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September 22, 2016

VIA ELECTRONIC FILING

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

Re: UCB-67 – Northwest Natural's Gas Company's Opening Brief

Northwest Natural Gas Company, dba NW Natural, files herewith its Opening Brief and Attachments A-D in this matter.

Please contact me if you have any questions or require any further information.

Sincerely,

/s/ Zachary D. Kravitz

Zachary D. Kravitz
Associate Counsel

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UCB 67

REVTEK LLC, Complainant, NORTHWEST NATURAL GAS COMPANY, Defendant,	)	**Northwest Natural Gas Company's Opening Brief**

Rates & Regulatory Affairs
NW NATURAL
220 NW Second Avenue
Portland, Oregon 97209-3991

I. INTRODUCTION

Pursuant to Administrative Law Judge ("ALJ") Allan J. Arlow's September 15, 2016 Memorandum, Defendant Northwest Natural Gas Company ("NW Natural") or ("the Company") hereby submits its Opening Brief in docket UCB 67. This Opening Brief will address the sole issue of fact specified in ALJ Arlow's September 15, 2016 Memorandum: Whether NW Natural appropriately applied the Weather Adjusted Rate Mechanism ("WARM" or "WARM Program") to Complainant Revtek, LLC's June bills following the 2014-2015 winter heating season.

II. BACKGROUND OF NW NATURAL'S WARM PROGRAM

A. The WARM Program.

The WARM Program was proposed by the Company in its 2002 general rate case, and the original Schedule 195 carried an effective date of September 1, 2003.[1] The WARM Program concept was developed to mitigate the effects that variations in winter

[1] In the Matter of Northwest Natural Gas Company's Application for a General Rate Revision Advice No. 02-19, Docket UG 152, Order No. 03-507 at 1 (Aug. 22, 2003), attached as Attachment A. All prior Orders, Stipulations, and Tariff sheets were provided to Complainant on August 19, 2016 in response to Complainant's discovery requests.

weather has on the Company's revenues and on customers' bills.[2] Because a large portion of the Company's fixed costs are recovered through volumetric charges, prior to the establishment of the WARM Program, the revenues to recover those fixed costs would vary significantly with the weather.[3] In colder than normal winters, the Company would over-recover its fixed costs at the expense of customers, and in warmer than normal winters, the Company would under-recover its fixed costs.[4] This exposed both customers and the Company to weather-related risk, over which neither had control. The WARM Program modified the rate structure "to recognize the need to separately identify and collect the revenues to cover the fixed costs from the revenues which cover truly usage-related costs, and to do so in a way that immediately benefits both customers and the Company."[5]

The WARM Program operates as a real-time bill adjustment during the winter months to level out the variability in customer bills (and Company revenues) due to changes in weather.[6] The WARM Program applies only to customers served under Rate Schedule 2 (residential customers) and Rate Schedule 3 (commercial customers), as these customer classes largely represent primary space heating load that is typically more sensitive to the effects of weather during the winter months.[7] Customers are automatically enrolled in the WARM Program; however, customers are not required to

[2] In the Matter of Northwest Natural Gas Company's Application for a General Rate Revision Advice No. 02-19, Docket UG 152, Order No. 04-463, Appendix A at 1 (Aug. 16, 2004), attached as Attachment B.
[3] *Id.*
[4] In the Matter of Public Utility Commission of Oregon, Investigation Into Northwest Natural's WARM Program, UM 1750, Order No. 16-223, Appendix A at 2 (Jun 20, 2016), attached as Attachment C.
[5] In the Matter of Northwest Natural Gas Company's Application for a General Rate Revision Advice No. 02-19, Docket UG 152, Order No. 03-507 at 7 (Aug. 22, 2003),

[6] In the Matter of Public Utility Commission of Oregon, Investigation Into Northwest Natural's WARM Program, UM 1750, Order No. 16-223 at 1 (Jun 20, 2016).
[7] In the Matter of Public Utility Commission of Oregon, Investigation Into Northwest Natural's WARM Program, UM 1750, Order No. 16-223, Appendix A at 1 (Jun 20, 2016).

participate in the program.[8] New customers may opt-out of WARM within thirty days of receiving NW Natural's welcome packet.[9] Existing customers may not opt-out of WARM during the current heating season, but may opt-out of WARM for the upcoming heating season.[10]

The size of the WARM adjustment for each customer enrolled in WARM is calculated by using four data points: normal HDDs by weather zone; actual HDDs by weather zone; separate statistical coefficients for each customer class; and separate margin rates for each customer class.[11] To determine the cent per therm bill effect of the WARM adjustment, NW Natural divides the WARM adjustment by the number of therms used during the billing month.[12]

B. Changes to the WARM Program Following the First WARM Season.

In the first WARM Program period (2003-2004), the WARM amount was calculated on a customer class basis and applied to customer bills on a per-therm-of-usage basis without a cap or floor on the monthly WARM adjustment.[13] Under the Program as originally conceived, "large adjustments could occur because the WARM adjustment was aggregated across all customers in a billing cycle and distributed based on an individual's consumption."[14] This meant that "customers with no gas use in an abnormally warm month did not need to pay for the WARM shortfall. Further, customers

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[8] In the Matter of Public Utility Commission of Oregon, Investigation Into Northwest Natural's WARM Program, UM 1750, Order No. 16-223 at 1 (Jun 20, 2016).
[9] *Id.*
[10] *Id.* at 2.
[11] UM 1750, Order No. 15-264 at 2 (Sep. 8, 2015).
[12] NW Natural's Tariff P.U.C. Or. 25 Schedule 195, effective during the 2014-2015 winter heating season, is attached as Attachment D.
[13] In the Matter of Northwest Natural Gas Company's Application for a General Rate Revision Advice No. 02-19, Docket UG 152, Order No. 04-463 at 2 (Aug. 16, 2004).
[14] *Id.*

with a high level of "base use" (unaffected by temperature variations) paid more than customers with a low level of base use in warmer months."[15]

Following the first WARM winter heating season, NW Natural proposed changes to the WARM Program that addressed two concerns with the program.[16] First, to minimize the occurrence of large adjustments, the Public Utility Commission of Oregon ("Commission") approved a dollar and percentage cap on any monthly WARM adjustment.[17] For residential customers, the maximum WARM adjustment increase that is added to a monthly bill during the WARM Period is twelve dollars ($12.00), or twenty-five percent (25%) of the usage portion of the bill.[18] For commercial customers, the maximum WARM adjustment increase that is added to a monthly bill during the WARM Period is thirty-five dollars ($35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. For both residential and commercial customers, the cent per therm rate applied during the WARM Period cannot be lower than the currently effective commodity cost.[19]

Any WARM adjustment charges due from customers that exceed the caps are held in a sub-account of the customer's gas service account for later application to the customer's bill.[20] The Stipulation adopted by Order No. 04-463 states: "Except for customers that close their account before the end of a WARM period, or that change their status in the WARM program before the end of the WARM period, the net of all amounts placed into a customer's WARM sub-account for each WARM period will be collected

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[15] *Id.*
[16] *Id.*
[17] *Id.*
[18] *Id.*
[19] *Id.*
[20] *Id.* at Appendix A at 4.

from or refunded to residential and commercial customers as a one-time adjustment on the customer's bill with the first bill that is issued following the end of the WARM period."[21] This one-time adjustment is referred to as the "True-up" adjustment throughout this brief. When the True-up adjustment is greater than the maximum caps in the month it is to be applied, the True-up is applied as a line-item adjustment on the bill.[22]

Second, the Commission approved a "fundamental change" to the program regarding the calculation for each customer's adjustment.[23] In the first year, the WARM adjustment was calculated on a customer class basis and only applied to customers within the class that used gas during the billing cycle.[24] This calculation could lead to a small amount of customers being responsible for the entire WARM adjustment for their customer class charge.[25] To address the "cross-subsidization and cross-customer impacts" issues, the Company began calculating the WARM adjustment on a customer-specific basis.[26]

III. BACKGROUND OF COMPLAINT CASE

A. Issue and Stipulated Facts.

On September 9, 2016, NW Natural and Complainant (together, the "Parties") filed their Joint Issues List and Stipulated Facts.[27] In the filing, the Parties identified the sole issue in dispute: Whether NW Natural appropriately applied the WARM adjustment to Complainant's June bills following the 2014-2015 winter heating season.

[21] *Id.*
[22] *Id.*
[23] *Id.* at 2.
[24] *Id.*
[25] *Id.*
[26] *Id.*
[27] UCB 67, Joint Issues List and Stipulated Facts (Sep. 9, 2016).

The Parties also agreed to the following stipulated facts[28]:

1. Complainant is a commercial customer of NW Natural receiving natural gas service under NW Natural's Rate Schedule 3.
2. Complainant has two accounts with NW Natural: Account No. 2856029-0 established on July 1, 2013 and Account No. 3026671-2 established July 17, 2014. Both accounts receive service at 2800 Taylor Way, Forest Grove, OR 97116 (together, the "Accounts").
3. Complainant's accounts were set up for service under NW Natural's WARM Program, Tariff Schedule 195, when service was established.
4. The WARM season is December 1st to on or before May 15th.
5. Complainant did not opt-out of WARM prior to the conclusion of the 2014-2015 WARM season.
6. Complainant did not use any therms for either account during the 2014-2015 WARM season.
7. NW Natural applied WARM adjustments to each of Revtek's accounts for the 2014-2015 season. The WARM adjustment for account #2856029-0 is $135.55. The WARM adjustment for account #3026671-2 is $135.55.

B. Procedural History.

On July 28, 2015, Complainant Revtek, LLC filed its formal consumer complaint with the Commission against NW Natural, alleging that NW Natural improperly applied the WARM True-UP adjustment to Complainant's two accounts following the 2014-2015 WARM season.[29] Specifically, Complainant alleged that NW Natural should not have

[28] *Id.*
[29] UCB 67, Formal Consumer Complaint (Jul. 28, 2015).

applied the WARM True-Up adjustment to its two accounts because Complainant did not use any gas during the WARM Period at either account location. In Complainant's request for relief, Complainant requested that the Commission order NW Natural to "credit [Complainant's] accounts back for the WARM offset, the extra taxes due because of the higher amount, and refund any late fees imposed as a result."

On August 13, 2015, NW Natural filed its Answer and Affirmative Defense. NW Natural denied any wrongdoing and explained why the WARM True-up adjustment was appropriately charged to Complainant's accounts.[30]

Following the opening of the docket for the Commission's WARM investigation (UM 1750), on September 17, 2015, ALJ Power stayed Revtek's complaint case in light of the common subject matter and ordered that a prehearing conference be held after the completion of the WARM investigation.[31]

On June 22, 2016, Complainant filed a Supplemental Complaint re-alleging that NW Natural improperly applied the True-up adjustment to Complainant's accounts following the 2014-2015 winter heating season.[32]

On June 29, 2016, ALJ Arlow issued a Notice and Ruling notifying Complainant that the Commission entered Order No. 16-223 concluding its investigation in to the WARM Program and that the Commission found that "NW Natural had properly implemented the program as it existed at the time, but adopted a stipulation of the parties which changed the methodology for the calculation, regulatory treatment, and billing and notification of customers with respect to the WARM program on a going-forward

[30] UCB 67, Northwest Natural Gas Company's Answer and Affirmative Defense (Aug. 13, 2015).
[31] UCB 67, Ruling (Sep. 17, 2015).
[32] UCB 67, Complainant's Supplemental Complaint (Jun. 22, 2016).

basis."[33] The Notice and Ruling requested that Complainant notify the Commission by July 15, 2016 whether it intends to pursue the Complaint.[34]

On July 19, 2016, ALJ Grant ordered that the Complaint be dismissed after Complainant did not notify the Commission of its intent to pursue the Complaint.[35]

On July 19, 2016, Complainant contacted the Commission's Consumer Services Division to indicate its desire to pursue the complaint.[36] Thereafter, on July 20, 2016, the Commission issued an Order finding that Complainant's contact with the Commission will be treated as a request for reconsideration and finding that good cause exists to grant reconsideration.[37]

On August 10, 2016, NW Natural filed its Supplemental Answer and Affirmative Defense.[38]

The Commission held a prehearing conference on August 3, 2016 and issued a schedule for the docket on August 5, 2016 that included time for discovery, filing of joint issues and stipulated facts, and a briefing schedule.[39]

IV. DISCUSSION

A. NW Natural Appropriately Applied the True-up Adjustment to Complainant's June Bills.

Complainant alleges that NW Natural improperly applied the WARM True-up adjustment to its Accounts because Complainant did not use gas during the 2014-2015

[33] UCB 67, Notice and Ruling (Jun. 29, 2016).
[34] *Id.*
[35] UCB 67, Order No. 16-272, (Jul. 19 2016).
[36] UCB 67, Complainant's Request for Reconsideration (Jul. 19, 2016).
[37] UCB 67, Order No. 16-274 (Jul. 20, 2016).
[38] UCB 67, Supplemental Answer and Affirmative Defense (Aug. 10, 2016).

winter heating season.[40] This argument is misplaced. It is undisputed that Complainant's Accounts were active NW Natural customers enrolled in the WARM program during the 2014-2015 WARM Period. As such, the Accounts were subject to the provisions of the WARM Program, Schedule 195 of the Company's Tariff.

The bill effects of the WARM adjustment are included in the customer's cent per therm rate on their bill on a monthly basis during the WARM Period. However, the monthly WARM adjustment is subject to caps and floors as stated in NW Natural's Tariff Sheet 195-2[41], Special Condition 3, which provides:

> Commercial Bills – The maximum WARM Adjustment increase that will be added to any regular monthly bill during the WARM Period will be thirty-five dollars ($35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. For any billing period in which the total monthly WARM adjustment exceeds either thirty-five dollars or 25% of the usage, the balance of the WARM adjustment will be deferred in accordance with Special Condition 5.

Special Condition 4 states:

> Any amounts not applied to a Customer's bill during the WARM Period due to the caps and floor described in Special Conditions 2, 3, and 4 will be applied to the Customer's first bill issued following the end of the WARM Period, except that these amounts will be applied earlier in the following situations: (a) at the time the Company issues a closing bill on a Customer account; and (b) at the time a Customer changes their status in the WARM program.

For customers with no gas usage, the WARM adjustment in a warmer than normal winter will always exceed 25% of the usage portion of the customer's bill, as provided in Special Condition 3. Because gas usage is zero, there is no volumetric rate available to include the WARM adjustment, and therefore, the entire WARM adjustment is collected (or credited) in the True-up bill. As such, for Complainant, who had no gas

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[40] UCB 67, Supplemental Complaint (Jun. 22, 2016).
[41] Attachment D.

usage during the WARM period, the WARM adjustment was appropriately deferred and applied on Complainant's June bill for both Accounts.

Furthermore, as discussed above, following the first WARM winter heating season (2003-2004), the Commission adopted NW Natural's proposal to change the WARM Program, based in part, on the fact that zero-use customers were not required to pay a WARM adjustment because, at the time, the entire WARM adjustment was based volumetric usage, causing high-use customers to subsidize no/low-use customers for their fixed costs.[42] The Commission fixed this problem by approving a change to the WARM adjustment calculation so that WARM adjustments were calculated on a customer-specific basis for all customers enrolled in the WARM program.[43] Complainant's request would have the Commission unwind this important protection that is in place to prevent cross-subsidization among customers. As such, the Complainant's request for relief should be denied.

B. <u>The Commission Staff Recently Investigated NW Natural's WARM Program Following 2014-2015 Winter (Docket UM 1750) and Found that NW Natural Correctly Calculated the WARM Adjustments.</u>

In 2015, the Commission's Consumer Services Section reported significantly more complaints related to the WARM program than in previous years.[44] On August 31, 2015, the Staff of the Commission recommended that the Commission open an investigation in the WARM program in light of the unusual amount of inquiries related to the True-up adjustment. Staff noted in their Staff Report that "many of the customers that filed complaints do not use gas as their primary heating source."[45] On September 8

[42] In the Matter of Northwest Natural Gas Company's Application for a General Rate Revision Advice No. 02-19, Docket UG 152, Order No. 04-463 at 2 (Aug. 16, 2004).
[43] *Id.*
[44] UM 1750, Staff Report (Aug. 31, 2015).
[45] *Id.*

2015, the Commission opened an investigation into NW Natural's WARM program.[46] Specifically, Staff was directed to investigate:

1. Whether NW Natural is calculating the WARM adjustment correctly.
2. The factors leading to a high volume of complaints related to the 2014-2015 winter season and which of the factors are common to all the complaints.
3. Whether there are targeted and appropriate modifications to WARM that adequately address the issues raised in the complaints.[47]

Following Staff's investigation, the parties to the docket (NW Natural, Staff, the Citizens' Utility Board of Oregon) entered into a Stipulation resolving all issues in the docket, which was adopted by the Commission.[48] Regarding whether NW Natural appropriately applied the WARM True-up adjustment to customers with little or no gas use during the 2014-2015 winter heating season, the Commission explained:

> In the stipulation, the parties first agree that NW Natural properly calculated the WARM adjustments during the 2014-2015 heating season.
>
> With respect to the increased number of complaints, the parties believe that the record warm weather in the 2014-2015 heating season resulted in a large difference between the actual and normal [Heating Degree Days], which, in turn, caused the much larger than usual June True-Up surcharges. The parties explain that, for those customers who had little or no gas usage during the period, all or nearly all WARM adjustments were deferred to the June True-Up, which surprised many customers and led to the increase in the number of complaints.[49]

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[46] UM 1750, Order No. 15-264 (Sep. 8, 2015).
[47] *Id.*
[48] *Id.*
[49] *Id.* at 3.

The Commission's Order No. 16-223 adopts the Stipulation of the parties that found that NW Natural's application of the WARM True-up adjustments for low and no use customers during the 2014-2015 winter heating season to be correct.

It should be noted that in Order No. 16-223, the Commission adopted a prospective change to the WARM Program, beginning in the 2016-2017 winter heating season, in order to minimize complaints similar to Complainant's in the future.[50] The parties agreed to eliminate the customer specific True-up adjustment.[51] Instead, NW Natural will recover or credit amounts that exceed the adjustment caps and floors through the use of deferral accounting, which will be amortized over 12 months concurrently with the next year's purchase gas adjustment ("PGA") process.[52] The parties agreed that this change to the Program "will protect the company against weather-related revenue volatility without burdening low-use customers with little or no heat response."[53]

Based on Order No. 16-223, NW Natural interpreted its tariff correctly and has charged Complainant's Accounts a True-up adjustment as it similarly charged other no-use customers. Any other treatment for Complainant would violate the statutory prohibitions in ORS 757.310, which provide:

> (1) A public utility may not charge a customer a rate or an amount for a service that is different from a rate or amount prescribed in the schedules or tariffs for the public utility.
>
> (2) A public utility may not charge a customer a rate or an amount for a service that is different from the rate or amount the public utility charges any other customer for a like and

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[50] *Id.*
[51] *Id.*
[52] *Id.*
[53] *Id.*

contemporaneous service under substantially similar circumstances.

As such, NW Natural respectfully requests that the Commission reject Complainant's allegation that NW Natural has improperly applied the True-up adjustment to the Accounts.

V. CONCLUSION

NW Natural's actions with regard to this matter were in accordance with NW Natural's approved tariff and were found to be appropriate in the WARM investigation. Accordingly, Complainant's requests for relief should be denied.

Dated this 22nd day of September, 2016.

Respectfully submitted,

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ORDER NO. 03-507

ENTERED AUG 22 2003

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 152

In the Matter of NORTHWEST NATURAL GAS COMPANY Application For a General Rate Revision Advice No. 02-19.	)))))))	FINAL ORDER

DISPOSITION: STIPULATIONS ADOPTED; APPLICATION FOR GENERAL RATE REVISION APPROVED AS REVISED

I. BACKGROUND

On November 29, 2002, Northwest Natural Gas Company (NWN or Company) filed Advice No. 02-19, an application for revised tariff schedules. By Order No. 02-879, entered December 18, 2002, the tariff sheets were suspended and an investigation was ordered.

At the request of NWN, the Commission bifurcated this proceeding by considering the Company's investment in the construction of the Coos County Distribution System (CCDS) on an expedited schedule. After submission of numerous briefs and oral argument before the Commission, the parties entered into a Stipulation and, by Order No. 03-236, entered April 22, 2003, (CCDS Order) the Commission approved NWN's investment in the Coos County Distribution System for ratemaking purposes in accordance with the terms and conditions of the Stipulation.

The Commission adopted a procedural schedule to examine the remaining issues of revenue requirement and rate design (including the setting of rates to recover costs for the Commission-authorized CCDS investment), as well as numerous practical questions and policy issues arising out of various provisions of the Company's proposed tariffs. In addition to the Company, the parties who have been most actively involved in this second phase of the proceeding are the Commission staff (Staff), the Northwest Industrial Gas Users (NWIGU) and the Citizens' Utility Board (CUB).

Following a series of settlement discussions, the parties filed a total of four stipulations to resolve all remaining issues. The stipulations and supporting testimony were entered into the record of evidence pursuant to OAR 860-014-0085. We address each stipulation below.

II. THE PARTIAL REVENUE REQUIREMENT STIPULATION

Issues resolved by the Partial Revenue Requirement Stipulation. The Partial Revenue Requirement Stipulation executed by the Company, Staff, NWIGU and CUB and attached as Appendix A, relates to Staff issues S-2 through S-11, S-13 through S-18, and S-20 through S-23.[1] These changes constitute a series of adjustments to revenues, expenses, or rate base, because the revenue requirement impact of certain adjustments depends on the final cost of capital and capital structure. The revenue requirement effect of the adjustments is set forth in Apendix E. For some of the issues, the parties agreed to a general method or approach to resolution, rather than a numeric adjustment.[2] The parties also agreed that no change in the cost of preferred stock should be made to the filed case.

The issues resolved are summarized as follows:

Issue S-2: Miscellaneous Revenues. Revenues were increased by $612,000 to reflect Staff's calculation that greater revenues from late payment fees would be collected by the Company.[3]

Issue S-3: Uncollectible Expenses. Uncollectible expenses were reduced by $243,000, to account for the effect of the Company's low-income bill payment assistance program.[4]

Issue S-4: Call Center Staffing. Operations and maintenance (O & M) expenses were reduced by $57,000 to disallow one full-time equivalent employee (FTE) in the call center. The disallowance takes into account the use of additional call center FTEs who answer phones only part of the time.[5]

Issue S-5: Energy Efficiency Staffing. O & M expenses were reduced by $310,000 to disallow staffing costs as internal energy efficiency programs are transferred to the Energy Trust of Oregon.[6]

Issue S-6: Energy Assistance Staffing. One FTE was disallowed, reducing the Company's O & M expenses by $58,000. As a result, the Oregon Low Income Gas Assistance (OLGA) program remains staffed at a level comparable to that of the Low Income Energy Assistance Plan (LIEAP), the Company's other payment assistance program.[7]

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[1] Partial Stipulation, Exhibit 100, p. 2.
[2] *Id.* pp. 1-2.
[3] *Id.* and Partial Stipulation, Exhibit 100, p. 2, Exhibit 109.
[4] *Id.*
[5] Partial Stipulation, Exhibit 100, p. 3, Exhibit 109.
[6] *Id.*
[7] Partial Stipulation, Exhibit 100, p. 3, Exhibit 109.

Issue S-7: Consumer Relations and Events. The Company agreed to Staff's adjustment, resulting in a $74,000 reduction in O & M expenses.[8]

Issue S-8: Safety Programs. O & M expenses were reduced by $335,000 to reflect a decrease of four FTEs intended to provide staffing to meet safety requirements imposed by new law. The Company will optimize use of fewer staff to meet the new requirements.[9]

Issue S-9: Corporate Governance. The Company agreed to Staff's adjustment to reflect a decrease of one FTE, resulting in a $147,000 reduction in O & M expenses.[10]

Issue S-10: Wage and Salary Expense. The Company accepted the Staff's final assessment of the appropriate wage level for the test period, resulting in a $1,265,000 reduction in O&M expense, a $477,000 reduction in Utility Plant in Service and a $161,000 reduction in other taxes.[11]

Issue S-11: Incentives and Bonus Pay. The adjustment included a decrease in both O & M expenses of $1,725,000 and Utility Plant in Service of $821,000 that correspond to a decreased estimate of the percentage of maximum potential payout, as well as a sharing of expenses between ratepayers and shareholders.[12]

Issue S-13: Pension Expense. The parties agreed that pension expense would remain at the level in the Company's filed case, but that deferred accounting will be implemented if actual expenses are lower. In addition, the parties agreed to consider implementation of deferred accounting if pension expenses increase.[13]

Issue S-14: Executive Retirement Benefits. The Company accepted the Staff's adjustment, resulting in a $787,000 reduction in O & M expenses.[14]

Issue S-15: Advertising. The adjustment agreed to among the parties reflects a disallowance of $576,000 in advertising expense. Approved Category A advertising expense is based on a calculated amount of $2.19 per customer. Category B expense levels allow for additional safety advertising requirements.[15]

Issue S-16: Marketing and Customer Relations. The parties agreed to adjustments reflecting disallowances in several areas of marketing and customer relations expense, resulting in an overall decrease in O & M expenses of $844,000.[16]

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[8] *Id.*
[9] *Id.*
[10] Partial Stipulation, Exhibit 100, p. 4 and Exhibit 109.
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] Partial Stipulation, Exhibit 100, p. 4 and 109.
[15] Partial Stipulation, Exhibit 100, pp. 4-5.
[16] Partial Stipulation, Exhibit 100, p. 5, Exhibit 109.

Issue S-17: Administrative and General Expenses. This adjustment reflected disallowances of certain costs in FERC Accounts 921, 923, 924, 930, 931 and 935, resulting in an overall decrease in O & M expenses of $1,226,000. The parties also agreed that Gas Technology Institute (GTI) costs booked to Account 930 would support GTI's Research and Deployment division. It was further agreed that GTI reports provided to the Company would be made available upon request to the parties, including members of NWIGU who are customers of the Company.[17]

Issue S-18: Capitalization Policy. The adjustments agreed upon by the parties included the following: a $3,163,000 decrease in O&M expense, a $115,000 increase in depreciation expense, a $3,202,000 increase in Utility Plant in Service, a $57,000 increase in Accumulated Depreciation and a $376,000 increase in deferred taxes (credit).[18]

Issue S-20: Income and Excise Taxes. The parties agreed that final income and excise tax amounts would be established after resolution of all issues affecting revenues, expenses, rate base, and cost of capital.[19]

Issue S-21: South Mist Pipeline Extension (SMPE). The parties agreed that SMPE expense will remain at the level in the Company's case as filed, but that the same true-ups and deferred accounting procedures would be followed for SMPE expense as previously applied to Mist III. The procedure provides for the use of an estimated final cost for purposes of initial ratemaking, with true-ups allowed for final cost variances using deferred accounting and revised rate determination.[20]

Issue S-22: Bare Steel. The Company agreed to Staff's proposed adjustment to decrease depreciation expense by $5,000, decrease Utility Plant in Service by $179,000, decrease Accumulated Depreciation by $13,000 and decrease deferred taxes (credit) by $20,000.[21]

Issue S-23: Miscellaneous Rate Base. The Company accepted Staff's adjustment, resulting in a $196,000 reduction to Utility Plant in Service.[22]

Issue S-24: Rate Design. The parties agreed with the Company's concept proposal to simplify and condense the industrial schedules.[23]

Discussion of the Partial Revenue Requirement Stipulation. The Commission encourages parties to resolve issues and narrow the scope of the proceedings to the extent that such actions further the public interest. In this instance, there has been participation and

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[17] *Id.*
[18] Partial Stipulation, Exhibit 100, p. 5, Exhibit 110.
[19] Partial Stipulation, Exhibit 100, p. 6, Exhibit 110.
[20] *Id.*
[21] *Id.*
[22] *Id.*
[23] *Id.*

agreement by parties representing a broad range of interests and no persons have interposed any objections to the Partial Stipulation. Stipulations reduce the burdens of the parties and the Commission and facilitate the prompt completion of matters brought before the Commission for its consideration. We find the changes adopted by the Partial Revenue Requirement Stipulation to be in furtherance of our policies and objectives and approve the Partial Revenue Requirement Stipulation without modification.

III. THE MEDICAL BENEFITS STIPULATION

The Medical Benefits Stipulation, attached as Appendix B, was executed by the Company, Staff and NWIGU and relates to Staff issue S-12. In the Medical Benefits Stipulation, these parties agreed that the Company would reduce its O&M expense by $441,000 and Utility Plant in Service by $267,000. At paragraph 7 of the Medical Benefits Stipulation, the parties noted that "[b]ecause the rate of return and certain other issues have not been determined in this Docket, the amount by which this Stipulation will reduce the Company's revenue requirement may change pending the resolution of such issues."

Unlike the Partial Revenue Requirement Stipulation, CUB did not sign the Medical Benefits Stipulation. Nevertheless, as part of the overall settlement of this docket, discussed *infra*, CUB has withdrawn its objections to the Medical Benefits Stipulation that it voiced to the Commission in testimony filed April 24, 2003.[24] CUB originally opposed the Medical Benefits Stipulation on several grounds and we discuss them here because, while we disagreed with its formerly proposed remedy, now withdrawn, many of its concerns are, in our view, well-founded. CUB asserted that the Company's health insurance costs per employee are significantly greater than those of the typical American employer and are more than for most other utilities.[25] CUB found particular fault with the Medical Benefits Stipulation because it failed to offer the Company any incentive to control these costs or bring them into line with the competitive business world. While the Medical Benefits Stipulation assumed that the Company's negotiations with its bargaining unit are "arm's length" and will result in prudent costs (which customers will be required to pick up), there remains in place a "policy" that requires customers to pay for 100% of the costs regardless of how high or out of line with other companies' practices.

CUB faulted the Medical Benefits Stipulation for failing to get at the underlying problem:

> "The health insurance stipulation between the Company and the Staff fails to bring health insurance costs under control and does not represent a 'fair and reasonable' compromise of that issue. The Company's health

[24] UG 152/CUB/300 and Exhibits 301-320. CUB has signed the Third Stipulation as part of the overall settlement; it includes the medical benefits adjustment in paragraph 10 which is identical to the language contained in the Medical Benefits Stipulation. *See* UG 152/NWN/2900, Johnson-Miller-Jenks-Schoenbeck/3.

[25] CUB cites a study performed for NWN by Hewitt Associates indicating that NWN pays 82% of employee health care costs compared to an industry average of 75%. NWN employees pay less out-of-pocket as well as making smaller contributions than their industry counterparts. UG 152/CUB/300, Jenks/6.

insurance costs are out of control, and are out of line when compared to other business. It is vital that this case provide an incentive to the Company to control these costs."[26]

In CUB's view, the Commission should determine whether there should be a cap on the amounts included in rates and whether Company employees should be required to make a greater contribution to their health insurance costs.[27]

In light of the Hewitt Associates study indicating that NWN was picking up 82% of the health insurance costs, CUB had recommended that the cost of health insurance picked up by customers should be capped at 82%. CUB asserted that this sharing percentage would reduce O&M costs by $1,309,572 and reduce rate base by $818,060.[28]

Discussion of the Medical Benefits Stipulation. Burgeoning health care costs have become a major issue for individuals and institutions alike. Adequate health care coverage is considered by many people to be one of the most important benefits of any job, sometimes eclipsing the importance of the wage or salary of the job itself. Efforts at containing such costs, either by imposing limitations on benefits or changing the balance of contributions, invariably cause conflicts among those providing healthcare services, those who receive them and those who pay the bills.

When health care benefits are being provided by a regulated utility to its employees, the prudently incurred costs for the provision of those benefits are usually considered to be "above the line," (i.e., part of the utility's revenue requirement). Such expenses are therefore subject to recovery through rates for the provision of service to the utility's customers. In essence, the utility's customers pay for the medical coverage provided to the utility's employees.

CUB has raised a legitimate concern: if, in the future, customers continue to carry the increasing burden of health costs, the Company does not have a strong incentive to contain those costs. Neither the Company's management nor its shareholders will be at risk for failing to exert their best efforts at healthcare cost containment. This lack of incentive may have already been manifest. According to the survey conducted for NWN by Hewitt and Associates, the Company picks up a significantly larger percentage of medical plan costs (82%) than the industry average (75%).[29] Thus, the Company is atypically generous with respect to the contribution it makes to meeting its employees' health care costs.

There is now an overall agreement among the parties that the costs and investments incurred by the Company during the test year with respect to medical benefits were legitimate. On that basis, and that basis only, we accept the Medical Benefits Stipulation language now contained in the Third Partial Stipulation and it is adopted as part of the overall

[26] UG 152/CUB/300, Jenks/1-2.
[27] UG 152/CUB/300, Jenks/3-4.
[28] UG 152/CUB/300, Jenks/6-7.
[29] UG 152/CUB/304, Jenks/3.

resolution of this case. In so doing, we do not in any way affirm or condone an open-ended policy of allowing the costs for providing medical benefits to inflate the Company's revenue requirement. Quite to the contrary, should the Company seek additional rate increases in the future based in whole or in part and the rising costs of providing medical benefits to its employees, it shall bear the burden to show that such costs were incurred only after extensive efforts at cost containment and burden sharing with employees were undertaken.

IV. THE FINAL SETTLEMENT STIPULATIONS

A hearing was held on August 5, 2003. Two Stipulations—the WARM Stipulation and the Third Partial Stipulation—and their supporting testimony were submitted at the hearing and each is discussed in turn below.

The WARM[30] Stipulation. This stipulation, attached as Appendix C, relates to Staff issue S-25. The parties to the stipulation—the Company, Staff, CUB, NWIGU and the Northwest Energy Coalition (NWEC)—agreed to the terms set forth in the Company's filed case, but subject to certain conditions and implementation details.

The WARM is a weather-normalization concept proposed by the Company in its initially filed case. The Company noted that fixed costs are recovered through volumetric (per therm) charges, which means that, while those costs remain fairly constant, the revenues to recover those costs vary widely; colder than normal winters boost Company revenues at the expense of customers grappling with higher bills, while milder winters reduce Company earnings. This exposes both customers and the Company to weather-related risks for fixed costs recovery; risks over which there is no control. The WARM mechanism seeks to modify the rate structure to recognize the need to separately identify and collect the revenues to cover the fixed costs from the revenues which cover the truly usage-related costs, and to do so in a way that immediately benefits both customers and the Company.[31] The parties to the WARM Stipulation agreed with the Company's proposal under the condition that there be provisions which allow a customer to opt-out of the program and that there is both a reporting requirement and a five-year sunset provision. With those additions, all parties believe that the WARM is beneficial to both ratepayers and the Company.

Discussion of the WARM Stipulation. We believe that the Company's WARM plan, with the agreed-upon conditions contained in the WARM Stipulation, reduces the weather-related financial risks for both customers and Company alike. We therefore approve the WARM Stipulation as being in the public interest.

The Third Partial Stipulation. The Third Partial Stipulation, attached as Appendix D, included settlement language of Staff issue S-12 Medical Benefits, (which we approve, as discussed above), to reflect CUB's acceptance of the settlement of the issue as part of the overall settlement of the case.

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[30] This is an acronym for "Weather Adjusted Rate Mechanism."
[31] UG 152/NWN/1607, Miller/2-10.

The revenue requirement issues, which constitute the balance of the Third Partial Stipulation, relate to Staff issues S-0, S-1, S-19 and S-24 and the overall settlement of the case. Specifically, these issues include rate of return, the sales revenue forecast, stock issuance costs, rate spread, rate design and ratemaking for the Coos County Distribution System (CCDS), whose construction we had authorized in Order No. 03-236, as noted above.

The parties filed several rounds of testimony on these issues, supporting a range of outcomes that were considered. Ultimately, they gave the following reasons for reaching the overall settlement:

> "The parties reached the agreements contained in the Third Stipulation based on their individual and collective evaluation of the positions expressed in testimony, the risk of decisions by the Commission adverse to their positions, and the advantages of a global settlement of the case.... [T]he overall terms of the Third Stipulation, when considered with the Previous Stipulations and the WARM Stipulation are acceptable. The parties also believe the stipulations taken together balance the interests of the utility investor and the consumer as required under the public utility statutes."[32]

Staff Issue S-0: Cost of Capital. Company and Staff both filed substantial testimony on this issue, with the Company seeking to raise the rate of return on equity by seventy-five basis points from the presently authorized 10.25 percent to 11.00 percent and the Staff arguing that it should be reduced seventy-five basis points to 9.50 percent. The parties agreed on a reduction of five basis points, providing a ROE of 10.20 percent. The parties also agreed upon a long-term debt cost of 7.066 percent and a preferred stock interest rate of 7.16 percent. The capital structure agreed upon had a ratio of 49.5 percent common equity, 49.82 percent long-term debt and 0.68 percent preferred stock.

Staff Issue S-1: Sales Revenues Forecast. The adjustment contained in this settlement increases the Company's forecast of residential, commercial and industrial sales revenues, with a corresponding increase in cost of gas.

Staff Issue S-19: Stock Issuance Costs. The parties agreed that the settled cost of common equity includes the Company's stock issuance expense.

Staff Issue S-24, Part 1: Rate Spread. The issue of rate spread arose in two distinct areas: First, how the proposed general rate increase would be spread across the customer base, and: Second, how the cost burden of the CCDS would be allocated among customer groups.[33] The Stipulation proposes the adoption of the Company's position with respect to the general rate increase and the Staff's proposal with respect to the CCDS.

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[32] *Id.*, p. 4.
[33] "The spreading of the burden among the ratepayers in a manner that is just, reasonable and nondiscriminatory, will be examined in the latter phase of this proceeding." CCDS Order, p. 5.

For the general rate spread, the Company proposed an equal percent of margin increase to Schedules 1, 2 and 3, where margin was defined as revenue less commodity and demand charges. The proposed adjustments were only applied to schedules with rates below the levels consistent with Long Run Incremental Cost (LRIC) estimates. The Company did not seek to further step up the pace toward LRIC levels, allowing that the phase in of increases could occur in future annual filings.[34]

With respect to the CCDS, the parties to the Stipulation adopted the Staff's rate spread proposal. In its testimony,[35] Staff took the position that the revenue requirement should be spread on an equal percentage of margin across all rate classes, including the industrial customers for whose benefit the 1999 Legislative Assembly determined the natural gas pipeline was necessary.

Discussion. We adopt the Stipulation's Rate Spread provisions. The Company's general rate spread proposals move rates in consumers' schedules closer to LRIC without undue rate shock. The Staff's CCDS proposal meets our requirements for just, reasonable and nondiscriminatory rates to recover the costs of the CCDS investment.

Staff Issue S-24, Part 2: Rate Design. Throughout this case, the parties continually sought to find common ground and this effort was often reflected in revisions to positions that were reflected in the rebuttal and surrebuttal testimony submissions. Thus, in its Rebuttal Testimony,[36] the Company proposed to replace Schedules 4, 5, 6, 10, 21, 23, 55, 90 and 91 with new Schedules 31, 32 and 33. The plan to implement the changeover from the previous schedules was described in the testimony of Tamy S. Linver.[37] According to the Company's direct testimony, the new rate structure will make it easier for customers to understand and choose the best schedule for their needs and to receive rational price signals to encourage efficient usage. As proposed by the Company, the changes would be revenue-neutral and not adversely affect any customer group.[38] However, as part of the overall settlement, the parties agreed that the introduction of New Rate Schedule 32 would yield total marginal revenues of $4 million less than the revenues generated on existing rate schedules and that this shortfall or margin shift would be applied to Rate Schedules 1, 2 and 3 on an equal percentage of margin basis. The Company agreed not to seek to recover from any customer class now or in the future, the $275,028 marginal revenue loss from the elimination of Rate Schedule 55.[39]

Although the rate redesign moves toward a simpler rate structure, the practical impact on the customers in transition is significant. The implementation plan requires internal revisions to Customer Information Systems, new and revised business rules and employee training and external requirements for customer communications, new equipment needs,

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[34] UG152/NWN/1400, Ferguson-Linver-Henderson/1-3.
[35] UG152/Staff/100, Tatom/1-4.
[36] UG152/NWN/2301, Ferguson/1-9.
[37] UG152/NWN/2302, Linver.
[38] UG152/NWN/1402, Ferguson/1-2.
[39] Third Partial Stipulation, p. 4.

assistance with rate analysis and rate schedule transitions. For example, certain customers will require automated meter reading devices with active and continuous telephone service to the meter and it will be necessary for those customers to schedule their installation.[40]

Discussion. We find that the goals of the Company's proposed rate redesign serve the public interest. We adopt the new rate schedules and the rate transition implementation plan offered in the Company's Rebuttal Testimony and agreed upon by the parties. In adopting this significant redesign of the Company's rates, we also note that the conclusion of this proceeding ahead of schedule calls for a modification of the effective date of the schedules and activities related to their implementation. Accordingly, in making the new rates under this order effective on September 1, 2003, the implementation plan transferring industrial customers to the new rate schedules also becomes effective on September 1, 2003.

Miscellaneous Adjustments and Issues. As part of the overall settlement of the case, there were miscellaneous adjustments to the revenue requirement and decision on operational activities. Among the adjustments was the removal of both South Mist Pipeline Extension (SMPE) and CCDS investments in the test year to adjust for the delay in the in-service dates. The parties agreed not to oppose the Company in the event it applied for deferred accounting treatment to recover the revenue requirement associated with the SMPE and CCDS investments and that they would be placed in permanent rates when those facilities are used and useful, or at the next available filing.

NWIGU's issue with respect to geohazard risk mitigation was also settled in the Third Partial Stipulation, where it was agreed that the Company's geohazard cost tracking mechanism would continue in effect on its current terms through its expiration at the end of 2006, subject to the Commission's continuing jurisdiction. Consistent with that, the parties agreed to reserve the rights to raise issues in the future concerning the Company's cost tracking mechanism.

Discussion. We find the resolution of these miscellaneous items to be consistent with the public interest and adopt them as an integral part of our acceptance of the Third Partial Stipulation.

V. CONCLUSION

The stipulations submitted by NWN, CUB, NWIGU, NWEC and Staff produce a just and reasonable result and should be adopted in their entirety. In so doing, we note that the effect of our decision is to cause a rate increase of $6.2 million to go into effect September 1, 2003. After the SMPE and CCDS adjustments go into effect, the overall increase will rise to $13.9 million. An Issues Summary setting forth the adjustments to the Company's Filed Results on the Test Year Revenue Requirement is attached as Appendix E.

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[40] *Id.*, pp. 2-3.

ORDER NO. 03-507

ORDER

IT IS ORDERED that:

1. The stipulations submitted by Northwest Natural Gas Company, Citizens' Utility Board, Northwest Industrial Gas Users, Northwest Energy Coalition and Commission Staff, attached as Appendices A, B, C and D are adopted in their entirety.

2. Advice No. 02-19, filed by Northwest Natural Gas Company on November 29, 2002, is permanently suspended.

3. Northwest Natural Gas Company shall file tariffs consistent with the findings and conclusions contained in this order by August 27, 2003, to be effective no later than September 1, 2003.

Made, entered, and effective AUG 22 2003.

Roy Hemmingway Chairman	**Lee Beyer** Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ORDER NO. 03-507

EXHIBIT

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 152

In the Matter of the Application of Northwest Natural Gas Company for a General Rate Revision	PARTIAL STIPULATION REGARDING THE WEATHER-ADJUSTED RATE MECHANISM (WARM)

This Stipulation is entered into for the purpose of resolving certain issues in this Docket, an application for a general rate revision filed by Northwest Natural Gas Company ("NW Natural" or the "Company"). This Stipulation represents a partial settlement because it concerns only the issue of the Company's proposal for a weather-adjusted rate mechanism ("WARM").

PARTIES

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board ("CUB"), the Northwest Industrial Gas Users ("NWIGU"), and the Northwest Energy Coalition (each, a "Party"; collectively, the "Parties").

BACKGROUND

2. On November 29, 2002, NW Natural filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $38.1 million, or 6.6 percent, in its annual revenues. The Company based its filing on the 12-month test period ending September 30, 2004. The filing was suspended by the Commission at its December 17, 2002 public meeting.

3. Settlement conferences in this Docket were held on March 26 though March 28, 2003 and on April 3, 2003. As a result of the settlement conferences, parties to this Docket entered into three separate stipulations: (a) NW Natural, Staff, CUB, NWIGU, and Coos County entered into a Second Stipulation Relating to the Coos County Distribution System, which was filed with the Commission on April 9, 2003; (b) NW Natural, Staff, CUB, and NWIGU entered into a Partial Stipulation Regarding Revenue Requirement, which was filed with the Commission on April 28, 2003; and (c) NW Natural, Staff, and NWIGU entered into a Second Partial Stipulation Regarding Revenue Requirement (Medical Benefits), which was also filed with the Commission on April 28, 2003.

4. Pursuant to the Company's Notice of Settlement Conference filed on June 13, 2003, an additional settlement conference was held on June 26, 2003. As a result of this

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DOCKETED

conference, the Parties have agreed to a resolution of the issue of NW Natural's WARM proposal.

5. The Parties submit this Stipulation to the Commission and request that the Commission approve the settlement as presented.

AGREEMENT

6. **WARM (S-25)**. The Parties agree that NW Natural will implement WARM according to the terms set forth in the Company's filed case, but subject to the following conditions and in accordance with the following implementation details:

(a) Customer Opt-Out. The Company will permit customers to elect not to participate in WARM — that is, to "opt out" of the program, as follows.

(i) *Opt-Out Notice*. The Company will communicate the opt-out option to customers annually through a bill insert (the "Opt-Out Notice"). The Opt-Out Notice will appear in customers' bills during each July billing cycle; provided, however, that during the first year (2003-04) of the WARM program, the Opt-Out Notice will appear during the September billing cycle, or as soon thereafter as the Commission decision in this Docket, and Staff approval of the Opt-Out Notice, will allow. During each August and September billing cycle (or during the two billing cycles following the initial September or later notice in 2003-04), the Company may communicate the opt-out option to customers through a bill message rather than a bill insert. The Company will submit the form of Opt-Out Notice to Staff for review and approval before providing it initially to customers in 2003-04. At its election, the Company may submit the form of Opt-Out Notice to Staff before this Stipulation is approved by the Commission. Staff will approve, disapprove, or approve with modifications, the form of Opt-Out Notice within 10 business days of receipt and will not unreasonably withhold its approval. In the event the Opt-Out Notice is disapproved or approved with modifications, the Company will resubmit its revised Opt-Out Notice to Staff within 10 business days.

(ii) *Opt-Out/Op-In Timing*. Customers who elect to opt out (or to opt back in) will be permitted to do so at any time, but customers who opt out or in after September 15 will not be removed from or reenrolled in the program until September 15 of the following year; provided, however, that the opt-out deadline for 2003-04 will be December 31. Customers electing to opt out will not be reenrolled in the program unless they request to change their opt-out status. Customers' status in the WARM program will be linked to their account numbers; that is, customers retain their enrolled or nonenrolled status regardless of a change of address.

(iii) *Customer Information.* Each customer bill will indicate whether or not the customer is enrolled in the WARM program. Any customer may request that the Company calculate what their billed amounts would have been without a WARM adjustment (for enrolled customers) or with a WARM adjustment (for nonenrolled customers). The Company will calculate such amounts with the greatest feasible accuracy.

(iv) *New Customers.* New customers will have the same opt-out rights and deadlines as all other customers, except that customers who initiate service following August 15 of any year may elect to opt-out at any time from the initiation of service until 30 days after the Company mails the new customer packet to the customer, or by September 15 of that year, whichever is later. New customers will be enrolled in the WARM program until they opt out, and any opt-out election by a new customer will be prospective rather than retroactive. For purposes of this provision, "new customer" means a customer who has not had an active gas service account with the Company within the preceding one-year period. All new customer packets will contain information about WARM and how to opt out of the WARM program.

(b) Reports and Duration. WARM will continue for a five-year term on substantially the terms set forth in the Company's initial filing and as provided in this paragraph 6. The Company may make minor adjustments, refinements, or improvements to WARM, but the Company may not make any material adjustments, refinements, or improvements until after approval by the Commission. At least 30 days prior to implementing any minor adjustments, refinements, or improvements to WARM, the Company will submit to Staff a detailed report describing each proposed change. Staff will review the report and determine whether it agrees that each proposed change is minor. In the event of disagreement over the materiality of a proposed change, the Company agrees to seek Commission approval prior to implementing the disputed changes. During the five-year term, the Parties will not propose or support elimination of the opt-out customer option. Two years following WARM implementation, by September 30, 2005, the Company will submit to the Commission a report on the functioning of WARM, including any proposed refinements to the program. The Company will consult with Staff and the other Parties concerning the contents of this report. Four years following WARM implementation, by September 28, 2007, the Company may submit to the Commission a second such report on the functioning of WARM, together with a request to continue the program.

7. This Stipulation does not address certain cost-of-capital issues, certain ratemaking issues, the Company's forecast of sales revenues, or rate spread and rate design. Those issues are the subject of a separate stipulation, the Third Partial Stipulation, which the Company expects to file shortly.

8. While reserving all rights to litigate or reach further agreement on the unsettled issues in this case, the Parties recommend that the Commission approve the stipulated resolution of issues listed in paragraph 6 above. The Parties agree to support the stipulated resolution of issues listed in paragraph 6 above and will not support any changes to the WARM proposal that are inconsistent with such resolution.

9. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just, and reasonable outcome.

10. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

11. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. Each Party agrees to (a) support this Stipulation throughout this proceeding and any appeal, (b) provide, at the hearing, either a witness to sponsor this Stipulation, or a representative authorized to respond to the Commission's questions on such Party's position, and (c) recommend that the Commission issue an order adopting the settlements contained herein.

12. If this Stipulation is challenged by any other party to this proceeding, the Parties to this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

13. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

14. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

15. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______	By: ______
Date: 8/5/03	Date: ______

NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD
By: ______	By: ______
Date: ______	Date: ______

NORTHWEST ENERGY COALITION

By: ______

Date: ______

APPENDIX C
PAGE 6 OF 10

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: Mike [illegible]

Date: 8/1/03

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: ______________________

Date: ______________________

APPENDIX C
PAGE 7 OF 10

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: [signature]

Date: 8-1-03

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: ______________________

Date: ______________________

APPENDIX C
PAGE 8 OF 10

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ____________________

Date: ____________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ____________________

Date: ____________________

NORTHWEST INDUSTRIAL GAS USERS

By: ____________________

Date: ____________________

CITIZENS' UTILITY BOARD

By: Robert Jenks
Robert Jenks

Date: Aug 1, 2003

NORTHWEST ENERGY COALITION

By: ____________________

Date: ____________________

APPENDIX C
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ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: Steve D. Weiss

Date: 8/1/03

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PAGE 10 OF 10

ORDER NO. 04-463

ENTERED AUG 16 2004

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 152

In the Matter of	)	
	)	
NORTHWEST NATURAL GAS COMPANY	)	ORDER
	)	
Application For a General Rate Revision Advice No. 02-19.	)	

DISPOSITION: ORDER AMENDED; STIPULATION APPROVED

In its Order No. 03-507, entered August 22, 2003 (Order), the Commission adopted the Stipulation (Stipulation 1) entered into by Northwest Natural Gas Company (NWN or Company), the Commission staff (Staff), the Citizens' Utility Board (CUB), the Northwest Industrial Gas Users (NWIGU) and the Northwest Energy Coalition (NWEC) relative to the Company's Weather-Adjusted Rate Mechanism (WARM).[1]

On July 12, 2004, the Company submitted a Petition to Amend Order No. 03-507 (Petition). In its Petition, NWN requested that the Commission amend the Order to adopt a Second Stipulation Regarding the Weather-Adjusted Rate Mechanism (WARM) (Stipulation 2). Stipulation 2, appended to this Order as Appendix A, was signed by all of the parties to Stipulation 1, with the exception of NWIGU.[2]

Background. Stipulation 1, dated August 5, 2003, accepted the Company's original WARM proposal but added provisions that allowed customers to opt-out of the program, specified certain reporting requirement details and confirmed the five-year term for the mechanism. As noted above, the Commission approved Stipulation 1. On October 28, 2003, the Compny filed an application to amend the WARM tariffs to improve the mechanism and minimize the potential impact of the

[1] "We believe that the Company's WARM plan, with the agreed-upon conditions contained in the WARM Stipulation, reduces the weather-related financial risks for customers and Company alike. We therefore approve the WARM Stipulation as being in the public interest." Order, p. 7.

[2] According to the Company, NWIGU's members are not affected by the program and, lacking an interest in the outcome, NWIGU withdrew from participation in the negotiations.

adjustment on customers.[3] Commission Order No. 03-665, entered November 13, 2003, approved the amendment.

Prior to the conclusion of the first WARM Program Year (2003-2004), the Commission requested that Staff and the Company (a) analyze the impact that the warmer-than-normal weather had on customers' bills during the 2003-2004 heating season and (b) propose changes to the program that would control or cap the amount by which the WARM could increase customer bills in both absolute and percentage terms and that would minimize the effect of a customer's usage on the WARM adjustment for others.

The principal concern was the potential for large WARM-related bill adjustments. Large adjustments could occur because the WARM adjustment was aggregated across all customers in a billing cycle and distributed based on an individual's consumption. Consequently, customers with no gas use in an abnormally warm month did not need to pay for the WARM shortfall. Further, customers with a high level of "base use" (unaffected by temperature variations) paid more than customers with a low level of base use in warmer months.

To minimize the occurrence of large WARM adjustments, Stipulation 2 includes dollar and percentage caps on any monthly WARM adjustment. For residential customers, the maximum amount of a monthly WARM adjustment will be the lesser of $12.00 or 25 percent of the usage portion of the bill. For commercial customers, the maximum amount of a monthly WARM adjustment will be the lesser of $35.00 or 25 percent of the usage portion of the bill.

The other problems of cross-subsidization and cross-customer impacts are addressed in Stipulation 2 through a fundamental change in how each customer's adjustment is calculated. NW Natural will calculate a customer-specific WARM adjustment rather than having each customer responsible for the entire class charge based on the relative amount of gas the customer consumed.

To preclude the WARM adjustment causing the effective price to be less than the commodity cost of natural gas, Stipulation 2 includes a floor at that level.

Under Stipulation 2, any monies not collected or paid out due to the caps and floors will be accounted for on a customer-by customer basis and collected/refunded at the conclusion of the WARM period or in other circumstances such as terminating gas service. The monies will not earn interest.

[3] In essence, the amendments redefined the heating season, defined the billing cycle ending date as the date of the meter read and removed demand charges from the margin.

Discussion. We believe that the Company's WARM plan, with the agreed-upon conditions contained in WARM Stipulation 1 and WARM Stipulation 2, as set forth in Appendix A, is in the public interest. Stipulation 2, as submitted by NWN, CUB, NWEC and Staff, produces a just and reasonable result and should be adopted in its entirety.

ORDER

The Second Stipulation Regarding the Weather-Adjusted Rate Mechanism (WARM) executed by Northwest Natural Gas Company, the Citizens' Utility Board, the Northwest Energy Coalition and the Commission Staff is hereby APPROVED, and the resolution of issues set forth therein are hereby ADOPTED.

Made, entered, and effective ______________________________.

______________________________	______________________________
Lee Beyer Chairman	**Ray Baum** Commissioner
	______________________________
	John Savage Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 152

SECOND STIPULATION REGARDING THE WEATHER-ADJUSTED RATE MECHANISM (WARM)

This Stipulation (Stipulation 2) is entered into for the purpose of revising certain aspects of NW Natural's Weather-Adjusted Rate Mechanism (WARM) that was approved by the Public Utility Commission of Oregon (Commission) as part of NW Natural's most recent general rate case proceeding (Docket No. UG 152). Except for the modifications specified herein, all other aspects of the NW Natural's WARM mechanism shall remain unchanged.

PARTIES

1. The parties to this Stipulation are NW Natural (or the Company), the Staff of the Public Utility Commission of Oregon (Staff), the Citizens' Utility Board (CUB), and the Northwest Energy Coalition (each may be referred to herein individually as "Party," and collectively as "Parties").

BACKGROUND

2. As part of its general rate case filing in Docket No. UG 152, NW Natural filed to implement a WARM mechanism that would adjust residential (Schedule 2) and small commercial (Schedule 3) customer bills during the heating season to reflect the bill effects of variances in actual weather from the normal weather assumed in rates. This program is designed to mitigate the effects of weather risk, as it relates to fixed cost recovery (margin), that impact both NW Natural and its customers. Specifically, the WARM mechanism modifies the monthly volumetric rate paid by customers to recognize the margin differential created by weather variations such that the Company collects and the customer pays the amount of margin that the Company should collect given normal weather and the revenue requirement and associated billing rates approved in Docket No. UG 152.

3. Following a series of rate case settlement conferences, the Parties entered into a Stipulation regarding the implementation of the WARM mechanism dated August 4, 2003 (Stipulation 1). Stipulation 1 accepted NW Natural's proposal for the mechanism as set forth in its rate case testimony, but with added provisions that (a) allow customers to opt-out of the program; (b) specify reporting requirement details; and (c) confirm the five-year term for the mechanism that was proposed by NW Natural in its initial filing.

4. In its final order in the rate case proceeding, the Commission approved the WARM mechanism including new Rate Schedule 195 regarding WARM. (Order No. 03-507, dated August 22, 2003). In that order, the Commission stated that it believed that

NW Natural's proposal, along with the conditions in Stipulation 1, would reduce the weather-related financial risks for both customers and NW Natural, and was thus in the public interest. (Order at p. 7.)

5. Following the issuance of the order approving the mechanism, NW Natural proceeded to implement WARM.

6. On October 28, 2003, NW Natural filed an application to amend Rate Schedule 195, the WARM tariffs. The amendments were designed to improve the mechanism and minimize the potential impact of the adjustment on customers. Specifically, those modifications: (a) redefined the heating season to be billing cycle ending dates from November 15th through May 15th; (b) defined billing cycle ending date to be the date of the meter read; and (c) removed demand charges from the margin. The Commission approved these modifications on November 13, 2003, in Order No. 03-655.

7. The Parties now agree that further modifications to the WARM mechanism are appropriate. This agreement, "Stipulation 2", documents the agreed-upon modifications. However, Stipulation 2 does not impact any other Stipulation 1 terms, including the Customer Opt Out and Reporting provisions. Those aspects of Stipulation 1 will remain in place and are not modified herein. As discussed in Section 14, once the modifications described herein are approved, NW Natural would file to make corresponding revisions to Rate Schedule 195.

8. The Parties support and submit this Stipulation 2 to the Commission and request that the Commission approve it as presented.

AGREEMENT

9. Calculation Methodology. For purposes of calculating the WARM adjustment, the following changes will be made to the calculation methodology:

(a) Heating degree-day differential. Heating degree-day differentials will no longer be aggregated for all customers (by district) in each billing cycle and used to determine the WARM adjustment that would apply to all customers (by district) in that cycle. Rather, for calculations effective beginning with the 2004-2005 WARM heating season, each customer's monthly WARM adjustment will be based on the heating degree-day differentials derived from each individual customer's actual beginning and ending meter read dates.

(b) Customer's WARM Adjustment calculation. The Customer's WARM Adjustment to be applied to each customer's bill will be calculated by using the heating degree-day differential determined under the method described in (a) above and multiplying it by the appropriate residential or commercial class coefficient to determine the expected number of therms associated with the heating degree-day differentials. This result is then multiplied by the appropriate margin applicable to the residential or commercial customer. In mathematical terms, the Customer's WARM Adjustment is as follows:

Customer's WARM Adjustment = $\sum_{1}^{T}(HDD_{n,t} - HDD_{a,t}) * B * Mrgn$

Where:

T = the days covered by the meter read dates for an individual customer

HDDn = the 25 year average of heating degree-days for each day (1976-2000)

HDDa = the customer's actual heating degree-days for each day based on the individual customer's actual beginning and ending meter read dates

B = the statistical coefficient relating heating degree-days to therm use, currently: 0.1958/residential; 0.7669/commercial

Mrgn = relevant margin, currently: $0.38120/residential; $0.30808/commercial

The relevant margin may change annually with the Company's Purchased Gas Adjustment Filing to reflect applicable permanent rate adjustments or other Commission approved changes.

Absent the effect of section 11, where normal heating degree-days are greater than actual heating degree-days, the Customer's WARM Adjustment will be a charge (collect) to the customer. Where normal heating degree-days are fewer than actual heating degree-days, the Customer's WARM Adjustment will be a credit (refund) to the customer.

10. Display on Bills. For the upcoming WARM heating seasons, the Customer's WARM Adjustment will be included in the monthly gas usage rate per therm. The rate per therm adjustment will be calculated by dividing the Customer's WARM Adjustment by that individual customer's therm use during the individual customer's actual beginning and ending meter read dates. The resulting cents per therm WARM Bill Adjustment will then be added to the cents per therm rate then in effect for the applicable rate schedule. The resulting combined cents per therm rate will be shown on the bill as the total gas usage rate and applied to that customer's therm usage for the billing month.

The Company, or any parties to this stipulation, may request the Commission approve modifications to the way in which the WARM adjustment is displayed on customer bills in future WARM heating seasons upon prior notice to the Parties to this Stipulation.

11. Caps and Floors. The Parties agree to the following caps and floors related to WARM adjustments applied to customer bills:

(a) For each residential customer, the maximum WARM Adjustment charge (collect) that will be billed each month is twelve dollars ($12.00), or not more than a twenty-five percent (25%) increase on the volumetric portion of the customer's bill, whichever is lower.

(b) For each commercial customer, the maximum WARM Adjustment charge (collect) that will be billed each month is thirty-five dollars ($35.00), or not more than a twenty-five percent (25%) increase on the volumetric portion of the customer's bill, whichever is lower.

(c) Any WARM Adjustment charges due from customers that exceed the caps set forth in (a) and (b) above will be held in a WARM sub-account of the customer's gas service account, for later application to the customer's bill consistent with Section 12.

(d) If application of the WARM adjustment calculation to the monthly gas usage rate per therm results in a cent per therm amount less than the currently effective commodity rate, the cents per therm amount displayed on and applied to customer bills in any month shall be set to equal the effective commodity rate.

(e) Consistent with Section 12, any Customer's WARM Adjustment amounts not credited to customers due to the floor described in (d) above will be held in the customer's WARM sub-account for later application to the customer's bill.

12. WARM sub-account true-up. Except for customers that close their account before the end of a WARM period, or that change their status in the WARM program before the end of a WARM period, the net of all amounts placed into a customer's WARM sub-account for each WARM period will be collected from or refunded to residential and commercial customers as a one-time adjustment on the customer's bill with the first bill that is issued following the end of the WARM period. The WARM sub-account does not accumulate interest. Where the customer's total WARM true-up amount is greater than the cap amounts specified in 11(a) and (b) above for that bill, the WARM true-up will be applied and displayed on the customer's bill as a line item adjustment. Where the customer's total WARM true-up amount is equal to or less than the cap amounts set forth in 11 (a) and (b), the true-up will be included in the monthly gas usage rate per therm. The rate per therm adjustment will be calculated by dividing the Customer's WARM true-up amount by that individual customer's therm use during the true-up month. The resulting cents per therm WARM true-up will then be added to the cents per therm rate then in effect for the applicable rate schedule. The resulting combined cents per therm rate will be shown on the bill as the total gas usage rate and applied to that customer's therm usage for the billing month.

For customers that close their gas service account before the end of a WARM period, the WARM true-up will be applied to the customer's final closing bill. For customers that change their status in the WARM program before the end of a WARM period, the WARM true-up will be applied to the customer's first bill that is issued following the date that their WARM status was changed.

13. The parties agree that effective for the upcoming WARM heating seasons, the deadline for customers to change their status in the WARM program is changed from September 15 to September 30.

14. Tariff Changes. Within ten days from the date that this Stipulation 2 is approved by the Commission, NW Natural will file revisions to Schedule 195 "Weather Adjusted Rate Mechanism (WARM Program)" to reflect the changes addressed herein, with a stated effective date on or before November 15, 2004.

15. The Parties hereto agree that the WARM calculation including the caps, floors, and true-up mechanism described herein is appropriate, and request that the Commission authorize NW Natural to implement Stipulation 2.

16. The Parties hereto agree that Stipulation 2 represents a compromise in the positions of the Parties. The Parties further agree that any conduct, statements, and documents disclosed in the negotiation of Stipulation 2 shall not be admissible as evidence in any other OPUC proceeding.

17. The Parties agree that the provisions of this Stipulation 2 are in the public interest and result in an overall fair, just and reasonable outcome for customers subject to the WARM mechanism, and to NW Natural.

18. This Stipulation 2 may be executed in counterparts and each signed counterpart shall constitute an original document.

19. This Stipulation 2 does not modify or supercede the Opt-Out and Reports and Duration provisions in Stipulation 1 regarding WARM.

This Stipulation 2 is entered into by each Party on the date entered below such Party's signature.

DATED: July _____, 2004

NORTHWEST NATURAL
GAS COMPANY

By: C. Alex Miller

Date: 7/8/04

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: ____________________

Date: ____________________

CITIZENS' UTILITY BOARD

By: ____________________

Date:

NORTHWEST ENERGY
COALITION

By: ____________________

Date:

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This Stipulation 2 is entered into by each Party on the date entered below such Party's signature.

DATED: July 8th, 2004

NORTHWEST NATURAL GAS COMPANY	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________	By: Michael T. [illegible]
Date: ______________	Date: 7/8/04
CITIZENS' UTILITY BOARD	NORTHWEST ENERGY COALITION
By: ______________	By: ______________
Date:	Date:

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DATED: July _____, 2004

NORTHWEST NATURAL
GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: 7/8/04

NORTHWEST ENERGY
COALITION

By: ______________________

Date:

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15. The Parties hereto agree that the WARM calculation including the caps, floors, and true-up mechanism described herein is appropriate, and request that the Commission authorize NW Natural to implement Stipulation 2.

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19. This Stipulation 2 does not modify or supercede the Opt-Out and Reports and Duration provisions in Stipulation 1 regarding WARM.

This Stipulation 2 is entered into by each Party on the date entered below such Party's signature.

DATED: July _____, 2004

NORTHWEST NATURAL GAS COMPANY

By: ________________________

Date: ________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ________________________

Date: ________________________

CITIZENS' UTILITY BOARD

By: ________________________

Date:

NORTHWEST ENERGY COALITION

By: Steve D. Weiss

Date: July 8, 2004

ORDER NO: 16 223

ENTERED: JUN 20 2016

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1750

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Investigation Into Northwest Natural's WARM Program.	ORDER

DISPOSITION: STIPULATION ADOPTED

I. SUMMARY

In this order we adopt the stipulation between Northwest Natural Gas Company (NW Natural), the Citizens' Utility Board of Oregon (CUB), and our Staff that provides for the continuation of NW Natural's Weather-Adjusted Rate Mechanism (WARM) program tariff, subject to certain modifications to be implemented in the upcoming winter season.

II. THE WARM PROGRAM

Prior to the implementation of the WARM program, NW Natural's recovery of its fixed costs was largely dependent on the volume of gas sold. While fixed costs remain fairly constant, the revenue to cover them varied widely from year to year depending upon the weather.

The WARM program, which we adopted as part of NW Natural's 2002 general rate case,[1] modified the rate structure for residential and commercial customers to remove this weather-related variability from fixed cost recovery. During the WARM heating season from December 1 to May 15, the customer's monthly per-therm rate is adjusted to account for winter weather, yielding real-time adjustments that enable proper fixed-cost recovery. In warmer weather, these adjustments increase a customer's bill and colder weather causes a decrease.

Customers are automatically enrolled in the WARM mechanism; however, customer participation is not mandatory. New customers may opt-out of the program within 30 days of receiving NW Natural's Welcome Packet, which explains the WARM program and recommends that customers not participate if they are not using gas for heat.

[1] *In the Matter of Northwest Natural Gas Company Application for a General Rate Revision,* Docket No. UG 152, Order 03-507 at 7 (Aug 27, 2003).

Existing customers may not opt out of the program during the October 1 to May 15 heating season, but may do so for the upcoming heating season.

Under the WARM program, NW Natural calculates the size of the adjustment by using four data points of general applicability and one customer-specific data point. The general data points are:

1. Normal heating degree days (HDD) by weather zone;
2. Actual HDDs by weather zone;
3. Separate statistical coefficients for each customer class; and
4. Separate margin rates for each customer class.

The customer-specific data point is the customer's monthly usage.

Normal HDDs are based on weather data estimates used in NW Natural's last general rate case. Actual HDDs are obtained from third-party reporting agents. The statistical coefficients, which represent the effect that each degree day has on customer use in therms, are also based on rate case data. Thus, normal HDDs and their statistical coefficients do not change between rate cases. The margin rate for each customer class is also established in the company's most recent rate case, but is updated annually coincident with the purchased gas adjustment (PGA) filings for any potential adjustments.

NW Natural uses these data points to determine whether a WARM adjustment is required for that billing cycle. The WARM adjustment is subject to caps and floors when applied to the monthly bill. For residential customers, the maximum increase or credit for the WARM adjustment on the monthly bill is $12.00 or twenty-five percent of the usage charges of the bill, whichever is less. For commercial customers, the maximum increase or credit is $35.00 or twenty-five percent of usage charges, whichever is less. Rates cannot be lower than the weighted average cost of gas. Any amounts outside of the adjustment bands are subsequently applied to the customer's June bill (the True-Up), when usage rates are generally lower.

III. PROCEDURAL HISTORY

In 2015, our Consumer Services Section reported significantly more complaints related to the WARM program than in previous years. Due to these complaints, we opened this investigation to examine:

1. NW Natural's calculation of the WARM adjustment;

2. The factors leading to a high volume of complaints related to the 2014-2015 winter season and which of the factors are common to all the complaints; and

3. Whether there are targeted and appropriate modifications to WARM that adequately address the issues raised in the complaints.

CUB filed a Notice of Intervention in this proceeding. No petitions to intervene were received. A prehearing conference was held on October 1, 2015, and a procedural schedule was adopted. The parties engaged in discovery and in settlement discussions. A further prehearing conference scheduled for March 28, 2016 was canceled at the request of the parties. On May 23, 2016, the parties filed a stipulation and joint supporting testimony settling all issues. The stipulation is attached as Appendix A.

IV. THE STIPULATION

In the stipulation, the parties first agree that NW Natural properly calculated the WARM adjustments during the 2014-2015 heating season. [2]

With respect to the increased number of complaints, the parties believe that the record warm weather in the 2014-2015 heating season resulted in a large difference between the actual and normal HDDs, which, in turn, caused the much larger than usual June True-Up surcharges. The parties explain that, for those customers who had little or no gas usage during the period, all or nearly all WARM adjustments were deferred to the June True-Up, which surprised many customers and led to the increase in the number of complaints.[3]

To help minimize future complaints, the parties agree that three modifications should be made to the WARM program on a prospective basis. First, the parties agree that, beginning in the 2016-2017 heating season, the WARM program will retain the monthly WARM adjustment caps and floors for both residential and commercial customers. However, the monthly WARM adjustment floors will be modified to be symmetrical to the caps. Currently, the cent-per-therm rate applied during the WARM period cannot be lower than the currently effective annual sales' weighted average cost of gas (WACOG). As a result, it is possible that the maximum credit applied to a customer's bill during colder than average months could exceed the maximum credit provided during warmer than average months. The stipulation modifies the calculated WACOG floor to be symmetrical with the monthly cap on the WARM adjustment.

Second, in lieu of the true-up in customers' June bills, the parties agree that NW Natural will recover or credit amounts that exceed the adjustment caps and floors through the use deferral accounting. The parties describe this change in the WARM program as follows:

> <u>WARM Adjustments Exceeding Caps and Floors</u>. Any amounts not applied to a customer's bill during the WARM Period due to the caps and floor described in (a)(i) and (ii) above will be deferred until the following Purchased Gas Adjustment (PGA). NW Natural will defer the residential and commercial amounts in separate deferral accounts and amortize the deferral accounts on an equal cents per therm basis to rate schedules 2 and 3 customers over 12 months coincident with the PGA, with rates effective November 1 of each year. The deferred amounts will not be subjected to an earnings test, given the fact that the mechanism is an automatic adjustment clause. The company will accrue interest on the deferred

[2] Joint/100, Kaufman-Thompson-Jenks/8 (May 23, 2016).
[3] *Id.*

> amounts at the Modified Blended Treasury Rate, plus 100 basis points. The company will accrue interest during the amortization period at the Modified Blended Treasury Rate.[4]

In supporting testimony, the parties note that, by deferring all WARM adjustments that exceed the caps and floors, NW Natural will spread the rate impact of the deferrals over 12 months simultaneously with the PGA process, rather than placing the entire impact on the June bill. The parties agree that this will protect the company against weather-related revenue volatility without burdening low-use customers with little or no heat response.[5] The parties state that the change will not be substantial for average or greater-than-average usage customers, but for customers with little or no heating load, eliminating the June True-Up is a substantial change. The parties agree that the change will likely substantially reduce complaints and treat non heat-use customers more appropriately.[6]

The parties acknowledge that, with the change to the use of deferred accounting, some of the surcharges or credits associated with recovering fixed system costs will be realized by customers not participating in WARM. The parties believe that this is appropriate, however, because the surcharges and credits will tend to cancel each other out over time, given an expectation that "normal" weather prevails over a number of years. According to an historical analysis by NW Natural, the impact on the average customer will be between 7 and 29 cents per month. Moreover, the parties state that the vast majority of non-heat customers will not be adversely affected under WARM.[7]

Finally, to further address concerns raised by the customers following the 2014-2015 heating season, NW Natural agrees to develop a list of customers currently enrolled in WARM that had summer gas usage that exceeded their winter gas usage in the 2014-2015 WARM Period. NW Natural will send a one-time notice to each customer identified, informing the customer that the WARM program is designed for customers that have weather sensitive gas usage, and that they have been identified as potentially being a non-weather sensitive customer. The notice will provide information regarding their ability to opt-out of the WARM program.[8]

V. DISCUSSION

We have reviewed the record in this docket and the proposed changes to the WARM program. The modifications to WARM will keep the core elements of the program intact but provide greater benefits to customers by eliminating the one-time June True-Up and spreading the deferrals over 12 months. The change is likely to minimize customer confusion and reduce complaints about WARM. Furthermore, the symmetrical caps and floors to the WARM adjustment will ensure that Rate Schedule 2 and 3 customers will, over time, not be unjustly harmed or benefited by the deferrals.

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[4] Stipulation at ¶14(b).
[5] Joint/100, Kaufman-Thompson-Jenks/8.
[6] *Id.* at 11-13. The parties note that mechanisms for decoupling the weather component in rates and including them in the PGA process is not breaking new ground; they have been approved for Avista Energy Inc. and Cascade Natural Gas Company.
[7] *Id.* at 14-16.
[8] Stipulation at ¶15.

Finally, we conclude that the notices sent to non-weather sensitive customers will provide them with sufficient information to make a decision as to whether to opt out of the WARM program.

We find the changes to the program will result in just and reasonable rates and will further the public interest. The stipulation, attached as Appendix A is adopted in its entirety.

VI. ORDER

IT IS ORDERED that:

1. The stipulation filed by Northwest Natural Gas Company, the Citizens' Utility Board of Oregon, and the Public Utility of Oregon Commission Staff, attached as Appendix A, is adopted.

2. Within 60 days of the date of this order, Northwest Natural Gas Company shall file amended tariff schedules consistent with this order.

Made, entered and effective JUN 20 2016.

Lisa D. Hardie
Chair

John Savage
Commissioner

Stephen M. Bloom
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1750

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON Investigation of NW Natural's WARM Program.	STIPULATION

This Stipulation resolves all issues among all parties to this docket related to the Public Utility Commission of Oregon's ("Commission") Investigation of Northwest Natural Gas Company's ("NW Natural" or "Company") Weather-Adjusted Rate Mechanism ("WARM").

PARTIES

1. The parties to this Stipulation are NW Natural, Commission Staff (Staff), and the Citizens' Utility Board of Oregon ("CUB") (collectively, "Parties").

BACKGROUND

2. The WARM program was approved by the Commission in the Company's 2002 general rate case.[1] The WARM program concept was developed to mitigate the effects that variations in winter weather has on the Company's revenues and on customers' bills. WARM modifies the rate structure for customers served under Rate Schedule 2 (residential) and Rate Schedule 3 (commercial), as these customer classes largely represent primary space heating load that is typically more sensitive to the effects of weather during the winter months. Because the objective of the WARM Program is to capture the effects of weather variability on all of the Company's Schedule 2 and Schedule 3 heat load customers, the degree to which the WARM

[1] *In the Matter of Northwest Natural Gas Company Application for a General Rate Revision*, Docket UG 152, Order 03-507 at p. 7 (August 27, 2003).

Program is successful is dependent on customer participation in the program. For that reason, the parties agreed to make the WARM Program an "opt-out" program, meaning customers in the applicable rate schedules are automatically enrolled unless and until they affirmatively opt-out of the WARM program.

3. WARM is designed "to recognize the need to separately identify and collect the revenues to cover the fixed costs from the revenues which cover truly usage-related costs, and to do so in a way that immediately benefits both customers and the Company." During the "WARM Period" (December 1 through May 15), WARM adjusts the rate per therm higher or lower depending on the winter weather. In colder than normal winters, WARM will lower a customer's bill to the extent the Company would have over-recovered its fixed costs from the customer's increased gas usage as a result of the below-normal temperatures. In warmer than normal winters, WARM will increase a customer's bill to the extent the Company would have under-recovered its fixed costs from the customer's decreased gas usage as a result of the above-normal temperatures. WARM operates as a real-time bill adjustment during the WARM Period.

4. The monthly WARM adjustment is subject to "caps" and "floors". For residential customers, the maximum WARM adjustment increase that will be added to a monthly bill during the WARM Period is twelve dollars ($12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. For commercial customers, the maximum WARM adjustment increase that will be added to a monthly bill during the WARM Period is thirty-five dollars ($35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. For both residential and commercial customers, the cent per therm rate applied during the WARM Period will not be lower than the currently effective annual sales weighted average cost of gas. Any amounts that exceed the caps and floors for a monthly bill are not billed or credited in that month, and instead are applied to that customer's June bill (the "True-up").

5. At the conclusion of the 2014-2015 WARM Period, the Commission's Consumer Service Staff ("CSS") reported higher volumes of customer complaints related to the True-up adjustment as compared to previous years' customer complaints. Specifically, the OPUC CSS staff received 14 residential complaints and 18 commercial complaints related to the True-up adjustment. The Company's call center also experienced an increase in customer inquiries related to the True-up adjustment for the 2014-2015 WARM Period.

6. On September 8, 2015, the Commission opened an investigation into NW Natural's WARM program.[2] Specifically, Staff was directed to investigate:

1. Whether NW Natural is calculating the WARM adjustment correctly.
2. The factors leading to a high volume of complaints related to the 2014-2015 winter season and which of the factors are common to all the complaints.
3. Whether there are targeted and appropriate modifications to WARM that adequately address the issues raised in the complaints.

7. On October 1, 2015, Administrative Law Judge ("ALJ") Patrick Power held a prehearing conference at which the Parties agreed upon a preliminary procedural schedule that directed NW Natural file a report (the "Report") that includes "an overview of the [WARM] mechanism and how it operates, actions the company has taken thus far, and proposals for modification of the program, if any."[3] The ALJ also directed NW Natural to attach copies of all written materials related to the WARM Program that it furnishes to customers.[4]

8. NW Natural filed the Report on November 10, 2015.

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[2] UM 1750, Order No. 15-264 (Sep. 8, 2015).
[3] UM 1750, Prehearing Conference Memorandum (Oct. 1, 2015).
[4] *Id.*

9. Throughout the docket, Staff served discovery requests on NW Natural. Staff and CUB conducted a thorough investigation of the WARM Program, in accordance with Order No. 15-264.

10. The Parties held three workshops to assist Staff in the investigation and attempt to develop targeted and appropriate modifications to WARM that adequately address the issues raised in the complaints that gave rise to the investigation. Those workshops were held on December 8, 2015, January 15, 2016, and March 15, 2016.

11. At the March 15, 2016 workshop, the Parties agreed to resolve all the issues in this docket.

12. This Stipulation, presented on behalf of the Parties to this docket, resolves all issues in this docket.

AGREEMENT

13. The Parties agree that the Company calculated the WARM adjustment correctly in the 2014-2015 WARM Period.

14. The Parties agree that the WARM program will continue to operate as provided in NW Natural's Tariff Schedule 195 through the 2015-2016 WARM Period. Beginning in the 2016-2017 WARM Period, the WARM Program will be subject to the following changes:

a. Monthly WARM Adjustment Caps and Floors. The maximum monthly WARM adjustments for Residential and Commercial customers in the WARM Program are as follows:

i. *Residential Bills*. The maximum WARM adjustment increase that will be applied to a monthly bill during the WARM Period will be twelve dollars ($12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. The maximum WARM adjustment credit applied to a monthly bill during the WARM Period will be twelve dollars ($12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

ii. *Commercial Bills.* The maximum WARM adjustment increase that will be applied to a monthly bill during the WARM Period will be thirty-five dollars ($35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. The maximum WARM adjustment credit applied to a monthly bill during the WARM Period will be thirty-five dollars ($35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

b. <u>WARM Adjustments Exceeding Caps and Floors.</u> Any amounts not applied to a customer's bill during the WARM Period due to the caps and floor described in (a)(i) and (ii) above will be deferred until the following Purchased Gas Adjustment (PGA). NW Natural will defer the residential and commercial amounts in separate deferral accounts and amortize the deferral accounts on an equal cents per therm basis to rate schedules 2 and 3 customers over 12 months coincident with the PGA, with rates effective November 1 of each year. The deferred amounts will not be subjected to an earnings test, given the fact that the mechanism is an automatic adjustment clause. The Company will accrue interest on the deferred amounts at the Modified Blended Treasury Rate, plus 100 basis points. The Company will accrue interest during the amortization period at the Modified Blended Treasury Rate.

15. <u>Notice to Non-Weather Sensitive Customers.</u> The Parties agree to develop a list of customers currently enrolled in WARM that had summer gas usage that exceeded their winter gas usage in the 2014-2015 WARM Period. The Company will

send a one-time notice to each customer identified, informing the customer that the WARM program is designed for customers that have weather sensitive gas usage, and that they have been identified as potentially being a non-weather sensitive customer. The notice will provide information regarding their ability to opt-out of the WARM program.

16. The Parties agree to submit this Stipulation to the Commission and request that the Commission approve the Stipulation as presented.

17. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this proceeding and any appeal, (if necessary) provide witnesses to sponsor this Stipulation at the hearing, and recommend that the Commission issue an order adopting the settlements contained herein.

18. If this Stipulation is challenged, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include raising issues that are incorporated in the settlements embodied in this Stipulation.

19. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material part of this Stipulation, or adds any material condition to any final order that is not consistent with this Stipulation, each Party reserves its right, pursuant to OAR 860-001-0350(9), to present evidence and argument on the record in support of the Stipulation or to withdraw from the Stipulation. Parties shall be entitled to seek rehearing or reconsideration pursuant to OAR 860-001-0720 in any manner that is consistent with the agreement embodied in this Stipulation.

20. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than those

specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

21. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

22. This Stipulation is entered into by each Party on the date entered below such Party's signature.

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NW NATURAL

By: [signature]

Printed Name: Mark R. Thompson

Date: 5/20/16

STAFF

By: ______________________

Printed Name: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________

Date: ______________________

NW NATURAL

By: ______________________

Printed Name: ______________

Date: ____________________

STAFF

Kaylie Klein for

By: Stephanie Andrus

Printed Name: Stephanie Andrus

Date: 5/19/16

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________

Date: ____________________

NW NATURAL

By: ____________________

Printed Name: ____________

Date: ____________________

STAFF

By: ____________________

Printed Name: ____________

Date: ____________________

CITIZENS' UTILITY BOARD OF OREGON

By: Michael P. Goetz

Date: 5/19/16

SCHEDULE 195
WEATHER ADJUSTED RATE MECHANISM
(WARM Program)

PURPOSE:
To describe the Weather Adjusted Rate Mechanism (WARM) adopted by the Public Utility Commission of Oregon in Docket UG 221, Order No. 12-408 entered October 26, 2012.

APPLICABLE:
To Residential and Commercial Customers served on the following Rate Schedules of this Tariff:

Rate Schedule 2	Rate Schedule 3

APPLICATION TO RATE SCHEDULES:
The WARM Adjustment will be applied as an adjustment to the per-therm Billing Rate on applicable Residential and Commercial Customer bills issued during the WARM Period. The WARM Period covers bills that are generated based on meters read on or after December 1st and on or before May 15th.

SPECIAL CONDITIONS:

1. The WARM Adjustment will apply to Customer bills that are based on applicable Residential Rate Schedule 2 or Commercial Rate Schedule 3 meters read on or after December 1st and on or before May 15th.
2. Residential bills --The maximum WARM Adjustment increase that will be added to any regular monthly bill during the WARM Period will be twelve dollars ($12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. For any billing period in which the total monthly WARM adjustment exceeds either $12.00 or 25% of the usage, the balance of the WARM adjustment will be billed in accordance with Special Condition 5.
3. Commercial bills--The maximum WARM Adjustment increase that will be added to any regular monthly bill during the WARM Period will be thirty-five dollars ($35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever is less. For any billing period in which the total monthly WARM adjustment exceeds either thirty-five dollars or 25% of the usage, the balance of the WARM adjustment will be billed in accordance with Special Condition 5.
4. The cent per-therm rate applied to any customer bill during the WARM Period will never be less than the currently effective Annual Sales WACOG rate, as shown in **Schedule 164** of this Tariff.
5. Any amounts not applied to a Customer's bill during the WARM Period due to the caps and floor described in Special Conditions 2, 3 and 4 will be applied to the Customer's first bill issued following the end of the WARM Period, except that these amounts will be applied earlier in the following situations: (a) at the time the Company issues a closing bill on a Customer account; and (b) at the time a Customer changes their status in the WARM program.

(continue to Sheet 195-2)

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SCHEDULE 195
WEATHER ADJUSTED RATE MECHANISM
(WARM Program)
(continued)

SPECIAL CONDITIONS (continued):

6. WARM is the Company's default billing method for the Rate Schedules to which this Schedule applies. Customers are included in the WARM program unless they opt-out of the program. Any customer that elects to opt-out of the WARM program will remain out of the program until such customer elects to change their opt-out status.

7. Customers will have an opportunity to change their status in the WARM program each year. Customers will be notified annually through a bill insert and bill messages that they may change their status in the program. Customers will have until September 30 to make a status change. Except as provided in Special Conditions 8 and 9, any notice received after September 30 will not become effective until the effective date of the next WARM Period.

8. Any new customer will have thirty (30) days from the date that the Company's new customer information packet is mailed to the Customer in which to opt-out. For purposes of this Schedule, a new customer is a customer that has not had a gas service account with the Company within the last twelve (12) month period, or is a customer that has been issued a new service account number by the Company due to a material change in their account.

9. Customers will not be allowed to change their status in the program after September 30, except, upon customer request, in the following circumstances:

   a. The Company can verify that the customer does not have natural gas space heating equipment installed at the service address.
   b. The customer moved from an address that used natural gas for space heating to a new address that **does not** have gas natural gas space heating equipment installed;
   c. The customer moved from an address that did not use natural gas for space heating to a new address that **does** have natural gas space heating equipment installed;
   d. The customer, or their authorized representative, can provide evidence that the customer had not received notice regarding the WARM Program;
   e. The customer, or their authorized representative, can provide evidence that the customer was not capable of understanding the written information describing the program and the opt-out instructions.
   f. The Company can verify a contact, prior to September 30, from the customer, or their authorized representative, requesting a change to their WARM status, but for whatever reason, the change was not processed;

   Status changes granted in accordance with 9.a., and 9.d. will become effective with the customer's next regular monthly bill. Status changes granted in accordance with 9.b. and 9.c. will become effective with the first day of service at the new address. When status changes are made in accordance with 9.e.and 9.f., the customer's next bill will show revised billing amounts for customer's account back to the first bill issued following the beginning of the WARM heating season.

(continue to Sheet 195-3)

SCHEDULE 195
WEATHER ADJUSTED RATE MECHANISM
(WARM Program)
(continued)

10. Upon request, the Company will provide Customer with historical billing information that reflects bills with and without the WARM adjustment for any month during the WARM Period.

11. Should a change to the margin rate occur during the WARM Period, the equivalent therms used in the calculation of the WARM adjustment will be based on the entire billing period, and then prorated based upon the number of days applicable to each margin rate. The pro-rated therms are then multiplied by the applicable margin rate to determine the WARM adjustment for each rate period. Example: If a margin rate change occurred on January 1, a bill with a bill period between December 25 and January 24 would be prorated based upon 6 days at the prior margin rate and 24 days at the new margin rate. The calculations performed under the provisions of Special Conditions 2, 3, and 4 will apply to each prorated period separately, except that the total WARM adjustment for each bill will not exceed the maximum WARM adjustment specified in Special Conditions 2 and 3.

WARM FORMULA:

1. The Formula is: WARM Adjustment = $\sum_{1}^{T}(HDD_{n,t} - HDD_{a,t}) * B * Mrgn$

   Where:

   T = the days covered by the meter read dates for an individual customer's bill
   HDDn = the 25 year average of heating degree-days for each day (1986-2010) determined using a 25-year average temperature published by the National Oceanic and Atmospheric Administration (NOAA).
   HDDa = the actual heating degree-days for each day based on the individual customer's actual beginning and ending meter read dates
   B = the statistical coefficient relating heating degree-days to therm use determined in the most recent general rate case, or other Commission authorized proceeding.
   Mrgn = the relevant Rate Schedule margin defined as the current Billing Rate less the current Commodity Rate, Pipeline Capacity Charge, and any Temporary Adjustments.

2. For purposes of calculating the WARM Adjustment, the following shall apply:

   b. A Heating Degree Day (HDD) is defined as the extent by which the daily mean temperature falls below a specified set point on a specified day. The HDD calculation uses a set point temperature of 59 degrees Fahrenheit for the **Rate Schedule 2** calculation, and 58 degrees Fahrenheit for the **Rate Schedule 3** calculation;

   c. The statistical coefficients to be used in the calculation of the WARM Adjustment Factor effective with the WARM Period commencing November 1, 2012 are:

Rate Schedule 2: 0.16471	Rate Schedule 3: 0.85441

(continue to Sheet 195-4)

SCHEDULE 195
WEATHER ADJUSTED RATE MECHANISM
(WARM Program)
(continued)

WARM FORMULA: (continued)

c. The applicable margins to be used in the calculation of the WARM Adjustment Factor effective with the WARM Period commencing November 1, 2014 are: (T)

Rate Schedule 2:	$0.43327	Rate Schedule 3:	$0.34608

(C)

Weather data used in the calculation of HDD for each customer shall be from the same weather stations and weather zones that are used in the determination of thermal units as set forth in **Rule 24.**

WARM BILL EFFECTS:
The following table depicts the impact on Residential **Rate Schedule 2** and Commercial **Rate Schedule 3** customer bills, respectively, at specified variations in HDDs.

	RESIDENTIAL			COMMERCIAL		
HDD Variance (+ or -)	Equivalent therms	Total Monthly WARM adjustment (+ or -) *		Equivalent therms	Total Monthly WARM adjustment (+ or -) *	
1	0.1647	$0.07		0.8544	$0.30	(C)
5	0.8236	$0.36		4.2721	$1.48	
10	1.6471	$0.71		8.5441	$2.96	
15	2.4707	$1.07		12.8162	$4.44	
20	3.2942	$1.43		17.0882	$5.91	
25	4.1178	$1.78		21.3603	$7.39	
30	4.9413	$2.14		25.6323	$8.87	
35	5.7649	$2.50		29.9044	$10.35	
40	6.5884	$2.85		34.1764	$11.83	
45	7.4120	$3.21		38.4485	$13.31	
50	8.2355	$3.57		42.7205	$14.78	(C)

To calculate variations beyond or in-between specified levels, multiply the desired HDD variance by the applicable statistical coefficient, and then multiply that sum by the applicable margin.

To obtain the cent per therm effect of the Warm Adjustment, divide the WARM Adjustment by the number of therms used during the billing month.

(continue to Sheet 195-5)

SCHEDULE 195
WEATHER ADJUSTED RATE MECHANISM
(WARM Program)
(continued)

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WARM BILL EFFECTS (continued):

Example Bill Calculation:

Here is the how the WARM adjustment is calculated for a residential **Rate Schedule 2** customer where the billing rate is $1.01330 cents per therm, the HDD variance is 50 HDDs colder than normal, and the monthly therm usage is 129 therms: (C)

HDD Differential:	Normal HDDs:	600 HDDs
	Actual HDDs:	650 HDDs
	HDD variance:	600 – 650 = -50 HDDs
Equivalent Therms:	HDD variance:	-50 HDDs
	Statistical coefficient:	0.16471
	Equivalent therms:	-50 x 0.16471 = -8.2355 therms
Total Warm Adjustment:	Equivalent therms:	-8.2355 therms (C)
	Margin Rate:	$0.43327
	Total WARM Adj.:	-8.2355 x $0.43327 = -$3.56820
Total WARM Adjustment converted to cents per therm:	Total WARM Adj.	-$3.56820
	Monthly usage:	129 therms
	Cent/therm Adj.:	-$3.56820 ÷ 129 = -$0.02766
Billing Rate per therm:	Current Rate/therm:	$1.01330
	WARM cent/therm Adj.	-$0.02766
	WARM Billing Rate:	$1.01330+ -$0.02766= $0.98564
Total WARM Bill:	Customer Charge:	$8.00
	Usage Charge:	$0.98564
	Total	(129 x $0.98564) + $8.00 = $135.15 (C)

GENERAL TERMS:

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.