



NW Natural[®]

We grew up here.

NW Natural's Conservation Tariff

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Why Decoupling Early in Oregon?

- ◆ 1999 Rate Increase
 - Commodity and cost of service increases about 9%

- ◆ 2000-2001 Energy Crisis
 - Customers wanted help managing their billings
 - Elected officials asked utilities to increase conservation/energy efficiency
 - NW Natural stepped up
 - Usage declined by nearly 15%
 - Did the right thing for our customers...at the expense of our shareholders

- ◆ Wanted to Better Align Interests
 - Being at odds with your customers isn't good business
 - Wanted our customers and shareholders to be on the same side of the table



Conservation Tariff (Partial Decoupling)

What was proposed

- ◆ Began with consumer advocate discussions
 - Believed it had to benefit both customers and the company
 - Filed “Conservation Tariff” in June 2001
 - Approved in October 2002
- ◆ Started with full decoupling, including weather normalization
 - Too much too quickly
 - Dropped weather normalization
- ◆ What emerged accomplished the parties’ objectives
 - Process was key
 - Product of negotiation and compromise
 - Lots of ways to design a mechanism

What we gave

- ◆ Commitment to encourage conservation
- ◆ Agreed to transfer conservation programs to Energy Trust
- ◆ Collect a public purpose charge on our bills
 - 1.25% for energy cons & efficiency
 - .25% for low income energy efficiency
 - .25 cents per month/per bill for low income bill assistance
- ◆ Agreed to service quality standards
- ◆ Agreed to file rate case
 - Filed two months later
 - Included weather normalization

Major features

- ◆ Severs tie between therm sales and revenues
- ◆ Removes the disincentive for the Company to promote energy efficiency
- ◆ Provides for public purpose funding for energy efficiency and low income energy programs
- ◆ Covers residential and commercial class volumes
- ◆ Apply elasticity adjustment when rates change
- ◆ Each month compare actual sales to normal cycle sales per customer and defer difference for later collection
- ◆ Does not cover weather risk
- ◆ Does not cover Washington customers

How it works in Oregon

- ◆ Two components
 - Price elasticity adjustment
 - Conservation adjustment
- ◆ Price elasticity Adjustment
 - Increases or decreases in consumption due to changes in prices
 - Applied anytime rates change: PGA's or rate cases
 - Coefficient established
 - Month-by-month usage forecast
- ◆ Conservation Adjustment
 - Applied on a monthly basis, using elasticity corrected volumes
 - Difference multiplied by our distribution margin
 - Dollars produced deferred for collection or refund at the end of the year

Independent Review

- ◆ Independent study regarding program effectiveness completed in March 2005
- ◆ Conclusions:
 - Mechanism is effective in reducing variability of distribution revenues
 - Does remove disincentive to promote energy efficiency
 - Public Purpose Funding (PPF) established in conjunction with DMN is beneficial to consumers
 - Negative feedback limited to complaints questioning appropriateness and/or legality of PPF
 - Does not reduce incentive for good customer service
- ◆ Recommendations:
 - Continue the mechanism
 - Eliminate 90% factor
 - Consider full decoupling

Extension of Conservation Tariff

- ◆ Approved September 20, 2007
- ◆ Extends Conservation Tariff through October 2012 (and weather normalization)
- ◆ Rate case moratorium through October 2011
- ◆ Includes “outs” for Pipeline Integrity, Automated Meter Reading and extraordinary events
- ◆ Signed by all parties

Decoupling in Washington

- ◆ All four LDCs have filed decoupling mechanisms:
 - NWN in 2003; withdrawn as a result of settlement
 - Cascade Natural Gas and Avista Corporation were approved in 2007
 - Puget Sound Energy was denied in 2007

	Cascade	Avista	NWN OR tariff
Public purposes funding	\$800K in rates	No	Yes
Weather adjustment	No	No	via WARM
Includes customer growth	No	No	Yes
Includes price elasticity	No	No	Yes
Coverage – residential and commercial	90%	90%	100%
ROE adjusted	No	No	No
GRC or Evaluation needed to re-up?	GRC	Evaluation	Evaluation
Earnings cap?	Yes	Yes	No*
DSM targets?	Yes	Yes	No

* NWN subject to an earnings test unrelated to Decoupling