

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 of deferral accounting. The parties describe this change in the WARM program as follows:

WARM Adjustments Exceeding Caps and Floors. 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.

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

Lisa D. Hardie
Chair



John Savage

John Savage
Commissioner

Stephen M. Bloom

Stephen M. Bloom
Commissioner

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

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

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).

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.*

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

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.

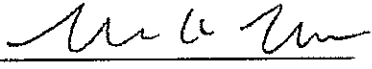
6 22. This Stipulation is entered into by each Party on the date entered below
7 such Party's signature.

8 //

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