

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 30, 2003**

REGULAR X **CONSENT** _____ **EFFECTIVE DATE** November 1, 2003

DATE: October 29, 2003

TO: Lee Sparling through Marc Hellman

FROM: Bryan Conway

SUBJECT: NORTHWEST NATURAL: (Advice No. 03-22) Revises Schedule 195, Weather Adjusted Rate Mechanism (WARM Program).

STAFF RECOMMENDATION:

I recommend the Commission approve NW Natural's application to amend Rate Schedule 195, NW Natural's Weather Adjusted Rate Mechanism (WARM) tariffs as described in Advice No. OPUC 03-22. I further recommend that the revised Rate Schedule 195 become effective on November 1, 2003. I also recommend that the Company's tariff be revised so that it also states, "effective on November 1, 2003."

DISCUSSION:

The Commission approved WARM in Order No. 03-507 dated August 22, 2003. WARM adjusts customers' bills due to deviations in weather from that assumed in the rate case. The adjustment in rates is intended to allow the company to recover its fixed costs by either raising rates when weather is unusually warm or lowering rates when weather is unusually cold.

Since WARM was implemented, the Company has alerted Staff of some concerns. Specifically, the WARM program led to estimates of relatively large adjustments to bills associated with October's extreme weather conditions. These large adjustments were due to several factors. First, October was warm enough that some customers did not consume any natural gas. Because WARM increases the price of gas, rather than impute gas usage, customers who did not consume natural gas would have no adjustment. Other customers, who did consume some amount of gas, are assigned the entire dollar under recovery of fixed costs. A preliminary estimate of a billing cycle in The Dalles, showed a single customer being responsible for the entire WARM adjustment. Another reason the WARM adjustment was larger than the Company expected was due to the inclusion of demand charges in the assumed margin used in

WARM. The demand charge increased the assumed margin by approximately 13 cents to approximately \$0.51.

In response to these concerns, the Company has suggested the following changes:

1. Redefine the heating season to be Billing Cycle Ending Dates from November 15th through May 15th.
2. Define Billing Cycle Ending Date to be the date of the meter read.
3. Remove Demand Charges from the Margin

Estimated Impacts of the Changes to WARM

The projected impacts of the changes to WARM reduce the per therm adjustment by 50% to 75% over the expected WARM adjustment for November 1, 2003 for the Salem area. In response to Staff data requests, the Company provided a projection of the WARM adjustment for the Salem area for the billing cycle ending November 15, 2003. This analysis assumed weather from October 29, 2003, through November 15, 2003 was "normal", "10% warmer than normal", and "10% colder than normal." The Company also provided an estimate of the WARM adjustment for November 1, 2003, assuming the proposed changes to WARM were not adopted. The results are shown below:

WARM adjustment November 1, 2003:	\$0.20 per therm
Modified WARM assuming 10% colder than normal	\$0.05 per therm
Modified WARM assuming normal weather	\$0.07 per therm
Modified WARM assuming 10% warmer than normal	\$0.10 per therm

Redefining the Heating Season

The original tariff included consumption for the beginning part of October since WARM was in effect for billing cycles ending November 1, 2003. A billing cycle is typically 21 days long. By using billing cycles ending November 15th, consumption of natural gas for the first half of October is excluded from WARM. The first part of October is more likely to be affected by very warm weather that may not be properly defined as "winter." By excluding this period, we reduce the likelihood that a single customer or small group of customers will be unduly burdened by the WARM adjustment.

In changing the definition of the heating season, and specifically as applied to this year, NW Natural is waiving any recovery of fixed costs it may have been entitled to under the current tariff for the weather induced usage levels between billing cycles ending November 1, 2003 and billing cycles ending November 15, 2003.

Defining the Billing Cycle End Date

The original tariff did not define billing cycle end date. This revision of Rate Schedule 195 allows for this clarification. The Billing Cycle End Date is defined as the date of the meter read. Therefore, as revised, WARM would be in effect for the bills whose meter read dates were on or after November 15, 2003 and on or before May 15, 2003.

Removing Demand Charges from the Margin

The original tariff defined margin as the "Billing Rate less the Commodity Rate and any Temporary Adjustments." The proposed change would remove demand charges from the definition of margin. Currently and prior to WARM, NW Natural was assured 100% recover of demand charges through the PGA mechanism. Because the Company is assured 100% recovery, it is not necessary to include demand charges in WARM. Furthermore, including demand charges increases the WARM adjustments associated with weather that deviates from normal but does not affect the Company's recovery of demand charges.

Further Analysis

The WARM mechanism was established through settlement discussions among several parties. NW Natural's filing addresses concerns regarding the significant upward rate adjustments that would have appeared on customer bills due to extreme October weather conditions. In addition, in some of NW Natural's service areas, natural gas use could continue to be diverse among its customers and thus also lead to large billing adjustments. The Commission could direct the parties to the WARM Stipulation to work collaboratively and identify any improvements that proactively address these potential outcomes so as to eliminate the possibility of large bill impacts due to WARM.

PROPOSED COMMISSION MOTION:

Approve NW Natural's Application to revise Schedule 195 to become effective November 1, 2003, for meter readings on and after November 15, 2003. Further, the parties should work cooperatively to identify further refinements to WARM that may be warranted.