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May 23, 2016

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attention: Filing Center
201 High Street SE Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

Re: UM 1750 – Investigation of NW Natural’s WARM Program

Dear PUC Filing Center:

Attached for filing, is an electronic copy of the Stipulation and the Joint Testimony in Support of the Stipulation related to NW Natural’s above referenced docket.

If you have any questions, please do not hesitate to contact our office.

Sincerely,

/s/ Mark Thompson

Mark Thompson
Sr. Director, Rates and Regulatory
NW Natural

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1750

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

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

PARTIES

5
6 1. The parties to this Stipulation are NW Natural, Commission Staff (Staff),
7 and the Citizens' Utility Board of Oregon ("CUB") (collectively, "Parties").

BACKGROUND

8
9 2. The WARM program was approved by the Commission in the Company's
10 2002 general rate case.¹ The WARM program concept was developed to mitigate the
11 effects that variations in winter weather has on the Company's revenues and on
12 customers' bills. WARM modifies the rate structure for customers served under Rate
13 Schedule 2 (residential) and Rate Schedule 3 (commercial), as these customer classes
14 largely represent primary space heating load that is typically more sensitive to the
15 effects of weather during the winter months. Because the objective of the WARM
16 Program is to capture the effects of weather variability on all of the Company's
17 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).

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

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

16 4. The monthly WARM adjustment is subject to “caps” and “floors”. For
17 residential customers, the maximum WARM adjustment increase that will be added to a
18 monthly bill during the WARM Period is twelve dollars (\$12.00), or twenty-five percent
19 (25%) of the usage portion of that bill, whichever is less. For commercial customers,
20 the maximum WARM adjustment increase that will be added to a monthly bill during the
21 WARM Period is thirty-five dollars (\$35.00), or twenty-five percent (25%) of the usage
22 portion of that bill, whichever is less. For both residential and commercial customers,
23 the cent per therm rate applied during the WARM Period will not be lower than the
24 currently effective annual sales weighted average cost of gas. Any amounts that
25 exceed the caps and floors for a monthly bill are not billed or credited in that month, and
26 instead are applied to that customer’s June bill (the “True-up”).

1 5. At the conclusion of the 2014-2015 WARM Period, the Commission's
2 Consumer Service Staff ("CSS") reported higher volumes of customer complaints
3 related to the True-up adjustment as compared to previous years' customer complaints.
4 Specifically, the OPUC CSS staff received 14 residential complaints and 18 commercial
5 complaints related to the True-up adjustment. The Company's call center also
6 experienced an increase in customer inquiries related to the True-up adjustment for the
7 2014-2015 WARM Period.

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

- 10 1. Whether NW Natural is calculating the WARM adjustment correctly.
- 11 2. The factors leading to a high volume of complaints related to the
12 2014-2015 winter season and which of the factors are common to
13 all the complaints.
- 14 3. Whether there are targeted and appropriate modifications to WARM
15 that adequately address the issues raised in the complaints.

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

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

² UM 1750, Order No. 15-264 (Sep. 8, 2015).

³ UM 1750, Prehearing Conference Memorandum (Oct. 1, 2015).

⁴ *Id.*

1 twenty-five percent (25%) of the usage portion of that bill,
2 whichever is less.

3 ii. *Commercial Bills.* The maximum WARM adjustment
4 increase that will be applied to a monthly bill during the
5 WARM Period will be thirty-five dollars (\$35.00), or twenty-
6 five percent (25%) of the usage portion of that bill, whichever
7 is less. The maximum WARM adjustment credit applied to a
8 monthly bill during the WARM Period will be thirty-five dollars
9 (\$35.00), or twenty-five percent (25%) of the usage portion
10 of that bill, whichever is less.

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

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

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

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

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

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

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

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

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

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

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

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9 //

NW NATURAL

STAFF

By: 

By: _____

Printed Name: Mark R. Thompson

Printed Name: _____

Date: 5/20/16

Date: _____

CITIZENS' UTILITY BOARD OF
OREGON

By: _____

Date: _____

NW NATURAL

By: _____

Printed Name: _____

Date: _____

CITIZENS' UTILITY BOARD OF
OREGON

By: _____

Date: _____

STAFF

Kaylee Klein for
By: Stephanie Andrus

Printed Name: Stephanie Andrus

Date: 5/19/16

NW NATURAL

STAFF

By: _____

By: _____

Printed Name: _____

Printed Name: _____

Date: _____

Date: _____

CITIZENS' UTILITY BOARD OF
OREGON

By: 

Date: 5/19/16

**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.)

STAFF – NW NATURAL – CUB

JOINT TESTIMONY IN SUPPORT OF STIPULATION

WITNESSES: LANCE KAUFMAN, MARK THOMPSON, BOB JENKS

May 23, 2016

INTRODUCTION AND SUMMARY

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Q. Who is sponsoring this testimony?

A. This testimony is jointly sponsored by Staff of the Public Utility Commission of Oregon (“Staff”), Northwest Natural Gas Company (“NW Natural” or the “Company”), and the Citizens’ Utility Board of Oregon (“CUB”) (together “the Parties”).

Q. Please state your names and your places of employment.

A. Lance Kaufman testifying on behalf of Staff; Mark Thompson testifying on behalf of NW Natural; Bob Jenks testifying on behalf of CUB. Dr. Lance Kaufman is a Senior Economist of the Energy Rates, Audit and Finance Division for the Public Utility Commission of Oregon. Mark Thompson is the Director of Regulatory Affairs at NW Natural. Bob Jenks is the Executive Director of the Citizens’ Utility Board of Oregon.

Q. What is the purpose of your testimony?

A. This testimony describes and supports the Parties’ Settlement Stipulation dated and filed in this case on May 23, 2016 (the “Stipulation”), which resolves all issues investigated in the Commission Staff’s investigation of NW Natural’s Weather-Adjusted Rate Mechanism (“WARM” or “WARM Program”) opened by the Commission on September 8, 2015. Generally, the Stipulation (i) summarizes NW Natural’s WARM Program; (ii) describes the increased customer inquiries and complaints regarding the WARM Program following the 2014-2015 winter, (iii) summarizes the Staff’s investigation into NW Natural’s WARM Program; (iv) describes the Parties agreed-upon modifications to the WARM Program that the Parties believe will resolve the issues surfaced during the 2014-2015 winter; and (v) requests that the Commission find that the modifications to WARM are just and reasonable.

1 **Q. Have all parties to this docket joined the Stipulation?**

2 A. Yes.

3 **NW NATURAL'S WARM PROGRAM**

4 **Q. Please describe NW Natural's WARM Program.**

5 A. The Parties describe the WARM Program in the Stipulation, however, in the
6 interest of completeness also offer the following summary and explanation.

7 NW Natural's WARM Program was approved by the Commission in the
8 Company's 2002 general rate case.¹ The WARM Program concept was
9 developed to mitigate the effects that variations in winter weather have on the
10 Company's revenues and on customers' bills. Prior to the implementation of
11 WARM, the Company's recovery of its fixed costs depended largely on the
12 volumes of gas sold, given that the volumetric rate is based not only on gas
13 commodity costs, but also is designed to recover fixed system costs. While
14 those fixed costs remain fairly constant, the revenues to recover those costs
15 could vary significantly from year to year depending on the weather. In colder
16 than normal years, the Company would over-collect for its fixed costs; in warmer
17 than normal years, the Company would under-recover its fixed costs. WARM
18 modified the rate structure to remove this variability on revenue collection that is
19 caused by variations in weather.

20 **Q. Do all of the Company's customer classes participate in WARM?**

21 A. No, WARM modified the rate structure for customers served under Rate
22 Schedule 2 (residential) and Rate Schedule 3 (commercial), as these customer
23 classes largely represent primary space heating load that is typically more
24 sensitive to the effects of weather during the winter months. All Rate Schedule 2

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).

1 and 3 customers are enrolled in WARM until those customers opt-out of the
2 Program.

3 **Q. Please explain why the WARM Program is an opt-out program, rather than**
4 **an opt-in program.**

5 A. One objective of the WARM Program is to reduce the effects of weather
6 variability on the Company's Schedule 2 and Schedule 3 revenues. To this end,
7 the degree to which the WARM Program is successful is proportional to customer
8 participation in the program.² For that reason, when WARM was developed, the
9 Parties agreed to make the WARM Program an "opt-out" program, meaning
10 customers in the applicable rate schedules are automatically enrolled unless and
11 until they affirmatively opt-out of the WARM program.

12 **Q. Please describe how WARM affects customers' bills.**

13 A. During the "WARM Period" (December 1 through May 15), WARM adjusts the
14 per-therm rate higher or lower depending on the winter weather. In colder than
15 normal winters, WARM will lower a customer's bill, to the extent the Company
16 would have over-recovered its fixed costs from the customer's increased gas
17 usage as a result of the below-normal temperatures. In warmer than normal
18 winters, WARM increases a customer's bill, to the extent that the Company
19 would have under-recovered its fixed costs from the customer's decreased gas
20 usage as a result of the above-normal temperatures. WARM operates as a real-
21 time bill adjustment during the WARM Period.

22 **Q. How is the WARM adjustment calculated and applied to the monthly bill?**

23 A. The WARM calculation uses four global data points and one customer-specific
24 data point. The four global data points are: (1) normal heating degree days

² A single customer's WARM adjustment represents the average customer's weather related deviation from normal usage. The total weather related deviation from normal is the average per customer times the total number of customers in the schedule. To fully protect NW Natural from weather risk, every customer would have to participate in WARM.

1 (HDD) by weather zone; (2) actual HDDs by weather zone; (3) a statistical
2 coefficient (one for each customer class); and (4) the margin rate (one for each
3 customer class). The customer-specific data point is the customer's monthly
4 usage.

5 The Company uses the same normal HDDs by weather zone as those
6 used by the Company to establish rates in its last general rate case. The actual
7 HDDs are obtained from third-party reporting agents and entered into the
8 Company's customer information system (CIS). For purposes of calculating
9 HDDs used in the WARM calculation, WARM uses a set point temperature of 59
10 degrees Fahrenheit for Rate Schedule 2 and 58 degrees Fahrenheit for Rate
11 Schedule 3.

12 The statistical coefficients used in the calculation are also established
13 through the general rate case process using the same weather data used in the
14 load forecast to establish revenue requirements. As such, normal HDDs and the
15 statistical coefficients do not change between rate cases. The statistical
16 coefficient represents the effect that each degree day has on customer use (in
17 therms).

18 The margin rate is established in the Company's last general rate case for
19 the respective rate schedules, but is updated annually coincident with the
20 Company's purchased gas adjustment filings for any potential base rate
21 adjustments that may occur at that time.

22 To determine the bill effect under the WARM Program, the difference in
23 HDDs (normal HDDs compared to actual HDDs) for a given billing cycle and
24 weather zone is multiplied by the statistical coefficient to determine the
25 equivalent therms to relate to the change in HDDs. This result is then multiplied
26 by the margin rate to determine the WARM adjustment for that billing cycle.

1 The WARM adjustment is subject to “caps” and “floors” when applied to
2 the monthly bill. For residential customers, the maximum WARM adjustment
3 increase that is added to a monthly bill during the WARM Period is twelve dollars
4 (\$12.00), or twenty-five percent (25%) of the usage portion of that bill, whichever
5 is less. For commercial customers, the maximum WARM adjustment increase
6 that is added to a monthly bill during the WARM Period is thirty-five dollars
7 (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever
8 is less. For both residential and commercial customers, the cent per therm rate
9 applied during the WARM Period cannot be lower than the currently effective
10 annual sales weighted average cost of gas (“WACOG”). Any amounts that
11 exceed the caps and floors for a monthly bill are not billed or credited in that
12 month, and instead are applied to that customer’s June bill (the “True-up”).

13 **STAFF INVESTIGATION OF NW NATURAL’S WARM PROGRAM**

14 **Q. Please explain why the Commission Staff requested to open an**
15 **investigation into NW Natural’s WARM Program.**

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

23 On August 31, 2015, Staff asked to open an investigation focusing on the
24 issues arising from the 2014-2015 WARM Period. On September 8, 2015, the
25 Commission opened an investigation into NW Natural’s WARM program.³
26 Specifically, Staff was directed to investigate:

³ UM 1750, Order No. 15-264 (Sep. 8, 2015).

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

7 **Q. Please describe Staff's investigation into the WARM Program.**

8 A. Throughout the docket, Staff served extensive discovery on NW Natural. Staff
9 and CUB conducted a thorough investigation of the WARM Program, in
10 accordance with Order No. 15-264. The Parties held three workshops to assist
11 in the investigation and attempt to develop targeted and appropriate
12 modifications to WARM that adequately address the issues raised in the
13 complaints that gave rise to the investigation. Those workshops each lasted
14 several hours, and were held on December 8, 2015, January 15, 2016, and
15 March 15, 2016. At these workshops, data was reviewed and discussed, as well
16 as several different options, and the pros and cons of each option, within the
17 context of settlement discussions.

18 **Q. With respect to the first aspect of the investigation, describe Staff's**
19 **investigation into whether the Company calculated the WARM adjustment**
20 **correctly in the 2014-2015 WARM Period.**

21 A. Through the discovery process, Staff requested and received the Company's
22 WARM billing data, normal and actual HDDs, statistical coefficient, margin rate,
23 and customer usage for the 2014-2015 WARM Period. Staff analyzed the data
24 and performed its own independent calculation of the WARM adjustments for all
25 customers filing 2014-2015 WARM related complaints. Staff also used monthly
26 customer level billing data for all NW Natural customers between January 2010

1 and December 2014 to analyze the distribution of customer-specific heating
2 coefficients by schedule.

3 **Q. Did Staff find that NW Natural calculated the WARM adjustment correctly in**
4 **the 2014-2015 WARM Period?**

5 A. Yes, Staff compared its independent findings to NW Natural's actual WARM
6 adjustments for the 2014-2015 WARM Period and found that, given the degree
7 days that were used, NW Natural calculated the WARM adjustment correctly.

8 **Q. Regarding the second aspect of the investigation, what factors led to the**
9 **higher than normal volume of complaints related to the 2014-2015 WARM**
10 **Period and which of the factors are common to all the complaints.**

11 A. The Parties believe that the record warm weather in the 2014-2015 WARM
12 Period was the main factor that led to the higher than normal volume of
13 complaints. The unusually warm winter resulted in a large difference between
14 actual and normal HDDs. This in turn caused abnormally large June True-up
15 surcharges. Small and zero use customers had much larger True-up surcharges
16 because the cap tightens (i.e. becomes operative in more instances) as use
17 decreases. Consequently, customers received larger than average True-up
18 surcharges on their June bill than in most years.

19 Additionally, there were some customers that did not use any gas or had
20 such low usage, that all or nearly all of the WARM adjustments for each month
21 during the WARM Period were deferred to the True-up on the June bill because
22 the cap limiting the monthly WARM adjustment to no more than 25% of the
23 volumetric portion of their bill was triggered. The True-ups came as a surprise to
24 some customers, which led to the increased complaints. The majority of
25 complaints originated from customers that had smaller than average usage.

1 **Q. Regarding the third aspect of the investigation, are there targeted and**
2 **appropriate modifications to WARM that adequately address the issues**
3 **raised in the complaints.**

4 A. Yes, the Parties believe that there are targeted and appropriate modifications to
5 WARM that address the issues raised. These modifications are set forth in the
6 section below detailing the terms of the Stipulation.

7 **TERMS OF THE STIPULATION**

8 **Q. Please describe the terms of the Stipulation.**

9 A. The Parties agree that the WARM program will continue to operate as provided
10 in NW Natural's Tariff Schedule 195 through the 2015-2016 WARM Period,
11 including the June bill True-up in 2016.

12 Beginning in the 2016-2017 WARM Period, the WARM Program will be
13 subject to the three modifications that the Parties believe will address the issues
14 that caused increased customers complaints following the 2014-2015 winter.
15 First, the monthly WARM adjustment floors will be modified to be symmetrical to
16 the caps. Second, the June True-up adjustment will be eliminated and replaced
17 by an annual deferral amortized over 12 months for the amounts that exceed the
18 caps or floors (credits or surcharges) for all customers in Rate Schedules 2 and
19 3. And, third, NW Natural will send notices to a group of customers enrolled in
20 WARM and identified by Staff as non-heat sensitive customers, informing those
21 customers that their usage may not be best suited for the WARM Program and
22 providing opt-out information.

23 **Q. Why have the Parties agreed to make these modifications to the WARM**
24 **Program effective for the 2016-2017 WARM Period?**

25 A. The Parties agreed that the modifications to the WARM Program should not
26 occur during the current (2015-2016) WARM Period, or be implemented prior to
27 this year's June True-up. The currently effective rates and rate mechanism

1 should remain in place so as not to create any unjust results to customers by
2 making changes to their expected rate impacts during the current WARM
3 period.⁴ Additionally, there are concerns about whether the Stipulation could be
4 implemented sooner than agreed upon in any event.

5 **Q. Please describe the agreed upon terms for the monthly WARM bill caps**
6 **and floors.**

7 A. The Parties agree that the maximum monthly WARM adjustments for Residential
8 and Commercial customers in the WARM Program are as follows:

9 The maximum WARM adjustment increase that will be applied to a
10 monthly residential bill during the WARM Period will be twelve dollars (\$12.00),
11 or twenty-five percent (25%) of the usage portion of that bill, whichever is less.

12 The maximum WARM adjustment credit applied to a monthly residential bill
13 during the WARM Period will be twelve dollars (\$12.00), or twenty-five percent
14 (25%) of the usage portion of that bill, whichever is less.

15 The maximum WARM adjustment increase that will be applied to a
16 monthly commercial bill during the WARM Period will be thirty-five dollars
17 (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever
18 is less. The maximum WARM adjustment credit applied to a monthly commercial
19 bill during the WARM Period will be thirty-five dollars (\$35.00), or twenty-five
20 percent (25%) of the usage portion of that bill, whichever is less.

21 **Q. Please describe the changes that were made to the monthly caps and**
22 **floors.**

23 A. Under the current WARM Program, the cent per therm rate applied during the
24 WARM Period for residential and commercial customers cannot be lower than

⁴ Specifically, as described above, the Stipulation provides for a different treatment of the amounts that would otherwise be put on customers' June bill True-up. The Parties believe that it would not be appropriate to implement the Stipulation at a time when there is certainty that WARM is in a "surcharge" position, because part of the Stipulation rests on an expectation of normal weather prevailing over a number of years. This is discussed in more detail below.

1 the currently effective annual sales weighted average cost of gas, or WACOG.
2 Thus, the maximum credit applied to a customer's bill during colder than normal
3 months could exceed twelve dollars or 25% of the usage portion of the bill. The
4 settlement modifies the floor to be symmetrical with the monthly cap on the
5 WARM adjustment.

6 For residential customers, the maximum adjustment credit applied to a
7 monthly residential bill during the WARM Period will be twelve dollars (\$12.00),
8 or twenty-five percent (25%) of the usage portion of that bill, whichever is less.
9 For commercial customers, the maximum WARM adjustment credit applied to a
10 monthly commercial bill during the WARM Period will be thirty-five dollars
11 (\$35.00), or twenty-five percent (25%) of the usage portion of that bill, whichever
12 is less. This means that the magnitude of the maximum surcharge and the
13 maximum credit will be equal.

14 **Q. Please describe the change to the June True-up adjustment.**

15 A. The June True-up adjustment will be eliminated and replaced by an annual
16 deferral amortized over 12 months for the amounts that exceed the caps or floors
17 (credits or surcharges) for all customers in Rate Schedules 2 and 3. Specifically,
18 for residential customers that exceed either the floor or cap in a given month
19 during the WARM Period, the amounts that exceed the floor or cap will be
20 deferred until the next PGA process and amortized over 12 months for Rate
21 Schedule 2 customers. The same process will occur for commercial customers
22 in Rate Schedule 3. The Company will accrue interest on the deferred amounts
23 at the Modified Blended Treasury Rate, plus 100 basis points. The Company will
24 accrue interest during the amortization period at the Modified Blended Treasury
25 Rate.

26 **Q. Why did the Parties agree to eliminate the June True-up adjustment?**

1 A. The June True-up adjustment was the source of many of the complaints received
2 by the OPUC and the Company following the 2014-2015 WARM Period. While
3 the Parties believe that NW Natural was properly billing the June True-up
4 adjustment to customers during the 2014-2015 WARM Period, customers that
5 complained were still upset and confused by the WARM True-up surcharge on
6 their bill in a summer month following consistent low gas use in the preceding
7 winter months.

8 The True-up adjustment was an important aspect of the WARM Program
9 because it limited the real-time monthly rate impact of WARM during the WARM
10 Period. When rate caps and floors were exceeded, the True-up reconciled those
11 amounts to be charged or credited to customers. However, in the 2014-2015
12 WARM Period, many customers' low usage caused the WARM adjustment to
13 reach the cap in several months of the WARM Period. As a result, the deferrals
14 from each month were held until the total deferrals from the WARM Period were
15 included on the customer's June bill. Eliminating the True-up will prevent a
16 recurrence of the higher than normal True-up adjustments placed on customer's
17 2015 June bill.

18 By deferring all WARM customers' WARM adjustments that exceed the
19 caps and floors, the Company will spread the rate impact of the deferrals over 12
20 months simultaneously with the PGA process. The Parties believe that the 12
21 month amortization of the deferred amounts will maintain the Company's
22 protection against weather related revenue volatility without burdening low-use
23 customers with little or no heat response.

24 **Q: Does eliminating the June True-up constitute a substantial or precedential**
25 **change to WARM?**

26 A: Historic weather and use patterns indicate that the customers with average or
27 greater than average heating load will only have WARM adjustments that exceed

1 the caps and floors under extreme weather events. In this respect, eliminating
2 the June True-up is not substantial. For small customers with little or no heating
3 load, eliminating the June True-up is a substantial change. However, as
4 described elsewhere in this testimony, the change will reduce complaints and
5 treat non heat-use customers more appropriately.

6 The Parties do not view this change as precedential. The weather
7 component of decoupling for both Avista and Cascade is currently collected and
8 distributed through the Companies respective PGAs.

9 **Q: How does the symmetrical floor and cap impact the agreed upon deferral**
10 **mechanism?**

11 A: As described above, the Parties have agreed to eliminate the June True-up and
12 defer those amounts until they are collected with the PGA. Without a
13 symmetrical cap and floor, the deferral credits would likely be greater than the
14 surcharges. That is, there would be a greater likelihood of deferred credits than
15 surcharges because the current floor set at WACOG does not have a \$12 or 25%
16 usage limitation. For instance, a residential customer using 53 therms and
17 experiencing a weather scenario of 200 heating degree days above normal on
18 their monthly bill would pay \$14.65 and \$12.00 of WARM adjustments for the
19 current and proposed floors, respectively. The current WACOG floor of \$0.33602
20 would create a dollar cap in this scenario of \$31.75, much greater than the
21 symmetrical \$12.00 floor in our proposal. By increasing the floor to \$12 or 25%
22 of the usage portion of the customer's bill, the caps and floors will be symmetrical
23 and create deferrals that have similar probability to be credits or surcharges. The
24 Parties believe that by making the floor and cap symmetrical, the deferrals will
25 offset over time with de minimis impacts on customers rates.

26 **Q. Why is it important that the deferrals balance out over time?**

1 A. The WARM deferrals are going to be collected from all Rate Schedule 2 and 3
2 customers, much like other deferrals that are amortized through the PGA
3 process. This includes customers that are not enrolled in the WARM Program.
4 Without making the caps and floors symmetrical, those customers would likely
5 receive an uneven distribution of credits and surcharges. The proposed
6 methodology is designed to create an even distribution of credits and surcharges
7 over time so that those customers are not unjustly harmed or benefited by the
8 WARM Program. In other words, under the Stipulation, some of the surcharges
9 or credits associated with recovering fixed system costs will be realized by
10 customers not participating in WARM. The Parties believe it is appropriate to do
11 this in this instance only if there is an expectation that over time, these items will
12 cancel each other out, given an expectation that “normal weather” prevails over a
13 number of years.

14 **Q. What are the expected rate impacts of the deferrals resulting from the**
15 **symmetrical caps and floors?**

16 A. As stated above, the deferral surcharges or credits are expected to be small, or
17 de minimis amounts on a customer’s monthly bill. And, importantly, they would
18 be expected to generally offset in the opposite directions over time. For historical
19 reference, Exhibit A shows the last six years of total WARM deferrals applied to
20 customers’ June True-up. For residential WARM customers from 2010 through
21 2015, the WARM deferrals each year were \$466,390 in 2010, (\$113,228) in
22 2011, (\$76,850) in 2012, \$67,978 in 2013, (\$30,644) in 2014, and \$1,359,877 in
23 2015.⁵ For commercial WARM customers from 2010 through 2015, the WARM
24 deferrals each year were \$719,315 in 2010, (\$341,703) in 2011, (\$209,020) in
25 2012, \$215,873 in 2013, (\$65,140) in 2014, \$2,976,929 in 2015.

⁵ Amounts in parentheses indicate credits to customers.

1 Based on this history, NW Natural analyzed the rate impacts of total
2 annual deferral amounts from \$500,000 to \$2,000,000 for residential customers
3 and \$500,000 to \$3,000,000 for commercial customers. The outer-bound of the
4 analysis was set at \$2 million for residential customers and \$3 million for
5 commercial customers, which reflect the largest ever deferrals from the
6 anomalous 2014-2015 WARM Period. Exhibit B shows that the expected
7 monthly impact for an average residential and commercial customer within these
8 ranges. For an average residential customer with a monthly bill of \$57.56, the
9 monthly bill impact is 7 cents if the deferral (credit or surcharge) is \$500,000.
10 The largest expected monthly impact for an average residential customer is 29
11 cents if the deferral reached \$2 million. For the average commercial customer,
12 the monthly bill impact would be approximately \$4.40 if the deferral reached \$3
13 million.

14 Lastly, Exhibit C shows an example of individual WARM bill for residential
15 and commercial customers for months that are 200+/- HDDs from normal
16 temperatures. The example shows the total bill based on normal use, HDDs
17 from normal, the applicable cap or floor, the equivalent therms used based on
18 expected weather sensitivity, the cent per therm adjustment, the WARM billing
19 rate, and the amount that exceeds the cap or floor that will be transferred to the
20 deferral.

21 **Q. How does the use of a symmetric cap and floor combined with elimination**
22 **of the True-up impact non-heat use customers?**

23 A. Non-heat use customers tend to have relatively low winter gas use. As an
24 extreme example, some customers have no gas use in winter months. These
25 customers, even if participating in WARM, will have no monthly adjustments
26 because both the cap and floor equal zero. Under the June True-up, the cap and
27 floors would simply delay the monthly adjustments for these low use customers

1 to the June bill. By eliminating the June True-up, zero and low use customers are
2 not adversely impacted by the level of their gas usage under WARM.

3 Non-heat customers with high usage may still be negatively impacted by
4 participating in WARM if the June True-up is eliminated. However, other solutions
5 agreed to by Parties address the remaining issue with high use non-heat
6 customers.

7 **Q. What other solutions have the Parties agreed to that address the concerns**
8 **raised by customers following the 2014-2015 WARM Period?**

9 A. The Parties agree to develop a list of customers currently enrolled in WARM that
10 had summer gas usage that exceeded their winter gas usage in the 2014-2015
11 WARM Period. This notice is intended to reach a category of customers that are
12 objectively not weather-sensitive, and therefore, unlikely to have the typical
13 usage that WARM was designed to mitigate during the winter. The Company will
14 send a one-time notice to each customer identified, informing the customer that
15 the WARM program is designed for customers that have weather sensitive gas
16 usage, and that they have been identified as potentially being a non-weather
17 sensitive customer. The notice will provide information regarding their ability to
18 opt-out of the WARM program.

19 **Q. Did the Parties consider requiring the Company to automatically opt-out**
20 **certain customers that do not appear to be weather-sensitive?**

21 A. Yes, this was discussed and the Parties agreed to not do this. There is concern
22 that it would not be appropriate to modify the historic default WARM status. This
23 could actually result in more complaints if, for example, a customer had
24 previously made a decision to be part of the WARM program, and then found out
25 they had been automatically opted out, especially if it turned out that they would
26 otherwise be eligible for a credit that would then be denied them. Additionally,
27 the Parties recognize that reducing the proportion of customers participating in

1 WARM makes it less effective at reducing NW Natural's weather related revenue
2 volatility. Accordingly, the Parties agreed that allowing customer choice and
3 requiring direct and clear information are sufficient in this instance.

4 **Q. Do you agree that the WARM Program modified by this Stipulation will**
5 **result in just and reasonable rates?**

6 A. Yes. The Parties agree that the changes made to the WARM Program will result
7 in just and reasonable rates. The modifications to WARM will keep the core
8 elements of the Company's WARM Program intact but provide greater benefits to
9 customers by eliminating the one-time June True-up and spreading the deferrals
10 over 12 months. This change is expected to minimize customer confusion about
11 the June True-up, and consequently, reduce customer complaints about WARM.
12 The Parties believe that this is a targeted change to WARM that provides a
13 solution to the issues that gave rise to the Commission opening an investigation.
14 Additionally, the symmetrical caps and floors to the WARM adjustment will
15 ensure that the Rate Schedule 2 and 3 customers will be not be unjustly harmed
16 or benefited by the deferrals as they would be expected to offset over time, and
17 do not cause significant rate impacts in any given year. Lastly, the notices that
18 will be sent to non-weather sensitive customers will provide these customers the
19 appropriate information to make a decision whether to opt-out of the WARM
20 Program.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

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