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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG 143

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY)	ORDER
)	
Application for Public Purposes Funding and)	
Distribution Margin Normalization.)	

DISPOSITION: STIPULATION ADOPTED

On June 1, 2001, Northwest Natural Gas Company (NW Natural) filed Advice No. 01-10, titled “Public Purposes Funding and Distribution Margin Normalization.” The purpose of the tariff was two-fold: (1) to make the company indifferent to the consumption patterns and energy efficiency activities of its residential and commercial customers; and (2) to provide funding for public purposes such as low-income bill payment assistance, low-income weatherization assistance, and enhanced energy efficiency measures to be administered by an independent entity.

In Order No. 01-750, the Commission found good and sufficient cause to investigate the filing and suspended it for a period of six months. On September 11, 2001, Michael Grant, an Administrative Law Judge (ALJ) for the Commission, held a consolidated prehearing conference in this docket and UE 126, an investigation of a decoupling mechanism proposed by Portland General Electric (PGE). The ALJ adopted the same procedural schedule for both dockets, but clarified that the dockets remain separate and would not be consolidated. NW Natural, PGE, the Northwest Industrial Gas Users (NWIGU), the Citizens’ Utility Board (CUB), the Natural Resources Defense Council (NRDC), the Northwest Energy Coalition (NW Energy Coalition), the Community Action Directors of Oregon (CADO), the Oregon Office of Energy (OOE), and the Commission’s Regulatory Staff (Staff) participated in the docket as parties.

After discovery and the pre-filing of testimony, the ALJ conducted an evidentiary hearing on November 15, 2001, to allow cross-examination of witnesses. The parties gave closing presentations to the Commission on December 12, 2001, and later filed opening and reply briefs.

On February 8, 2002, the Commission suspended the procedural schedule in this case pending the review of NW Natural’s proposed purchase of PGE in docket UM 1045. Following the termination of docket UM 1045, the parties recommenced settlement discussions for the purpose of resolving the contested issues. To

accommodate the discussions, NW Natural agreed to extend the suspension period in this docket until September 16, 2002.¹

Pursuant to settlement discussions, NW Natural, Staff and CADO reached agreement on all issues and, on August 30, 2002, filed a stipulation for Commission approval under OAR 860-014-0085. The stipulation, which is attached as Appendix A, is supported by testimony of Bruce DeBolt, Senior Vice President and CFO of NW Natural, and Bonnie Tatom, Program Manager of the Natural Gas Rates and Planning Section for the Commission.

Based on the record in these proceedings, the Commission enters the following:

FINDINGS AND CONCLUSIONS

Introduction

Decoupling is a regulatory tool designed to break the link between a utility's earnings and the energy consumption of its customers. While such mechanisms take several forms, the basic approach consists of defining a target for revenues and placing over-and under collections relative to that target in a deferred account for recovery in a later period. Under such mechanisms, a utility cannot increase its earnings by increasing its sales, because additional sales margins are returned to ratepayers.

This Commission first addressed decoupling in the context of least-cost planning. In docket UM 409, the Commission acknowledged the need to change regulatory policy to encourage the efficient use of energy resources:

We are persuaded that the connection between profits and sales should be severed. As long as the regulatory system provides that increased sales may lead to increased profits, a conflict will exist between the motivation to sell energy and the motivation to promote reduction in energy consumption.²

Accordingly, the Commission ordered PacifiCorp and PGE to work with Staff and other parties in a collaborative process to develop decoupling mechanisms. The Commission later adopted the collaborative recommendation and initiated decoupling for PGE during most of 1995 and 1996.³

¹ Orders No. 02-413 and 02-555.

² Order No. 92-1673 at 13.

³ Order No. 95-322 at 15.

In 1998, the Commission adopted a decoupling mechanism for PacifiCorp's distribution related revenues as part of an alternative form of regulation (AFOR). The Commission concluded that the mechanism was particularly appropriate as applied to the distribution function, because distribution costs are relatively fixed in the short-term and, consequently, much less sensitive to fluctuations caused by the amount of energy consumed.⁴

Proposed Stipulation

NW Natural, CADO and Staff have entered into a stipulation to resolve all outstanding issues in this case. The stipulation contains five substantive sections: (1) Elasticity Adjustment and Partial Decoupling of Residential and Commercial Customers; (2) Public Purposes Funding; (3) Responsibility for Company Demand-Side Management Programs; (4) Service Quality Measures, and (5) General Rate Case Filing. We address each section separately.

(1) Elasticity Adjustment and Partial Decoupling of Residential and Commercial Customers

The stipulation provides that an elasticity adjustment will be applied to the rates of all of NW Natural's residential and commercial customers beginning on October 1, 2002. The initial adjustment will be calculated for each group by applying a stipulated price elasticity factor to the respective margins from NW Natural's last general rate case (UG 132) and the cumulative price change from 1998 (UG 132 test period) through October 1, 2002. This adjustment will help account for the affect that rate changes have on customer usage.

Under this elasticity adjustment, NW Natural will recover, on a prospective basis only, the margin shortfalls in each customer category by developing rate increments and applying them in permanent rates for each class as of October 1, 2002. The stipulating parties estimate the elasticity adjustments applied in this fall's Purchased Gas Adjustment (PGA) filing to be about 2.6 cents per therm in residential rates and 1.3 cents per therm in commercial rates. These rate increments will terminate with the Commission's order in the rate case described below.

Also on October 1, 2002, NW Natural will implement a partial decoupling mechanism, under which it will defer and subsequently amortize 90 percent of the margin differentials in the residential and commercial customer groups. Marginal differentials are the margins associated with the difference between each group's weather-normalized usage and usage baseline. The deferral for each monthly period would be a credit (refund) if the calculation is positive or a debit (charge) if the calculation is negative.

⁴ Order No. 98-191 at 8.

The per-therm distribution margin for each customer group for initial use under the stipulation will be the margins developed in docket UG 132. For residential customers, this margin is \$0.34055 per therm. For commercial customers, this margin is \$0.21692 per therm. The per-therm distribution margins would be replaced by new margins adopted by the Commission in NW Natural’s rate case described below.

The stipulating parties emphasize that the decoupling mechanism will be applied to weather-normalized usage. When the company calculates variations from baseline volumes each month, it will adjust actual volumes to account for abnormal weather using the approach to weather normalization adopted in UG 132.

The decoupling adjustments would be determined based on a monthly comparison of weather-normalized usage to baseline volumes resulting from actual customer counts. NW Natural will defer and amortize 90 percent of margin differentials due to each month’s decoupling adjustments, with interest.

The partial decoupling mechanism will terminate on September 30, 2005, unless extended by the Commission. Prior to the termination date, NW Natural will arrange for a study by an independent entity regarding the effectiveness of the partial decoupling mechanism, according to the criteria and standards developed by the parties in the stipulation. By March 31, 2005, NW Natural will request the Commission to open an investigation on the issue of whether to continue the partial decoupling mechanism after September 2005.

(2) Public Purposes Funding

Under the terms of the stipulation, NW Natural will file a tariff implementing public purposes funding from residential and commercial customers with an effective date of October 1, 2002. This tariff will collect monies from customers to fund a low-income bill payment assistance plan, a low-income weatherization program, and an enhanced energy efficiency program. The three public purpose programs will be funded as follows:

Program	Funding
Low-income bill payment assistance	Each residential customer will be assessed \$0.25 per month
Low-income weatherization assistance	Each residential and commercial customer will be assessed a charge equal to 0.25% of that customer’s monthly bill.
Enhanced energy efficiency programs	Each residential and commercial customer will be assessed a charge equal to 0.65% of that customer’s monthly bill.

The low-income weatherization assistance program and the enhanced energy efficiency programs will be administered by an independent entity approved by the Commission. Any customer group that provides funding for enhanced energy efficiency programs through the assessment defined above will be eligible to seek and receive energy efficiency services, although not necessarily in the precise amounts collected from that group.

(3) Responsibility for Company Demand-Side Management Programs

As part of the stipulation, NW Natural agrees to transfer the responsibility for its energy efficiency, demand-side management (DSM) programs, and energy audits to the Energy Trust of Oregon, or to another independent entity approved by the Commission. NW Natural would make the transfer as soon as reasonably practical, but no later than October 1, 2003. All of the company’s costs associated with these programs would be removed from company rates, effective with the new rates established in the 2003 rate case. Through an adjustment schedule, NW Natural will collect energy efficiency, DSM, and energy audit costs on behalf of the Energy Trust of Oregon, or other approved independent entity.

(4) Service Quality Measures

To ensure that service quality will not deteriorate under the partial decoupling mechanism, NW Natural agrees to adopt, effective October 1, 2002, for a ten-year period, a C1 Service Quality Measure. Under this standard, the unit of measurement shall be the Commission’s “PUC Complaints At Fault Per 1,000 Customers,” as established by the Consumer Services Division, and calculated as an average ratio for the entire calendar year. NW Natural’s performance goal will be to maintain an annual average ratio of less than 0.07 complaints at fault per 1,000 customers.

If NW Natural is unable to meet the 0.07 ratio, the Commission may assess monetary penalties in the following amounts:

2003		2004		2005	
≤ 0.13	\$100K	≤0.12	\$100K	≤0.10	\$100K
≤ 0.15	\$500K for first occurrence and \$1M for any subsequent occurrence during 10-year period	≤0.14	\$500K for first occurrence and a \$1M for any subsequent occurrence at any time within the term of this agreement	≤0.13	\$500K for first occurrence and a \$1M for any subsequent occurrence at any time within the term of this agreement

In addition, NW Natural will annually submit customer service operating and maintenance expenditures for Commission review. If the Commission assesses service quality penalties and determines that NW Natural's failure to properly fund its customer service accounts significantly contributed to the unacceptable performance levels, the Commission may order that any shortfalls in expenditures for that year be subject to refund with interest.

(5) General Rate Case Filing

In the stipulation, NW Natural also agrees to file a general rate case no later than November 30, 2002, with an effective date no earlier than January 2, 2003, and allowing a nine month suspension of tariff sheets for investigation. In that rate case, any party to the stipulation may propose an adjustment to the company's authorized cost of capital to account for the effects of the decoupling mechanism. The stipulating parties generally agree, however, not to propose or support changes to the decoupling mechanism.

Positions of the Parties

NW Natural, CADO, and Staff recommend that the Commission adopt the settlement agreement in its entirety. They acknowledge that the agreement represents a compromise in the positions of the parties, but emphasize that the stipulation provides advantages to all those that participated in this docket, including those that did not sign it. According to the stipulating parties, the agreement helps NW Natural by eliminating the conflict between the interests of NW Natural's customers in lowering bills and conserving energy, and those of shareholders in earning reasonable returns.

For the energy conservation and customer groups, the stipulating parties note the advantages of the public purpose funding programs that will be implemented through the settlement. The bill-payment assistance and low-income weatherization programs will also provide needed assistance to low-income customers who have not previously had this type of assistance. In addition, the stipulating parties state that NWIGU is advantaged because NW Natural has agreed to file a general rate case this fall. This will allow the industrial customer group to raise issues of importance to its members, such as rate spread.

While Staff did not support NW Natural's original proposal, it supports the stipulation because of the company's commitments to adopt a service quality measure and to permanently transfer the company's DSM programs to a selected independent entity approved by the Commission. Staff contends that these commitments provide significant benefits to the customers of NW Natural that distinguish the settlement from the company's original proposal.

PGE, NWIGU and CUB did not sign the stipulation. However, in separate letters, each party indicated that it did not oppose the stipulation. OOE, NRDC, and the

NW Energy Coalition also filed comments to the stipulation. These parties, originally part of the Joint Parties that also included CUB and CADO, favor NW Natural's original decoupling proposal with modifications set out in the Joint Parties' reply brief. They believe that that proposal would provide the greatest benefit to customers and the environment.

OOE, NRDC and the NW Energy Coalition acknowledge that the stipulation incorporates some elements they supported in testimony. These include the proposed public purposes funding, which they strongly support, and a form of decoupling that would partially break the link between NW Natural's revenues and sales. These parties, however, contend that the decoupling mechanism proposed is unnecessarily complex, does not last long enough to modify utility behavior, and does not address one critical area. For these reasons, the parties request the Commission to consider adopting the following modifications to the agreement:

- (1) Eliminate the 90/10 sharing mechanism. The objecting parties believe that decoupling should sever the entire link between fixed cost recovery and throughput.
- (2) Eliminate or extend the sunset date. The parties do not believe that three years is enough time for the mechanism to affect behavior, or for the utility to plan.
- (3) Eliminate the section that generally prohibits the stipulating parties from seeking modifications to the mechanism during the general rate filing. The parties believe that this provision will unnecessarily restrict discussion and could prevent Staff from commenting on proposals made by other parties.
- (4) Clarify whether NW Natural's distribution margins would be reset if the decoupling mechanism is terminated. If margins are not reset, the parties explain that NW Natural's distribution revenues after 2005 would be reduced by conservation implemented during 2002 to 2005. The parties fear that NW Natural may not fully support conservation because of this risk and recommend the Commission clarify that distribution margins would be reset based on the latest data.

Commission Resolution

As discussed above, the Commission first considered decoupling over ten years ago as a means to make regulatory policy more compatible with least-cost planning. Several states, including California, New York, Washington, and Maine adopted various decoupling mechanisms. This Commission joined that list of states by fully decoupling

PGE's revenues and sales in the mid-1990s and adopting a revenue cap mechanism for PacifiCorp's distribution revenues in 1998.

The popularity of decoupling mechanisms, however, has declined in recent years for a variety of reasons. Uncertainties related to the restructuring of the electric industry caused California to eliminate revenue decoupling in 1998. Concerns that decoupling inappropriately shifted business risk to ratepayers led Maine and Washington to eliminate similar mechanisms. Washington also questioned the effectiveness of decoupling, finding no evidence that its mechanism provided a clear incentive for utilities to manage its acquisition of supply and demand-side resources at least cost. Staff has raised similar concerns with regard to the decoupling mechanisms previously adopted in Oregon. Staff notes that PGE's and PacifiCorp's conservation activities actually decreased significantly while those companies were subject to decoupling mechanisms.

In addition, the regulatory landscape has changed dramatically since this Commission first embraced decoupling a decade ago. All six regulated energy utilities now have some mechanism in place to protect themselves from revenue volatility due to fluctuating power prices. This Commission has also adopted a number of regulatory mechanisms to provide incentives for utility DSM acquisition. These include investment cost recovery, lost margin recovery, incentive mechanisms such as SAVE, conservation bonding, and various accounting mechanisms to reduce risk associated with the amounts of DSM on utilities' accounting records. While some jurisdictions are revisiting new forms of revenue cap mechanisms, some question the continued need for decoupling.

For these and other reasons, it is unclear whether this Commission would have adopted NW Natural's original proposal in this docket. In addition to the general questions and concerns about decoupling noted above, the company's "Distribution Margin Normalization" (DMN) mechanism did not weather-normalize customer usages. Thus, unlike prior decoupling mechanisms adopted in Oregon, NW Natural would have recovered margin losses associated with usage deviations due to weather. Moreover, NW Natural's original proposal would have relied on customer usage levels from 1998 to establish baseline volumes. Given the consumption declines since that date, the implementation of NW Natural's proposal would have resulted in an immediate and significant rate increase.

The Commission need not resolve that question, however, as the company has withdrawn its original proposal in favor of a substitute mechanism set forth in the stipulation. In the stipulation, NW Natural agrees to replace the DMN mechanism with a less comprehensive proposal that also includes a price elasticity adjustment.⁵ In addition, the stipulation adds a key service quality measure, permanently transfers NW Natural's DSM programs to an independent entity, and includes a commitment by the company to file a general rate case this fall.

⁵ Staff had earlier suggested a price elasticity adjustment as a better alternative to NW Natural's original proposal. *See* Staff/100, Brown-Tatom 4-7.

These modifications have caused the two parties that opposed NW Natural's original proposal to modify their positions in this docket. Staff opposed the initial filing, in part, because it opposed decoupling generally. Staff now believes that the overall benefits contained in the stipulation outweigh its concerns about decoupling and that the Commission should adopt the agreement in its entirety. Similarly, NWIGU originally argued that decoupling should not be decided outside the context of a general rate case. The industrial customer group, however, has effectively withdrawn that argument and now states that it does not oppose the stipulation.

Three parties that have long supported decoupling and advocated the adoption of NW Natural's initial filing with certain modifications—OOE, NRDC, and the NW Energy Coalition—favor many aspects of the stipulation. As noted above, however, they would prefer the stipulation be modified to eliminate the 90/10 sharing, extend the duration of the mechanism, remove restrictions on its modification, and clarify whether the distribution margins would be reset if decoupling is ended.

After our review, we agree with NW Natural, CADO, and Staff that the stipulation should be adopted without modification. As the parties note, the agreement is a compromise that recognizes the interests of all the parties that participated in this docket, not just those that signed the stipulation. While not incorporating a true decoupling mechanism, the elasticity adjustment and partial decoupling mechanism substantially accomplishes NW Natural's goal of better aligning shareholder and customer interests. The conceptual purpose of decoupling has always been to break the link between an energy utility's sales and its profitability, so that the utility can assist its customers with energy efficiency without conflict. The stipulated mechanism will allow NW Natural to provide customer service support and information related to energy efficiency without causing a negative financial impact on its shareholders.

Customer and environmental groups significantly benefit from three of the company's commitments in the agreement. First, NW Natural's agreement to adopt a service quality measure allows the Commission to monitor customer service performance over the next decade and impose penalties if the company fails to meet established standards. Second, NW Natural's willingness to permanently transfer the company's energy efficiency programs will allow an independent entity to run these programs more effectively and efficiently by eliminating conflicting company goals. Finally, NW Natural's commitment to a general rate case assures the Staff and other parties of an opportunity in the near future to review the company's cost structure and other matters of interest, including whether the company's cost of capital should be reduced to account for decoupling.

In addition, the general public is advantaged by the public purposes funding that will be implemented through the settlement. The Oregon Legislature previously enacted such funding for electricity energy efficiency in SB 1149. The stipulation extends

these public policies to the state's largest natural gas utility. The low-income programs will also provide targeted assistance to many Oregonians in need of this help.

We also favor other aspects of the stipulated agreement. Unlike NW Natural's original filing, initial baseline volumes for the partial decoupling mechanism will be based on estimates of current customer usage, not that from 1998. Furthermore, the stipulated mechanism will be applied to weather-normalized usage. Thus, in contrast to the company's original filing, NW Natural will continue to bear the risk of weather-related variations in customer usages.

It is also important to note two other minor, but important aspects to the stipulation. The agreement requires NW Natural to continue to administer its main extension policies without regard to the "annual consumption per new customer" assumed in the elasticity adjustment and decoupling mechanism. In other words, NW Natural will continue to use the customer's "actual" projected consumption. This will ensure that the company continues to make economic decisions about distribution system extensions and that customers receive new services in accordance with existing main extension policies. Second, the stipulation requires NW Natural to arrange for an independent study of the effectiveness of the partial decoupling mechanism. This study will help answer some of the general questions about the overall effectiveness of decoupling and assist the Commission in deciding whether to extend the stipulated mechanism past September 2005.

We do not adopt the proposed modifications to the stipulation offered by OOE, NRDC, and the NW Energy Coalition. We recognize that the stipulated mechanism is not a true decoupling mechanism. As stated above, however, the mechanism was the result of compromise among the parties, and we are not persuaded that the 90/10 sharing aspect of the mechanism and the three-year duration of the plan should be eliminated from the voluntary settlement. Similarly, we do not believe that the section restricting the modification of the plan during the upcoming rate case should be disallowed. Under the stipulation, the earliest decoupling-based rate change would occur in the fall of 2003 and coincide with rate changes following the conclusion of the general rate review. Given this short time, we find it reasonable that NW Natural, CADO and Staff agree to limit themselves when proposing changes to the mechanism in the upcoming rate case. Moreover, nothing prevents any stipulating or non-stipulating party from advancing ideas for the post-decoupling period. Such ideas could include the resetting of NW Natural's distribution margins when decoupling is terminated.

CONCLUSION

The stipulation submitted by NW Natural, CADO, and Staff produces a just and reasonable result and should be adopted in its entirety.

ORDER

IT IS ORDERED that:

1. The stipulation submitted by Northwest Natural Gas Company, the Community Action Directors of Oregon, and the Commission Staff, attached as Appendix A, is adopted in its entirety.
2. Advice No. 01-10, filed by Northwest Natural Gas Company on June 1, 2001, is permanently suspended.
3. Northwest Natural shall file tariffs consistent with the findings and conclusion contained in this order by September 27, 2002, to be effective no later than October 1, 2002.

Made, entered, and effective _____.

Roy Hemmingway
Chairman

Lee Beyer
Commissioner

Concurring Opinion of Commissioner Smith

I concur with this decision with great reluctance. My distaste for decoupling has been well documented over the last decade.

NW Natural's initial application is called "Public Purpose Funding and Distribution Margin Normalization." The application calls for decoupling revenues and sales with the added sweetener of funding for public purposes. Theoretically, decoupling is thought to remove disincentives for the company to invest in energy efficiency. Decoupling is meant to be the capstone of all the other demand-side incentives found in Oregon law and policy.

Nowhere in this case record nor in the supporting literature is there conclusive evidence that decoupling actually works.⁶ In this case, the proposal contributes to stabilizing the company's distribution margins as core customers reduce their usage. This reduction has less connection to NW Natural's demand-side management programs

⁶ I thank the Natural Resources Defense Council for their thoughtful letter in answer to my questions at the August 2, 2001, Public Meeting.

than it does to the current recession and the extraordinary 40 percent increase in the commodity price these past two years.

In addition, NW Natural proposes a series of surcharges to support public purpose and social welfare initiatives to be implemented by a third party. Normally, the Commission does not allow social welfare ratemaking. In fact, by shedding demand-side management programs, it seems to me that the company has also shed its need for decoupling.

Well, things are not so simple these days. The complexity of today's economic circumstances and the settlement the Commission adopted mitigate my distaste for the original application in the following ways:

- Decoupling is partial and customers may actually receive credits if gas prices remain stable.
- There will be an independent study of the efficacy of this decoupling program.
- The program ends in 2005.
- All NW Natural's energy efficiency programs will be run by a Commission-approved third party, meaning that customers will get more for their investment than if the company, with its need to align customer and shareholder interests, continues to do so.
- A rate case will be filed this year, assuring all adjustments and investments are reset in a just and reasonable manner.

Thus, I concur due to the adoption of the settlement proposal.

Joan H. Smith
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 143

In the Matter of the Application of Northwest)	
Natural Gas Company (NW Natural) for Public)	SETTLEMENT
Purposes Funding and Distribution Margin)	AGREEMENT
Normalization.)	

This Settlement Agreement (Agreement) is entered into by the specified parties to this proceeding for the purpose of resolving all issues in Northwest Natural Gas Company’s (NW Natural or company) Public Purposes Funding and Distribution Margin Normalization filing in the above-referenced docket.

1. The parties to this Agreement are NW Natural, Staff of the Oregon Public Utility Commission (Staff), Community Action Directors of Oregon (CADO), (collectively, the Specified Parties). Other parties to this Docket are the Oregon Office of Energy (OOE), the Natural Resources Defense Council (NRDC), the Northwest Energy Coalition (NEC), the Citizens’ Utility Board (CUB), the Northwest Industrial Gas Users (NWIUGU), and Portland General Electric Company (PGE).

2. On May 31, 2001, NW Natural filed a tariff, “Public Purposes Funding and Distribution Margin Normalization” (NWN Advice No. OPUC 01-10), designed to make the company indifferent to the consumption patterns and energy efficiency activities of its residential and commercial customers, and to provide for funding for such public purposes as low-income bill payment assistance, low-income weatherization assistance, and enhanced energy efficiency measures to be administered by an independent entity. The filing was suspended by the Commission for further

proceedings. Order No. 01-750. Following discovery and the pre-filing of direct and rebuttal testimony, and hearings, the matter was submitted to the Commission for decision. The Commission subsequently issued a decision to hold UG 143 in abeyance pending the outcome of Docket No. UM 1045, NW Natural's Application to Assert Control over Portland General Electric. The latter proceeding was terminated with a Commission order on May 31, 2002.

3. Following the termination of Docket UM 1045, the Parties to Docket UG 143 commenced settlement discussions for the purpose of resolving issues in the proceeding. The company agreed to a further extension of the schedule for proceedings in UG 143 until August 15, 2002, to accommodate settlement discussions and allow additional time for Commission consideration. Order No. 02-413. The company agreed to a final extension of the schedule for proceedings in UG 143 until September 16, 2002. Order No. 02-555.

4. The Specified Parties have reached agreement on the contested issues in this proceeding and wish to present the agreement to the Commission for its approval. The Specified Parties therefore adopt the following Agreement, which is entered into voluntarily to resolve matters in dispute among them and to expedite the orderly disposition of this proceeding.

5. This Agreement is presented for Commission Approval under OAR 860-014-0085. In support of this Agreement, the Parties sponsor the attached testimony of Bruce R. DeBolt.

ARTICLE I. ELASTICITY ADJUSTMENT AND PARTIAL DECOUPLING OF RESIDENTIAL AND COMMERCIAL CUSTOMER VOLUMES.

1.0. The Specified Parties agree to an elasticity adjustment and partial decoupling for all NW Natural's residential and commercial customers beginning on October 1, 2002.

1.1 The elasticity adjustment and partial decoupling described in this Article I of this Agreement shall be applied separately to residential customers and commercial customers.

1.2 Under the partial decoupling mechanism, NW Natural shall defer and subsequently amortize 90% of the margin differentials in the residential and commercial customer groups, defined as the difference ($u - b$) between each group's weather-normalized usage (u) and a usage baseline for the group (b) as described in Paragraph 1.5 below, multiplied by margins in Paragraph 1.3. The deferral for each monthly period will be a credit (accruing a refund to customers) if the factor ($u - b$) is positive or a debit (accruing a recovery by the company) if the factor ($u - b$) is negative.

1.3 The per-term distribution margin for each customer group for initial use under this Agreement shall be those margins developed in Docket No. UG 132. For residential customers, the adopted margin is equal to \$0.34055 per therm. For commercial customers, the adopted margin is equal to \$0.21692 per therm. The per-term distribution margins approved for residential and commercial customers by the Commission in any general rate case filed pursuant to Article III of this Agreement shall be substituted for the UG 132 margins adopted in this Paragraph 1.3 effective with the effective date of a final order in that general rate filing.

1.4 The initial elasticity adjustment shall be calculated for each customer group by applying a stipulated elasticity to UG 132 residential and commercial customer usage and the cumulative price change from 1998 (UG 132 test period) through October 1, 2002, the anticipated effective date of the Fall 2002 Purchased Gas Cost Adjustment (PGA), as follows.

1.4.1 Reduced total usage for UG 132 customers will be calculated by applying an elasticity factor of -0.172 to UG 132 residential customer usage and -0.11 to UG 132 commercial customer usage and the cumulative price change from 1998 (UG 132 test period) through October 1, 2002.

1.4.2 The initial elasticity adjustment is computed by multiplying the reduced total usages for residential and commercial customers by the respective UG 132 margins. NW Natural will develop rate increments to recover 100% of the initial elasticity adjustment from each class annually. These rate increments shall be applied beginning October 1, 2002, and terminate with the Commission's rate order in the rate case filed pursuant to Section III. The estimated amounts of the rate increments to be applied for this purpose, subject to check for compliance with the terms of this Agreement, are increases of 2.5 cents per therm in residential rates and 1.2 cents per therm in commercial rates. The initial elasticity adjustment for the commercial category will apply to all customers designated for rate spread classification and billing purposes as commercial customers.

1.5 Pro forma baseline volumes for the decoupling mechanism will be developed for the twelve months from October 1, 2002 through September 30, 2003 using normalized volumes for the 12-month period ended September 30, 2002, the UG

132 approach to weather normalization, estimated 2002-03 monthly customer additions, the price percentage changes by class resulting from the Fall 2002 PGA, and the stipulated elasticity factors. Monthly baseline volume adjustments related to actual (vs. the estimated) customer levels will be developed and used during the effective period of this mechanism.

1.6 The decoupling mechanism applied pursuant to this Agreement will be applied to weather-normalized usage. Specifically, when the company calculates variations from baseline volumes each month, it will subtract from actual volumes all of the indicated variation due to colder-than-average weather, or add to actual volumes all of the indicated variation due to warmer-than-average weather, in either case using the approach to weather normalization adopted in UG 132. Consistent with Article III, 3.2, the approach to weather normalization may be modified in the 2003 general rate case.

1.7 Decoupling adjustments will be determined based on a monthly comparison of weather-normalized usage to baseline volumes resulting from actual customer counts. Ninety percent of margin differentials due to each month's decoupling adjustments will be deferred and amortized, with interest at the rate specified by the Commission for application to balances in NW Natural's Purchased Gas Adjustment Account (Schedule 169).

1.8 An example of the elasticity adjustment and partial decoupling mechanism described in this Article I of this Agreement is attached as Exhibit A and incorporated herein by this reference. The ongoing application of the elasticity adjustment will ensure that each time a change in rates is applied (the "primary rate change"), a further incremental price change is made to account for the effect on volumes caused by the

primary rate change as determined by use of the stipulated elasticity factors. The stipulated elasticity factors may be modified in the 2003 general rate case (see Article III, 3.2). In conjunction with the elasticity adjustment, the decoupling mechanism will also be adjusted for the period in which the new prices will be in effect by modifying the baseline volumes to account for the change in volumes caused by the primary rate change, using as a basis the 12-month normalized volumes prior to the rate change and the rates that were in effect for the same 12 months.

1.9 The partial decoupling mechanism agreed to in this Article I of this Agreement shall terminate on September 30, 2005, unless otherwise extended by agreement of the Specified Parties or by approval of the Commission as further described in this Paragraph 1.9.

1.9.1 Prior to the September 30, 2005 termination date, NW Natural will arrange for a study by an independent entity regarding the effectiveness of the partial decoupling mechanism, according to the criteria and standards developed in Paragraph 1.9.2 of this Agreement. No later than March 31, 2005, NW Natural will submit the results of the independent study to the parties to this Docket and the Commission. Also no later than March 31, 2005, NW Natural will request by petition that the Commission open an investigation on the issue of whether to continue the partial decoupling mechanism, with modifications or not, subsequent to September 30, 2005. The Specified Parties agree to work in good faith towards a Commission decision regarding an extension of the partial decoupling mechanism by September 30, 2005. The Specified Parties agree to support reasonable extensions of the September 30, 2005 termination date if the Commission is unable to complete the investigation by that date.

1.9.2 The criteria and standards to be evaluated in the independent study referenced in Paragraph 1.9.1 of this Agreement will include, but are not intended to be limited to, the following:

1.9.2.1 Did the mechanics of the partial decoupling mechanism accurately carry out the intentions of the Specified Parties and the Commission as expressed in this Agreement?

1.9.2.2 Did the partial decoupling mechanism effectively remove the relationship between the utility's sales and profits?

1.9.2.3 Did the partial decoupling mechanism effectively mitigate the utility's disincentives to promote energy efficiency?

1.9.2.4- Did the partial decoupling mechanism improve the utility's ability to recover its fixed costs?

1.9.2.5 Did the partial decoupling mechanism reduce business and other financial risks? If yes, please describe the business and financial risks that were impacted and the level of impact and effects on operations.

1.9.2.5-4 Did the partial decoupling mechanism affect, positively or negatively, levels of service quality or the company's incentives to provide excellent service quality?

1.9.2.6 What changes in company culture or operating practices resulted from the implementation of the partial decoupling mechanism?

1.10 For purposes of administering NW Natural's main extension policies, NW Natural agrees that it will not substitute the annual consumption per new customer assumed in the elasticity adjustment and decoupling mechanism proposed in this Article

for the annual projected consumption the company would normally use in the application of its main extension policies to requests for new services.

1.11 For purposes of any earnings reports NW Natural submits to the Commission, any elasticity and decoupling adjustments that occur under the operation of this Article I will not be “normalized out” of company earnings.

1.12 For purposes of the general rate case, the elasticity adjustment shall be presented as being included in permanent rates. Final rates from the general rate case shall be determined to provide recovery of a revenue requirement that includes any amount resulting from discontinuance of the initial elasticity adjustment rate increments.

ARTICLE II: PUBLIC PURPOSES FUNDING

2.0 NW Natural will file tariffs implementing public purposes funding from residential and commercial customers with an effective date stated to be October 1, 2002. Draft copies of the proposed tariffs are attached as Exhibit B and incorporated herein by this reference.

2.1 Public purposes funding will be collected as follows.

2.1.1 For low-income bill payment assistance, each residential customer will be assessed \$0.25 per month.

2.1.2 For low-income weatherization assistance to be administered by an independent entity, each residential and commercial customer will be assessed a charge equal to 0.25% of that customer's monthly bill.

2.1.3 For enhanced energy efficiency programs to be administered by an independent entity, each residential and commercial customer will be assessed a charge equal to 0.65% of that customer's monthly bill.

2.1.4 NW Natural will distribute funds on or before the 20th of the month following the billing month. If the 20th falls on a weekend, the company reserves the right to make payment on the first business day following the 20th. Distributions not made within this timeframe are subject to an annual interest rate at the company's authorized rate of return.

2.2 Any customer group that provides funding for enhanced energy efficiency programs through the assessment defined in 2.1.3 may seek and receive energy efficiency services for which they qualify, although not necessarily in the precise amounts collected from that group. No amounts in support of these programs will be charged to customers on Schedules 90 or 91 or to customers on approved special contracts.

ARTICLE III: GENERAL RATE CASE FILING

3.0 NW Natural agrees to file a general rate revision no later than November 30, 2002, with an effective date no earlier than January 2, 2003, allowing a 9-month suspension of tariff sheets filed in the general rate case. Any 2003 PGA changes will be timed to coincide with rate changes in the general rate case, but will go into effect no later than November 1, 2003.

3.1 Nothing in this Agreement precludes parties in this Docket from proposing (or opposing) in the general rate case an adjustment to the company's authorized cost of capital to account for the effects of the decoupling mechanism or modifications of it as proposed in the rate case.

3.2 The Specified Parties to this Agreement will not propose or support changes to the decoupling mechanism in the next rate case except for (a) whether or not the decoupling mechanism should include some or all usage variations related to weather, and (b) appropriateness of incorporating an elasticity adjustment in the final rates authorized in the general rate case and any other rate filings/or how to set the baseline for the remaining term of the decoupling mechanism, unless all of the Specified Parties agree that there is a serious flaw in the mechanism which should be addressed at the time of the general rate case or at other times as agreed to by all of the Specified Parties.

ARTICLE IV: RESPONSIBILITY FOR COMPANY DEMAND-SIDE MANAGEMENT PROGRAMS.

4.0 As soon as reasonably practical, but no later than October 1, 2003, NW Natural will permanently transfer responsibility for its energy efficiency, demand-side management (DSM) programs, and energy audits to the Energy Trust of Oregon, or to another independent entity. The Parties agree to support reasonable extensions of the October 1, 2003 date if the Company is unable to complete the transfer by that date due to circumstances beyond its control.

4.1 Effective with the effective date of the general rate case made pursuant to Article III of this Agreement, the company's costs associated with energy efficiency, DSM programs, and energy audits will be removed from company rates. Prior to the effective date of the general rate case, the company will propose an adjustment schedule by which energy efficiency, DSM, and energy audit costs will be collected on behalf of the Energy Trust of Oregon, or the other independent entity or entities who will be responsible for programs formerly administered by NW Natural. Nothing in this Article IV of this Agreement prohibits the company from contending in the general rate filing that certain costs (such as costs associated with informational advertising regarding energy efficiency options, or customer service support for customers' questions regarding energy efficiency) should remain in company rates to support continuing company activities to satisfy reasonable customer interest in energy efficiency information.

4.2 The Commission's annual review of utility DSM programs, conducted each spring, will be limited to a review of NW Natural's efforts to transition its energy efficiency, DSM programs, and audit responsibilities to the Energy Trust of Oregon or

another independent entity or entities, beginning with the review due in the spring of 2004.

ARTICLE V: SERVICE QUALITY MEASURES

5.0 NW Natural agrees to adopt, effective October 1, 2002, for a ten-year period, a C1 Service Quality Measure consistent with that adopted for PGE in Commission Order 97-196 and revised in UM 967, as follows:

5.0.1 The unit of measurement shall be the Commission's "PUC Complaints At Fault Per 1,000 Customers" as established by the Consumer Services Division of the Commission, and calculated as an average ratio for the entire calendar year.

5.0.2 The performance goal will be to maintain an annual average ratio of PUC Complaints At Fault Per 1,000 Customers of Less than 0.07.

5.0.3 For the year ending December 31, 2003: (a) Performance at or above a ratio of 0.13 will result in a \$100,000 penalty; (b) Performance at or above a ratio of 0.15 will result in a \$500,000 penalty for a first occurrence and a \$1,000,000 penalty for any subsequent occurrence at any time within the ten-year period of this SQM agreement.

5.0.4 For the year ending December 31, 2004: (a) Performance at or above a ratio of 0.12 will result in a \$100,000 penalty. (b) Performance at or above a ratio of 0.14 will result in a \$500,000 penalty for a first occurrence and a \$1,000,000 penalty for any subsequent occurrence at any time within the term of this agreement.

5.0.5 For the year ending December 31, 2005 and thereafter: (a) Performance at or above a ratio of 0.10 will result in a \$100,000 penalty. (b)

Performance at or above a ratio of 0.13 will result in a \$500,000 penalty for a first occurrence and a \$1,000,000 penalty for any subsequent occurrence at any time within the term of this agreement.

5.1 NW Natural's operating and maintenance expenditures for customer service will be submitted annually by the company for Commission review. Each report will cover a calendar year's expenditures for this purpose and will be due on the same date as NW Natural's Annual Report on Form 2 for the year. Should customer service performance as measured by the C1 SQM degrade to the point that penalties are assessed, and the Commission determines in a formal proceeding that underspending in specific customer service accounts significantly contributed to the unacceptable performance levels, any shortfalls in expenditures for that year from the amount authorized in rates for those specific customer service accounts would be subject to refund with interest at the company's authorized rate of return upon Order of the Commission.

5.2 At any time during the term of the SQM, if Staff and company disagree about an "at fault" designation or disagree about calculated ratios for at-fault complaints, and if Staff and company are unable to resolve the disagreement to the satisfaction of both, then either Staff or the company may request a review of the designation by an administrative law judge, with appeal to the Commission. No penalties will be assessed until any disagreements regarding the "at-fault" designation have been resolved.

5.3 Staff and company agree to meet before December 31, 2002, to develop criteria by which the Consumer Services Division of the Commission would assess an "at fault" complaint.

5.4 Nothing in this section precludes the Company from proposing an alternative SQM, proposing a modification to the SQM, or from opposing the continuation of the SQM, in its petition to the Commission filed pursuant to Section 1.9.1 of this Agreement.

5.5 NW Natural will monitor and report to Commission Staff on or before March 1 of each year the following safety and customer service performance indicators for the duration of this agreement. There will be no Service Quality Measures or penalties associated with these performance indicators under this agreement.

5.5.1 The ratio of the incident of damage to company facilities relative to construction activity adjacent to company facilities.

5.5.2 The number and duration of orders backlogged over 30-days for new service line installation. Does not include orders on hold at applicant/customer request.

5.5.3 Delays in excess of 24 hours in turning on utility service, from the connection time requested or agreed to by the customer.

5.5.4 Average time required to provide applicants with a cost estimate for new service.

ARTICLE VI: OTHER PROVISIONS

6.0 The Specified Parties agree to support this Agreement as a settlement of all contested issues in this proceeding. The Specified Parties understand that this Agreement is not binding on the Commission in ruling on the company's filing. Nothing

in this Agreement binds the Specified Parties to take any particular position with respect to other filings the company is authorized to make except as agreed to in Article III, 3.2.

6.1 The Specified Parties agree that this Agreement represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiations of this Agreement shall not be admissible as evidence in this or any other proceedings.

6.2 The Specified Parties have negotiated this Agreement as an integrated document. Accordingly, the Specified Parties recommend that the Commission adopt the Agreement in its entirety.

6.3 The Specified Parties shall cooperate in submitting this Agreement promptly to the Commission for approval. The Specified Parties agree to support the Agreement before the Commission.

6.4 If the Commission rejects all or any material portion of this Agreement, each of the Specified Parties reserves the right, upon written notice to the Commission and all parties to the proceeding within ten (10) days of the Commission's order, to withdraw from the Agreement. In this event, the Company agrees to an extension of the suspension period for such amount of time as is necessary for the Commission to rule on the company's filing in this docket.

6.5 The Specified Parties enter into this Agreement to avoid further expense, inconvenience, uncertainty and delay. By executing this Agreement, no Specified Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed in arriving at the terms of this Agreement, nor shall any Specified

Party be deemed to have agreed that any provision of this Agreement is appropriate for resolving issues in other proceedings.

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

DATED this _____ day of August, 2002.

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NW NATURAL

OREGON PUBLIC UTILITY
COMMISSION

By: Bruce R. DeBolt
Sr. Vice President & Chief
Financial Officer

By: David B. Hatton, Esq.
Oregon Dept. of Justice
Of Attorneys for OPUC Staff

CITIZENS' UTILITY BOARD

NORTHWEST INDUSTRIAL GAS
USERS ASSOCIATION

By: Jason Eisdorfer, Esq.

By: Edward A. Finklea, Esq.

COMMUNITY ACTION DIRECTORS
OF OREGON

NATIONAL RESOURCE
DEFENSE COUNCIL

By: Debra Kennedy
Coordinator

By: Sheryl Carter

NORTHWEST ENERGY COALITION

OREGON OFFICE OF ENERGY

By: Steve Weiss
Sr. Policy Associate

By: Philip H. Carver
Sr. Policy Analyst

NW Natural
Initial Elasticity Adjustment

As filed in 8/19/02 PGA
Subject to PGA review

Line		Residential	Commercial	Total
1	UG-132 Volumes (1998)	308,700,110	221,964,003	
2	Class Prices UG 132	\$0.65879	\$0.51372	
3	Class Prices October 1, 2002	\$0.95281	\$0.77535	
4	Cumulative Price Increase 1998 to October 1, 2002 (In 3 / In 2 - 1)	44.6%	50.9%	
5	Settled Elasticity Factor	(0.172)	(0.110)	
6	Volume Decline as Percentage (In 4 X In 5)	-7.7%	-5.6%	
7	Volume Decline from UG-132 (In 6 X In 1)	(23,697,095)	(12,434,728)	
8	Margin Rate Per Therm	\$0.34055	\$0.21692	
9	Margin Shortfall (to be collected) (In 7 X In 8)	(\$8,070,046)	(\$2,697,341)	(\$10,767,387)
10	Normalized Oregon Volumes	324,765,271	220,715,005	

NW Natural
Decoupling Adjustment

Example - shaded areas are amounts
to be determined.

		<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
1	10/1/01 - 9/30/02 Normal Volumes	example	327,000,000	223,000,000
2	Price Decline 10/1/02	From PGA	-11.9%	-15.5%
3	Settled Elasticity Factor		(0.172)	(0.110)
4	Volume Increase as Percentage	(In 2 X In 3)	2.0%	1.7%
5	Volume Increase from Previous Year	(In 4 X In 1)	6,693,036	3,802,150
6	Baseline Volumes 10/1/02 - 9/30/03	(In 5 + In 1)	333,693,036	226,802,150
7	Actual Volumes 10/1/02 - 9/30/03	example	333,000,000	226,000,000
8	Variance from Baseline	(In 7 - In 6)	(693,036)	(802,150)
9	Margin Rate Per Therm		\$0.34055	\$0.21692
10	Margin Shortfall	(In 8 X In 9)	(\$236,013)	(\$174,002)
11	Margin Shortfall to be collected after 90%	(In 10 X 90%)	(\$212,412)	(\$156,602)
			(\$369,014)	

1/ Baseline volumes to be updated monthly for actual customer counts

2/ Actual volumes are weather normalized to remove effect of colder-than-normal or warmer-than-normal weather.

SCHEDULE 300
OREGON LOW-INCOME GAS ASSISTANCE (OLGA)

(N)

PURPOSE:

To adjustment bills issued for service under the schedules listed below that will generate funds to be use for low-income bill payment assistance for Residential Customers served in the territory under which this Tariff is a part. This program is filed pursuant to ORS 757.315.

APPLICABLE:

To Residential Customers taking service under Schedule 1 and Schedule 2 of this Tariff.

ADJUSTMENT TO RATES: **Effective: October 1, 2002**

A charge of \$0.25 per month will be assessed on each Residential Customer bill, subject to changes as approved by the Commission.

SPECIAL CONDITIONS:

1. Each month, the Company will bill and collect low-income bill payment assistance funds from all Residential Customers. By the 20th of the month following the billing month, the Company will forward the amount of OLGA funds expected to be collected from billings issued for the prior calendar month, less a reserve for uncollectibles, to an internal or independent external administrative entity. Funds retained in the account after the 20th of the month will earn interest the company's currently authorized rate of return until distributed. The reserve for uncollectibles shall be in an amount equal to NW Natural's average percentage of residential net write-offs.
2. The internal or independent external administrative entity will be responsible for program administration and funds distribution to qualifying local agencies in accordance with terms and conditions established by the Company and the entity. All funds collected under this program w be distributed only to income-eligible Residential Customers of NW Natural. Income eligibility shall be the same as that determined for state low-income programs.
3. Total program administration and delivery costs shall not exceed 20 percent of the total low-income bill payment assistance funds collected. Should actual administrative and program delivery costs be lower than 20 percent, the remaining funds shall be placed back into the program fund to support direct services.
4. The OPUC shall establish appropriate reporting requirements for the company and/or any entity selected to administer low-income gas assistance funds under this Tariff. Copies of all reports provided by the administrative entity shall also be submitted to the Company for Review.

GENERAL RULES AND REGULATIONS:

This schedule is subject to the General Rules and Regulations contained in this Tariff and to those prescribed by regulatory authorities, as amended from time to time.

(N)

Issued _____, 2002
NWN Advice No. OPUC 02-____

Effective with service on
and after October 1, 2002

SCHEDULE 301

(N)

PUBLIC PURPOSES FUNDING SURCHARGE

PURPOSE:

To specify the method of billing of a Public Purposes surcharge that is to fund public purposes activities to be administered through one or more independent entities. Public purposes activities include, but may not necessarily be limited to, energy conservation programs, market transformation programs, and low-income weatherization programs designed to benefit Residential and Commercial Customers within NW Natural's service territory in Oregon.

APPLICABLE:

To Residential and Commercial Customers served on the following schedules of this Tariff:

<u>Residential</u>	<u>Commercial</u>
Schedule 1	Schedule 1
Schedule 2	Schedule 3
Schedule 3	Schedule 4
Schedule 19	Schedule 10
	Schedule 21

ADJUSTMENT TO RATES: Effective: October 1, 2002

A Public Purposes surcharge equal to 0.90% of the total amount billed for energy use in each month will be assessed as a line item on the bill. The Public Purposes surcharge shall be allocated to specific separate accounts to fund the respective public purposes programs as follows:

- 0.65% will support public purpose funding for conservation and market transformation activities
- 0.25% will support public purpose funding for low-income weatherization activities.

(N)

(continue to Sheet 301-2)

Issued _____, 2002
NWN Advice No. OPUC 02-____

Effective with service on
and after October 1, 2002

SCHEDULE 301

PUBLIC PURPOSES FUNDING SURCHARGE
(continued)

SPECIAL CONDITIONS:

1. All monies collected under this Schedule 301 to fund programs designed to promote energy conservation will be distributed to an independent entity selected by the Company and approved by the Oregon Public Utility Commission beginning November 20, 2002, or after a contract is executed between the Company and the entity or entities.
2. All monies collected under this Schedule 301 to fund programs designed to fund low-income weatherization activities will be distributed to an internal or independent external administrative entity approved by the Oregon Public Utility Commission (OPUC) beginning November 20, 2002, or after a contract is executed between the Company and the entity or entities.
3. Each month, the Company will bill and collect the Public Purposes surcharge from all Residential and Commercial Customers. By the 20th of the month following the billing month, the Company will forward the amount of funds expected to be collected from billings issued for the prior calendar month, less a reserve for uncollectibles in an amount equal to NW Natural's average percentage of net write-offs, to each fund administrator. Funds retained in the accounts after the 20th of the month will earn interest at the company's currently authorized rate or return until distributed.
4. Each month, the company will retain an amount not to exceed \$50,000 per year from the monies collected to fund low-income weatherization programs to be used for the purpose of an independent program performance evaluation.
5. The OPUC shall establish appropriate reporting requirements for the company and any independent entity selected to administer public purposes programs under this Tariff. Copies of all reports provided by the fund administrators shall also be submitted to the Company for review.
6. All funds collected from NW Natural Customers will be allocated only to programs that are available within the Company's service territory in Oregon.

GENERAL RULES AND REGULATIONS:

This schedule is subject to the General Rules and Regulations contained in this Tariff and to those prescribed by regulatory authorities, as amended from time to time.

(N)

(N)

Issued _____, 2002
NWN Advice No. OPUC 02-____

Effective with service on
and after October 1, 2002