWNED
NATURAL GAS TRANSPORTATION SERVICE
(continued)

CURTAILMENT AND ENTITLEMENT (continued):

Underrun Entitlement. During an Underrun Entitlement condition, a Customer that is in an underrun situation will be subject to underrun charges for each instance of underrun Imbalance that occurs during any Underrun Entitlement period. The charge that will apply during any Underrun Entitlement episode will be $1.00 per Therm for any underrun imbalances. (C)

PRE-EMPTION:
Customer-Owned Gas may be Pre-empted in the event that the Company's Firm gas supply and Company's peaking facilities are insufficient at any time to meet the requirements of Firm Sales Service Customers.

The Company will use reasonable efforts to obtain voluntary Pre-emption of gas by negotiation with individual Customers. If the Company cannot obtain sufficient volumes of Gas from volunteers, then the Company shall select and pay individual Customers for involuntary Pre-emption of gas at a rate of $10.00 per Therm. The selection of individual Customers for involuntary Pre-emption will be based on system needs and Company's ability to maintain operational control or system integrity. The Company will use its best efforts to avoid Pre-empting an individual Customers gas on a repeated basis.

A Customer who fails to comply with a Pre-emption Order shall pay $10.00 per Therm for any gas taken, and the Company shall not be obligated to pay such Customer for Pre-emption gas.

The priorities of service for Pre-emption purposes due to limited gas supply are, as follows:

(1) Firm Service (pre-empted last).
(2) Interruptible Service (pre-empted first).

A Customer's priority of service within each of the above categories shall be based on economic considerations and/or other contract considerations.

GENERAL TERMS:
Service under this Schedule is governed by the terms of this Schedule, the General Rules and Regulations contained in this Tariff, any other schedules that by their terms or by the terms of this Schedule apply to service under this Schedule, and by all rules and regulations prescribed by regulatory authorities, as amended from time to time.

149 FERC ¶ 61,070
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Cheryl A. LaFleur, Chairman;
Philip D. Moeller, Tony Clark,
and Norman C. Bay.

Northwest Pipeline LLC Docket No. RP14-1283-000

ORDER ACCEPTING TARIFF RECORDS

(Issued October 23, 2014)

1. On September 26, 2014, Northwest Pipeline LLC (Northwest) filed revised tariff records[1] to: (1) reduce the limit on the cumulative Receiving Party Imbalance tolerance levels during the months leading up to and including the heating season; (2) modify the allocation of Receiving Party Imbalances when a Receiving Party has more than one service agreement; (3) increase Northwest's daily unauthorized overrun and underrun entitlement charges during critical operational periods; (4) modify Northwest's customer-specific entitlement mechanism to allow Northwest to entitle specific Receiving Parties whose daily actions are causing operational concerns; and (5) modify the daily unauthorized overrun and underrun entitlement tolerance levels for Receiving Parties. The Commission accepts the tariff records effective October 27, 2014, as proposed.[2]

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[1] The proposed tariff records are shown in the Appendix to this order.

[2] In Northwest's transmittal to the September 26, 2014 filing, Northwest stated "Northwest hereby moves that the proposed Tariff sheets be made effective October 27, 2014, *or at the end of any suspension period which may be imposed by the Commission*." (Emphasis added.) 18 C.F.R. § 154.7(a)(9) (2014) of the Commission's regulations provides two options regarding the filing of a motion to place suspended rates into effect pursuant to section 4(e) of the Natural Gas Act. In the case of a minimal suspension, the pipeline may include in its filing a motion to (1) place the proposed rates into effect at the end of the suspension period; or (2) reserve the right to file a later motion. Northwest includes with its filing a motion to place the proposed tariff provisions into effect at the end of any suspension period. Pursuant to section 154.7(a)(9), such a motion only applies to minimal suspensions and cannot apply to five-month suspensions. Thus, if the Commission had suspended the proposed tariff records for any period other than the minimum period, the motion included in Northwest's filing would have been ineffective for purposes of moving the proposed tariff records into effect at the end of the suspension period.

Public Notice and Interventions

2. Public notice of the filing was issued on September 29, 2014. Interventions and protests were due as provided in section 154.210 of the Commission's regulations (18 C.F.R. § 154.210 (2014)). Pursuant to Rule 214 (18 C.F.R. § 385.214 (2014)), all timely filed motions to intervene and any unopposed motion to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt the proceeding or place additional burdens on existing parties. Puget Sound Energy, Inc. (Puget Sound) and Northwest Industrial Gas Users[3] filed comments in support of Northwest's proposals. Northwest Natural Gas Company (NW Natural) filed a protest limited to one aspect of Northwest's proposed revisions: the increase in the penalty-free volume tolerance from 1,000 to 2,000 dekatherms (Dths) before penalties would apply. NW Natural's protest is discussed below.

Proposals

3. Northwest proposes five changes to its tariff which it states will help maintain system balancing flexibility, reduce entitlement and operational flow orders, and ensure that Northwest will be able to meet its firm service obligations.

4. First, Northwest states that under the General Terms and Conditions (GT&C) Section 15.3, Receiving Party Imbalances and Penalties, of its tariff, each Receiving Party[4] is given a tolerance before the application of penalties that allows a cumulative monthly Receiving Party Imbalance of the greater of 5,000 Dths or 5 percent above or below its total monthly confirmed nominations without incurring penalties. Northwest states that if all Receiving Parties were to incur the maximum cumulative monthly imbalance within the penalty-free tolerance levels simultaneously, Northwest's system balancing flexibility would be depleted. To improve the reliability of its balancing flexibility, Northwest proposes to impose a Receiving Party cumulative imbalance tolerance limit of the greater of 5,000 Dths or 3 percent of its total monthly confirmed nominations during the period of August through February while retaining the existing cumulative imbalance tolerance limit during the rest of the year.

[3] Northwest Industrial Gas Users (NWIGU) is an association of more than forty industrial end users of natural gas in Oregon, Washington, and Idaho.

[4] A Receiving Party is the delivery point operator who controls the facilities into which natural gas is delivered for Shipper. A Receiving Party Imbalance results when there is a difference between scheduled deliveries and actual measured deliveries for a given delivery point operator.

5. Second, Northwest states that its current GT&C Section 15.1 sets forth the procedures for assigning which service agreement a Receiving Party's imbalance will reside on in the event that a Receiving Party has executed more than one service agreement with Northwest. Northwest notes that this language is outdated. Northwest proposes to delete Section 15.1, and modify Section 15.2 to state that Receiving Party imbalances will be placed on an executed service agreement as designated by the Receiving Party.

6. Third, Northwest states that its current unauthorized overrun penalty charges assessed to a Receiving Party that takes natural gas in excess of the penalty-free volume tolerance during a declared daily unauthorized overrun entitlement period is $5 per Dth for the first 2 percent of unauthorized quantities and $10 per Dth for any additional unauthorized quantities above the 2 percent. Northwest notes that in the 2013-2014 winter the highest reported price of spot natural gas on Northwest was $30.38 per Dth. Northwest argues that the large difference between Northwest's unauthorized overrun charge penalty and the price of spot natural gas creates an economic incentive for Receiving Parties to choose to purchase less natural gas than they know they will use because it is cheaper to pay the $5 and $10 per Dth unauthorized overrun charge penalties than to purchase a more expensive natural gas supply. Northwest states that Receiving Parties that use more natural gas than what has been scheduled for delivery on critical days threaten the operational integrity of Northwest's system, and could impair Northwest's ability to provide schedule firm service. Northwest proposes to increase its current $5 and $10 per Dth charges for unauthorized overruns to the greater of $10 per Dth or 150 percent of the highest midpoint price at key pricing points on its system.

7. Fourth, Northwest's tariff currently allows Northwest to declare a customer-specific overrun or underrun entitlement for a portion of the system during a critical operational period. However, once declared, any Receiving Party who exceeds its previous day's nominations by 10 percent are then subject to a customer-specific entitlement penalty for any future unauthorized overrun/underrun volumes, even if its past actions have not led to the operational problems. Northwest proposes to modify its customer-specific entitlement provision to allow Northwest to declare a customer-specific unauthorized overrun or underrun entitlement for a specific Receiving Party whose cumulative imbalance is out of tolerance and whose continued daily behavior of creating imbalances is causing operational concerns. Northwest states that the proposed customer-specific entitlement provision does not require the reduction of the existing Receiving Party Imbalance but would penalize a Receiving Party for causing its out-of-tolerance current cumulative imbalance to grow above the authorized overrun or underrun level declared by Northwest during critical operational periods. This change, Northwest continues, would allow Northwest to target the specific Receiving Party causing the operational concerns without impacting other Receiving Parties whose actions have been acceptable and are in line with the overall cumulative Receiving Party Imbalance limitations.

8. Finally, Northwest states that its current GT&C Section 15.5, Daily Overrun and Underrun Provisions, identifies three different stages at which an unauthorized overrun entitlement can be declared. Each stage identifies the threshold percentage that a Receiving Party may overrun or underrun its scheduled quantities without being penalized. Section 15.5(d) states that penalties only apply to volumes that exceed the stated penalty threshold percentage or 1,000 Dths, whichever is larger. Northwest proposes to modify the penalty-free volume tolerance for daily unauthorized overruns and underruns from 1,000 to 2,000 Dths. Northwest states that this will provide flexibility for Receiving Parties during the entitlement stages without threatening the operational integrity of Northwest's system or affecting other Receiving Parties.

9. Northwest states that prior to filing these proposed changes, it discussed the changes with its customers several times. Puget Sound and NWIGU filed comments in support of Northwest's proposals. They state that Northwest provided additional information at the meetings, and they believe that the proposed modifications are appropriately packaged together to eliminate the economic incentive to pay the entitlement charges.

10. NW Natural protested the proposed increase in the small volume tolerance from 1,000 to 2,000 Dths before penalties would apply. NW Natural argues that this upward tolerance revision is inconsistent with the general objective of Northwest's filing, which is designed to tighten up its balancing provisions and increase penalty rates to maintain the operational integrity of the system. NW Natural argues that the proposed change does not provide appropriate flexibility for Receiving Parties with larger volume receipt amounts, because the proposed tolerance change will provide more flexibility for smaller Receiving Parties only. NW Natural asserts this small tolerance change could negatively impact the current flexibility on Northwest's system because it moderates the need to balance supplies with demand for smaller Receiving Parties. NWIGU, for its part, comments that there is no evidence of any negative impact to Northwest's system from increasing the small volume tolerance for daily unauthorized overruns and underruns from 1,000 to 2,000 Dths per day.

Discussion

11. The Commission accepts Northwest's proposed changes, effective October 27, 2014. With the exception of Northwest's proposal to increase the penalty-free volume tolerance for daily unauthorized overruns and underruns from 1,000 to 2,000 Dths, the proposals are either supported by Northwest's customers or no adverse comments were filed.

12. NW Natural believes that the proposed increase in the penalty-free volume tolerance from 1,000 to 2,000 Dths before penalties would apply does not commensurately benefit large customers like it, and may be counter to the general objective of Northwest's filing: maintaining the operational integrity of the system. Section 284.12(b)(2)(v) (Penalties) of the Commission's regulations provides that

pipelines may include penalties only to the extent necessary to prevent the impairment of reliable service.[5] Northwest, as operator of its system, is in the best position to determine whether increasing the penalty-free tolerance for large shippers as well as small would adversely affect the reliability of service on its system. The Commission perceives no basis for finding that the increase in small customer tolerances will endanger operational integrity, and affirms the pipeline's operational judgment that it will not impair Northwest's ability to provide reliable service.

13. NW Natural argues that the proposed change does not provide appropriate flexibility for Receiving Parties with larger volume receipt amounts, such as NW Natural. This is no change in the currently effective percentage deviation penalty provisions, which affect larger shippers. Specifically, Northwest's GT&C section 15 currently provides that deviation penalties apply to a Receiving Party only when the deviation is the greater of 1,000 Dth or one of three percentages of the Declared Entitlement volumes. Thus, Receiving Parties with larger Declared Entitlements are more likely subject to the different percentage-based penalty-free tolerances than Receiving Parties with small Declared Entitlements. This differentiation will not change, nor will any of the three percentages used in the calculation. NW Natural has not shown that Northwest's currently effective penalty-free percentage tolerances applicable to Receiving Parties with large Declared Entitlements are no longer just and reasonable. NW Natural's protest is therefore denied.

<u>The Commission orders</u>:

The tariff records listed in the Appendix to this order are accepted effective October 27, 2014.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

[5] 18 C.F.R. § 284.12(b)(2)(v) (2014).

Appendix
Tariff Records Accepted Effective October 27, 2014

Northwest Pipeline LLC
FERC NGA Gas Tariff
Fifth Revised Volume No. 1

Sheet No. 5-A, Statement of Rates: TF-1, TF-2, TI-1, TFL-1 and TIL-1, 3.0.0
Sheet No. 5-D, Statement of Rates: TF-1, TF-2, TI-1, TFL-1 and TIL-1, 4.0.0
Sheet No. 229, GT&C - Operating Conditions - Declared Entitlement Period, 2.0.0
Sheet No. 229-A, GT&C - Operating Conditions - Records of Sched Quantities, 2.0.0
Sheet No. 233, GT&C - Deliveries and Imbalances, 3.0.0
Sheet No. 234, GT&C - Deliveries and Imbalances, 3.0.0
Sheet No. 235, GT&C - Deliveries and Imbalances, 2.0.0
Sheet No. 236, GT&C - Deliveries and Imbalances, 3.0.0
Sheet No. 237, GT&C - Deliveries and Imbalances, 2.0.0
Sheet No. 237-A, GT&C - Deliveries and Imbalances, 3.0.0