

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 27, 2006

REGULAR X CONSENT _____ EFFECTIVE DATE August 15, 2006

DATE: July 20, 2006

TO: Public Utility Commission

FROM: Deborah Garcia

THROUGH: Lee Sparling through Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Advice No. 06-10) Makes revisions to Schedules 3, 31, 32, 33.

STAFF RECOMMENDATION:

I recommend that Northwest Natural Advice Nos. 06-10, 06-10A, 06-10B, and Application for Less than Statutory Notice be approved, and the associated tariff sheets be allowed to go into effect with service on or after August 15, 2006.

DISCUSSION:

In this filing, Northwest Natural (NWN or Company) proposes major revisions to its tariffs that affect Commercial and Industrial customers receiving service under Rate Schedules 3, 31, 32 and 33. The purpose of this filing is to better align the service offerings and requirements for these customers with the current natural gas market. The goal of these changes, which in my opinion NWN has achieved, is to provide commercial and industrial customers with enhanced access to the current competitive natural gas market while ensuring that the fair costs of such flexibility are borne by the same customers, rather than residential and small commercial customers.

NWN filed its original proposal on July 10, 2006. Subsequently, the Company, Northwest Industrial Gas Users (NWIGU) and Staff engaged in extensive negotiations over several of the terms and requirements contained in the filing. During the negotiations, Staff also brought to the table concerns and suggestions on behalf of a natural gas marketer who chose to remain anonymous. As a result of these negotiations, NWN filed replacement pages as Advice No. 06-10A on July 18, 2006, and Advice No. 06-10B on July 19, 2006. Along with Advice No. 06-10B, NWN filed an Application to Waive Statutory Notice (LSN).

A summary of the proposed changes follows:

1. Change the end date of the annual Service Election Period from May 31 to July 31, and further refine the provisions governing the Annual Service Election Period;
2. Incorporate a new Winter Sales Weighted Average Cost of Gas (Winter WACOG) commodity price option;
3. Incorporate new language that establishes the conditions under which a customer may make an Out-of-Cycle Transfer to another type of service; revise the terms and conditions for Out-of-Cycle Transfers from Sales service to Transportation service under Rate Schedules 31 and 32 to add a Pipeline capacity release option for the customer; establish a methodology for the determination of incremental Cost of Gas; and establish a procedure that protects rate payers from exposure to un-recovered deferred gas supply and capacity costs that arise from customers switching between Sales and Transportation service;
4. Eliminate the Transportation service option from Rate Schedule 3;
5. Make housekeeping changes to various schedules of the tariff to reflect the changes proposed under items 1, 2, 3, and 4 above; and
6. Identify a transition and customer communications plan for implementation of the comprehensive tariff changes proposed in the filing.

1. Annual Service Election Period

In its Advice No. 06-7B,¹ NWN made revisions to Schedule T and Schedules 3, 31, 32, and 33 in compliance with Section 3 of Schedule 60 Settlement Agreements. The Schedule 60 Settlement Agreements were the result of negotiations between NWN and certain customers. The primary change in that filing was the creation of an Annual Service Election Period in May of each year during which time a commercial or industrial customer could choose Transportation or Sales service to begin the following October 1, coinciding with the change in rates resulting from the annual Purchased Gas Adjustment (PGA). The purpose of the annual election period was to find a balance between the time the Company needs to plan and purchase natural gas supply at the most favorable rates for the upcoming PGA period, and the time a customer needs to make an informed decision about which type of service they wish to take.

In this filing, NWN proposes to change the final date for a service election change to July 31, 2006. This change continues to provide the company with the planning time it needs, but the later date will more closely align with the potential service offerings for commodity that would be offered by competitive providers.

¹ Approved by the Commission at its May 11, 2006, public meeting.

2. Winter WACOG Commodity Price Option

NWN is proposing a new Sales option that is an October 1 through March 31 weighted average, that would be available to customers that do not want to commit to Sales service for the entire October through September PGA year. To qualify for this option, a customer must have submitted a service election for Sales service by July 31. After NWN submits its proposed rates in its annual PGA filing on August 15, a customer will have until August 31 to submit a request for Winter WACOG Sales Service.

Generally a customer who chooses this option will submit an Out-of-Cycle election change to go to Transportation service effective April 1. However, if a customer chooses to remain on Sales service, the commodity rate from April 1 through September 30 will be at the monthly incremental cost of gas.

NWN will develop the first Winter Sales WACOG price with the coming PGA, which is currently planned to be filed with the Commission on August 15, 2006.

3. Out-of-Cycle Transfers, Pipeline Capacity Release, Incremental Cost of Gas, and Deferral Protection

Out-of Cycle Transfers – Refers to a customer's move from Transportation to Sales service or conversely Sales to Transportation, that is made outside of the Annual Service Election Period.

If the market price of natural gas was higher than the Company's annual weighted average cost of gas (Annual Sales WACOG), Transportation service customers would have an incentive to switch to Sales service at Annual Sales WACOG outside of the Annual Service Election Period. Such a transfer, if it were allowed, could have the effect of raising costs for other customers, due to the need for the Company to purchase natural gas at a higher price on the Spot Market. To eliminate that incentive, the Company has historically charged Transportation customers, who make Out-of-Cycle Transfers to Sales service, for "any incremental gas supply costs incurred by the Company to accommodate such Customer's change in service"—incremental gas supply cost meaning "all gas costs incurred by the Company to serve the requesting customer so that other Sales service Customers are not adversely affected." Schedule T, Fourth Revision of Sheet T-2.

Just as Transportation service customers could have an incentive to make Out-of-Cycle Transfers to Sales service, Sales service customers may have an incentive to change to Transportation service when the market price of natural gas is lower than Annual Sales WACOG. If the Sales service customer makes an Out-of-Cycle Transfer to Transportation service, and NWN has acquired natural gas supply for the customer's needs for the October 1 to September 30 PGA Year, NWN would be left with unneeded

gas that it might only be able to sell in the market at a loss. Such loss would be passed on to other customers as an expense within the PGA deferral process.

To address this issue, the Company has proposed specific restrictions on Out-of-Cycle Transfers in this filing. As proposed, Out-of-Cycle Transfers are restricted to: (a) transfers from Transportation service to Sales service; (b) Transfers from Sales service to Transportation service, provided a customer is paying for Sales service at either the Company's Winter Sales WACOG or the Monthly Incremental Cost of Gas; and (c) transfers from an Interruptible service type to a Firm service type.

Pipeline Capacity Release Option – NWN proposes to add an option for customers who transfer to Transportation service to have the limited use (at full pipeline rates) of the pipeline capacity NWN acquired for the customer. This proposal is fair and balanced, as it allows customers to retain some benefit for capacity they are paying for while providing protection from unnecessary costs for the rest of the customers.

Incremental Cost of Gas - In this filing, NWN continues to use the “incremental gas supply costs” concept, but the rate customers will be charged is now determined using the calendar one-month spot price average for AECO/NIT² transactions published in the Canadian Gas Price Reporter Natural Gas Market Report, as listed in US dollars per million Btu (the AECO Index) published at the beginning of the month in which service will be used. NWN will make these prices available to customers on its website, so a customer will have the ability to know the rate prior to using service. This new methodology is set forth in new Schedule 150 Monthly Incremental Cost of Gas.

Deferral Protection - NWN proposes new requirements relating to Account 191 deferral balances, pipeline capacity charges, and storage capacity charges when a customer makes a transfer from one type of service to another type of service (Sales to Transportation or Transportation to Sales). These new provisions are designed to protect other rate payers from the effect that a transferring customer might have on any un-recovered commodity, and pipeline capacity cost deferral balances.

4. Rate Schedule 3 Changes

The Company proposes in this filing to eliminate the Transportation service option from Rate Schedule 3, which is the basic firm nonresidential general service schedule. The Company has approximately 59,000 customers taking sales service on Rate Schedule 3, and none of them currently take Transportation service.

The 2003 rate redesign eliminated the need for Transportation customers to use Rate Schedule 3 when they chose the option for a firm base block with interruptible service.

² AECO/NIT is the acronym used for Canada's major natural gas trading hub.

That option is now available within the same rate schedule. A customer's selection of service is based on economic interest and generally coincides with the size of the customer's natural gas needs. Large commercial and industrial customers are served under Rate Schedules 31, 32, or under Special Contracts. The chart below shows that even for Rate Schedules 31 and 32, the majority of customers take Sales service.

Rate Schedule #	# of Sales Customers	# of Transportation Customers	Total # of Customers
31	1,510	3	1,513
32	261	69	330
Special Contracts	0	13	13
Total	1,771	85	1,856

Since the rates were redesigned in 2003, only one customer has elected to take Transportation service under Rate Schedule 3. The circumstances of this customer taking the service were unique, because the customer's marketer agreed to provide gas for this small account only because the customer had (on the same property) a much larger Rate Schedule 32 account. Earlier this year the customer canceled its Rate Schedule 3 Transportation account.

Because Transportation is an option under Rate Schedule 3, NWN must notify all 59,000 Rate 3 Sales customers of any changes in its Transportation service, even though those customers are not taking the service. Because Transportation is not an economical choice for these customers, NWN reports customers complain that the notifications are irrelevant and they find them confusing. In addition, the notification requirement and subsequent follow up by customer service representatives that is necessary to answer customer questions creates an administrative burden for the Company that adds unnecessary expense that must be borne by the rest of the ratepayers.

5. Housekeeping Changes

Included with this filing are housekeeping changes to various schedules of Tariff P.U.C. Or. 24 to reflect the elimination of Transportation service under Rate Schedule 3, and to add new, or revise existing definitions in the definitions section of the General Rules and Regulations and in Schedule P.

6. Transition Plan and Customer Communications

The changes proposed in this filing are comprehensive, and may require some customers to consider new service options. NWN has proposed the following transition plan:

- A. A customer that made a service election by May 31, 2006, for Sales service will be eligible to elect the Winter Sales WACOG option for October 1, 2006 through March 31, 2007, provided NWN receives written notice from the customer on or before August 31, 2006.
- B. A customer that is currently taking Sales service may still transfer to Transportation service under the currently effective tariff, provided that the Company receives customer's written request for such change on or before August 14, 2006.
- C. Upon specific customer request, and for this one time only, the Company will allow a customer to request an effective date of November 1, 2006.

The Company has already sent a notice to customers in writing about these proposed changes during the week of July 10, 2006. In addition, the Company has scheduled customer meetings in early August to provide additional opportunity for customer questions and answers.

As stated previously, the proposed changes are the result of hours of negotiations between Staff, NWIGU, and NWN. They provide a good balance between the rights and responsibilities of both customers that are eligible to purchase gas directly on the wholesale market, and other NWN customers. For these reasons, Staff recommends the Commission approve this filing.

PROPOSED COMMISSION MOTION:

NWN Advice Nos. 06-10, 06-10A, 06-10B, and the LSN be approved, and the associated tariff sheets be allowed to go into effect with service on or after August 15, 2006.