

# McDowell & Rackner PC



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June 4, 2007

## VIA ELECTRONIC FILING

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 2148  
Salem, OR 97308-2148

Re: Docket No. UM \_\_\_\_

Enclosed for filing is NW Natural's Application for Deferred Accounting. A copy of the Notice of Application has been served on all parties to docket UG 152 as indicated on the attached certificate of service.

Very truly yours,

A handwritten signature in black ink, appearing to read 'S. Adams', with a long horizontal flourish extending to the right.

Sarah J. Adams

Enclosures

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**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM \_\_\_\_\_**

In the Matter of the Application of  
NORTHWEST NATURAL for a Deferred  
Accounting Order For Certain Integrity  
Management Program Revenues

**NORTHWEST NATURAL'S APPLICATION  
FOR DEFERRED ACCOUNTING**

**I. INTRODUCTION**

Under ORS 757.259 and OAR 860-027-0300, Northwest Natural Gas Company ("NW Natural" or the "Company") applies to the Oregon Public Utility Commission (the "Commission") for an order authorizing the Company to defer from the date of this Application forward certain revenues associated with NW Natural's Integrity Management Program (IMP).

Per Commission Order 04-390, the Company recovers in rates through its annual Purchased Gas Adjustment ("PGA") costs associated with its IMP projects. However, each IMP project must be complete before the costs of that project may be considered for purposes of rate recovery. Any project that is not completed during a rate tracking period must be carried over for recovery in the following tracking period. Despite this, the costs provided in the Company's 2006-07 PGA filing mistakenly included all IMP investment costs, instead of only those considered complete for ratemaking purposes. Accordingly, the Company requests deferred accounting treatment for this overcharge. The Company will refund the balance, with interest, through an adjustment to its 2007-08 PGA filing.

**II. NOTICE**

Communications regarding this application should be addressed to:

1 Rates and Regulatory Affairs  
2 NW Natural  
3 220 NW Second Ave.  
4 Portland, OR 97209  
5 email: [efiling@nwnatural.com](mailto:efiling@nwnatural.com)

Sarah J. Adams  
McDowell & Rackner PC  
520 SW 6<sup>th</sup> Ave., Ste 830  
Portland, OR 97204  
Telephone: (503) 595-3927  
email: [sarah@mcd-law.com](mailto:sarah@mcd-law.com)

### 6 III. DEFERRED ACCOUNTING RULE REQUIREMENTS

7 The following information is provided pursuant to the requirements set forth in OAR  
8 860-027-0300(3).

#### 9 A. Description of Utility Revenue or Expense.

10 As a result of the Pipeline Safety Improvement Act of 2002, the US Department of  
11 Transportation's Office of Pipeline Safety and the Research and Special Programs  
12 Administration issued a rule that added incremental requirements on the operators of  
13 transmission pipelines and required operators to identify transmission lines in certain "high  
14 consequence areas" in order to implement IMPs for such areas.

15 In Order 04-390, the Commission recognized that the IMP rule has a cost impact on  
16 NW Natural and that the pipeline inspection and repair activities undertaken pursuant to the  
17 rule will ultimately result in an extension of the useful life of NW Natural's transmission lines.  
18 *In re NW Natural Application to Classify IMP Costs as Capital Expenditures*, Docket  
19 UM 1156, Order 04-390, App. A at 2 (June 4, 2004). Accordingly, the Commission issued  
20 an order allowing all costs associated with the Company's IMP activities, except for the  
21 amount of O&M included in the last applicable rate case (UG 152), to be classified as capital  
22 expenditures. *Id.* at 1-2.

23 The Commission approved NW Natural's proposal to implement its IMP as a series  
24 of projects and to accumulate the costs of those projects in capital accounts that would be  
25 designated exclusively to related IMP activities. The costs would be tracked in one year  
26 periods beginning on October 1 and ending on September 30 of each year ("the tracking  
period"). Before being considered complete for rate-recovery purposes, each project must

1 pass the "used and useful" test, which means that the inspection and any required repair  
2 must be completed within a tracking period for the project to be included as a capital  
3 expenditure for that period. Projects that are not completed before the end of a tracking  
4 period are carried over for recovery in the following period. *Id.*, App. A at 2-3. Actual IMP  
5 project costs incurred during the most recent tracking period are used to determine the IMP  
6 project cost of service for the relevant year. These costs are recovered through the  
7 Company's annual PGA filing. *Id.*, App. A at 3. IMP project costs considered for recovery in  
8 rates are subject to an audit by Staff, which provides the basis for any subsequent  
9 adjustments. *Id.*

10 In its most recent audit of IMP project costs, NW Natural discovered that the IMP  
11 project costs provided in the 2006-07 PGA filing mistakenly included all investment costs,  
12 instead of only those considered complete for ratemaking purposes. Specifically, for the  
13 period ending September 30, 2006, an investment cost of \$8.978 million with a rate impact  
14 of \$1.381 million was included in the 2006-07 PGA. This filing mistakenly included \$6.436  
15 million of investment cost from projects that were not completed before the end of the  
16 tracking period. Properly including only completed projects, the 2006-07 PGA filing should  
17 have included an investment cost of \$2.542 million with a rate impact of \$0.391 million.

18 NW Natural seeks deferred accounting treatment of this overcharge in order to  
19 refund the overcharge to customers through an adjustment of NW Natural's 2007-08 PGA.

20 **B. Reasons for Deferral.**

21 NW Natural requests deferral of revenues related to its mistaken inclusion of  
22 incomplete IMP projects in its 2006-07 PGA filing. ORS 757.259(2)(e) allows the deferral of  
23 utility revenues where necessary to match appropriately the costs borne by and benefits  
24 received by ratepayers. This request seeks to align the revenues NW Natural collects from  
25 customers with the benefits customers receive by allowing NW Natural to defer for later  
26 refund revenues from projects that are not yet "used and useful."

1 **C. Proposed Accounting.**

2 NW Natural proposes to defer the difference between the revenues actually derived  
3 from the rate increments effective November 1, 2006, for the recovery of IMP cost of service  
4 and the revenues that would have been derived from the corrected rate increments. During  
5 the period of deferral, NW Natural proposes to account for the deferred revenues related to  
6 the incomplete IMP projects by recording the deferral in Account 186 (Miscellaneous  
7 Deferred Debits). In accordance with ORS 757.259(3), NW Natural proposes to accrue  
8 interest on the unamortized balance at a rate equal to its weighted average cost of capital  
9 most recently approved by the Commission.

10 **D. Estimate of Amounts.**

11 The precise amount of the revenue differential cannot be determined at this time.  
12 However, the Company estimates the amount to be deferred will be about \$0.99 million,  
13 plus related interest.

14 **E. Notice.**

15 A copy of the Notice of Application and a list of persons served with the Notice are  
16 attached to this Application as Exhibit A.

17 **IV. CONCLUSION**

18 NW Natural respectfully requests that, in accordance with ORS 757.259, the  
19 Commission authorize the Company to defer the revenue described in this Application.

20 DATED: June 4, 2007.

21 MCDOWELL & RACKNER PC

22 

23 Sarah J. Adams

24 Of Attorneys for NW Natural

25

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June 4, 2007

**NOTICE OF APPLICATION FOR A DEFERRED ACCOUNTING ORDER  
FOR CERTAIN INTEGRITY MANAGEMENT PROGRAM REVENUES**

**To All Parties Who Participated in UG 152:**

Please be advised that today Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), applied for a deferred accounting order for Certain Integrity Management Program Revenues. Copies of the Company's Application are available for inspection at its main and district offices.

**This is not a rate case.** The purpose of this Notice is to inform parties that participated in the Company's most recent general rate case, UG 152, that the Application was filed.

Parties who desire more information or who wish to obtain a copy of the filing, or notice of the time and place of any hearing, if scheduled, should contact the Company or the Public Utility Commission of Oregon as follows:

**NW Natural**  
Attn: Inara K. Scott  
220 N.W. Second Ave.  
Portland, Oregon 97209-3991  
Telephone: (503) 721-2476

**Public Utility Commission  
of Oregon**  
Attn: Bonnie Tatom  
550 Capitol St., N.E., Ste. 215  
P. O. Box 2148  
Salem, Oregon 97308-2148  
Telephone: (503) 378-6600

Any person may submit to the Commission written comments on this matter by June 29, 2007. The granting of this Application will not authorize a change in rates, but will permit the Company to defer amounts in rates to a subsequent proceeding.

The Company's district offices in Oregon are located at:

7150 Supra Drive  
Albany, Oregon 97321  
Telephone: (541) 926-4253

176 W. Marine Drive  
Astoria, Oregon 97103  
Telephone: (503) 325-1632

1625 N. 7<sup>th</sup> Street  
Coos Bay, Oregon 97420  
Telephone: (541) 267-5655

790 Goodpasture Island Road  
Eugene, Oregon 97401  
Telephone: (541) 342-3662

1405 S. W. Highway 101  
Lincoln City, Oregon 97367  
Telephone: (541) 994-2111

309 E. 2<sup>nd</sup> Street  
The Dalles, Oregon 97058  
Telephone: (541) 296-2229

3123 Broadway N.E.  
Salem, Oregon 97303  
Telephone: (503) 585-6611

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**CERTIFICATE OF SERVICE**

I certify that I have this day served the foregoing NOTICE OF APPLICATION FOR A DEFERRED ACCOUNTING ORDER FOR CERTAIN INTEGRITY MANAGEMENT PROGRAM REVENUES upon all parties of record in this proceeding (UG 152), by first class mail to the following parties or attorneys of parties:

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DATED June 4, 2007.

McDOWELL & RACKNER PC



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