SCHEDULE 175
DECOUPLING MECHANISM – NATURAL GAS

PURPOSE:

This Schedule establishes balancing accounts and implements an annual rate adjustment mechanism that decouples or separates the recovery of the Company's Commission authorized revenues from the therm sales to customers served under the applicable natural gas service schedules.

APPLICABLE:

To Customers in the State of Washington where the Company has natural gas service available. This schedule shall be applicable to all retail customers taking service under Schedules 101, 102, 111, 112, 116, and 131. This Schedule does not apply to Schedules 132 and 146 customers (Transportation Service For Customer-Owned Gas) or Schedule 148 customers (Special Contracts). Applicable Customers will be segregated into two (2) distinct Rate Groups: (D)

Group 1 – Schedule 101, 102
Group 2 – Schedules 111, 112, 116, 131 (D)

MONTHLY RATE:

Group 1 – ($0.00685) per therm (R)
Group 2 – $0.00419 per therm (R)

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SCHEDULE 175A
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DESCRIPTION OF THE NATURAL GAS DECOUPLING MECHANISM:

Calculation of Monthly Allowed Delivery Revenue Per Customer:

Step 1 – Determine the Total Normalized Revenue - The Total Normalized Revenue is equal to the final approved base rate revenue approved in the Company's last general rate case, individually for each Rate Schedule.

Step 2 – Determine Variable Gas Supply Revenue - The Normalized therms by rate schedule from the last approved general rate case are multiplied by the approved Schedule 150 PGA rates to determine the Variable Gas Supply Revenue.

Step 3 – Determine Delivery Revenue – To determine the Delivery Revenue, the mechanism subtracts the Variable Gas Supply Revenue from the Total Normalized Revenue.

Step 4 – Remove Basic Charge Revenue – included in the Delivery Revenue is revenue recovered from customers in Basic and Minimum charges ("Fixed Charges"). Because the decoupling mechanism only tracks revenue that varies with customer energy usage, the revenue from Fixed Charges is removed. The number of Customer Bills in the test period, multiplied by the applicable Fixed Charges determines the total Fixed Charge revenue by rate schedule.

Step 5 – Determine Allowed Decoupled Revenue – Allowed Decoupled Revenue is equal to the Delivery Revenue (Step 3) minus the Basic Charge Revenue (Step 4).

Step 6 – Determine the Allowed Decoupled Revenue per Customer – To determine the annual per customer Allowed Decoupled Revenue, divide the Allowed Decoupled Revenue (by Rate Group) by the Rate Year number of Customers (by Rate Group) to determine the annual Allowed Decoupled Revenue per Customer (by Rate Group).

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Step 7 – Determine the Monthly Allowed Decoupled Revenue per Customer - to determine the monthly Allowed Decoupled Revenue per customer, the annual Allowed Decoupled Revenue per customer is shaped based on the monthly therm usage from the rate year. The mechanism uses the resulting monthly percentage of usage by month and multiplied that by the annual Allowed Decoupled Revenue per Customer to determine the 12 monthly values.

<u>Calculation of Monthly Decoupling Deferral</u>:

Step 1 – Deduct new hookup customers from total actual number of customers to (C)
determine the actual number of test year existing customers each month. (C)

Step 2 – Multiply the actual number of test year existing customers by the (C)
applicable monthly Allowed Decoupled Revenue per Customer. The result of this calculation is the total Allowed Decoupled Revenue for the applicable month.

Step 3 – Deduct actual new hookup customer revenue from total actual revenue (C)
to determine the actual test year existing customer revenue collected in the (C)
applicable month.

Step 4 – Deduct actual new hookup fixed charge revenue from total actual fixed (C)
charge revenue to identify the amount of fixed charge revenues included in total (C)
actual test year existing customer monthly revenues. (C)

Step 5 – For test year existing customers, subtract the basic charge revenue (C)
(Step 4) from the total actual monthly revenue (Step 3). The result is the Actual Decoupled Revenue.

Step 6 – The difference between the Actual Decoupled Revenue (Step 5) and the Allowed Decoupled Revenue (Step 2) is calculated, and the resulting balance is deferred by the Company. Interest on the deferred balance will accrue at the quarterly rate published by the FERC.

Step 7 - At the end of every 12 month deferral period, the annual decoupled (N)
revenue per customer, by Rate Group, will be multiplied by the average annual (N)
number of actual test year existing customers. The result of that calculation will (N)
be compared to the actual deferred revenue for the same 12 month period. The (N)
difference between the actual deferred revenue, and the calculated value, will be (N)
added to, or subtracted from, the total deferred balance, by Rate Group. (N)

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By Patrick Ehrbar, Director of Regulatory Affairs

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SCHEDULE 175C
DECOUPLING MECHANISM – NATURAL GAS

ANNUAL NATURAL GAS DECOUPLING RATE ADJUSTMENT:

On or before June 1st each year, the Company will file a request with the Commission to surcharge or rebate, by Rate Group, the amount accumulated in the deferred revenue accounts for the prior January through December time period. The amount of deferred revenue that the Company can request to surcharge is subject to limitation based on the Earnings Test. (C)

The proposed tariff revisions included with that filing would include a rate adjustment that recovers/rebates the appropriate deferred revenue amount over a twelve-month period effective on August 1st. The deferred revenue amount approved for recovery or rebate would be transferred to a balancing account and the revenue surcharged or rebated during the period would reduce the deferred revenue in the balancing account. Any deferred revenue remaining in the balancing account at the end of the calendar year would be added to the new revenue deferrals to determine the amount of the proposed surcharge/rebate for the following year.

After determining the amount of deferred revenue that can be recovered through a surcharge (or refunded through a rebate) by Rate Group, the proposed rates under this Schedule will be determined by dividing the deferred revenue to be recovered by Rate Group by the estimated therm sales for each Rate Group during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a Decoupling Balancing Account and the actual revenue received under this Schedule will be applied to the Account to reduce (amortize) the balance. Interest will be accrued on the unamortized balance in the Decoupling Balancing Account at the quarterly rate published by the FERC.

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By Patrick Ehrbar, Director of Regulatory Affairs

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SCHEDULE 175D
DECOUPLING MECHANISM – NATURAL GAS

EARNINGS TEST:

The Mechanism is subject to an Earnings Test. The Company will perform an annual earnings test as follows:

i. The earnings test will be based on the Company's year-end Commission Basis Reports ("CBR") stated on an average-of-monthly-averages ("AMA") basis, prepared in accordance with WAC 480-90-257 and 480-100-257 (Commission Basis Report). This report is prepared using actual recorded results of electric or natural gas operations and rate base, adjusted for any material out-of-period, non-operating, nonrecurring, and extraordinary items or any other item that materially distorts reporting period earnings and rate base. These adjustments have been consistently made by the Company when preparing past CBRs and are consistent with the adjustments described in paragraph (2) (b) of WAC 480-90-257 and 480-100-257 (Commission Basis Report). The CBR includes normalizing adjustments, such as adjustments to power supply-related revenues and expenses to reflect operations under normal conditions. For the earnings test, the decoupling accounting entries adjust revenues from a therm sales basis to a revenue per customer basis. The CBR will not include any annualizing or pro forma adjustments.

ii. Should the Company have a decoupling rebate balance at year-end, the entire rebate will be returned to customers.

1) If the CBR earned return exceeds 7.21%, the rebate will be (R)
increased by one-half the rate of return in excess of 7.21%. (R)

iii. Should the Company have a decoupling surcharge balance at year-end:

1) If the CBR earned return is less than 7.21%, no adjustment is (R)
made to the surcharge, if any, recorded for the year.

2) If the CBR earned return exceeds 7.21%, the surcharge (R)
recorded for the year will be reduced, or eliminated, by one-half the
rate of return in excess of 7.21%. (R)

SCHEDULE 175E
DECOUPLING MECHANISM – NATURAL GAS

3% ANNUAL RATE INCREASE LIMITATION:

Following the application of the Earnings Test described above, the amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 3% rate increase. This will be determined by dividing the incremental annual revenue to be collected (proposed surcharge revenue less present surcharge revenue) under this Schedule by the total “normalized” revenue for the two Rate Groups for the most recent January through December time period. Normalized revenue is determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental amount of the proposed surcharge exceeds 3%, only a 3% incremental rate increase will be proposed and any remaining deferred revenue will be carried over to the following year. There is no limit to the level of the decoupling rebate, and the reversal of any rebate rate would not be included in the 3% incremental surcharge test.

OTHER CONDITIONS:

The Decoupling Mechanism will last until March 31, 2025, unless (C)
otherwise extended by the Commission. (C)

(D)
(D)

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