

Rates and Regulatory Affairs
Facsimile: 503.721.2516



December 30, 2009

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street, N.E., Suite 215
P.O. Box 2148
Salem, Oregon 97308-2148

Attn: Filing Center

Re: OPUC Docket UM 1327
Application for Reauthorization to Defer Smart Energy Pilot Program
Communication Costs

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), files herewith the above-referenced Application for Reauthorization to Defer Smart Energy Pilot Program communication costs. The application requests continued authorization to defer costs associated with educating customers about how to reduce their carbon footprint by reducing their gas consumption and offsetting their remaining usage with carbon offset products offered through the Smart Energy Pilot Program.

Attached is a Certificate of Service stating that parties to UM 1327 have received an electronic copy of this filing.

Please call Jennifer Gross at (503)226-4211, extension 3590 if you have any questions.

Sincerely,

/s/Jennifer Gross for

Inara K. Scott, Manager
Regulatory Affairs

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1327

In the Matter of the Application of
NORTHWEST NATURAL for an Order
Reauthorizing Deferred Accounting for
Smart Energy™ Program Communications
Costs

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

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8 Under ORS 757.259 and OAR 860-027-0300, Northwest Natural Gas Company
9 ("NW Natural" or the "Company") applies to the Oregon Public Utility Commission (the
10 "Commission") for an order reauthorizing the Company to defer certain unfunded
11 communications costs associated with NW Natural's Smart Energy™ pilot program incurred
12 January 1, 2010 through December 31, 2010.

13

I. INTRODUCTION

14 NW Natural's Smart Energy™ pilot program is a voluntary program that enables
15 residential and commercial customers to offset greenhouse gas emissions associated with
16 their natural gas use by purchasing high quality, project-based emission reductions from
17 offset projects developed by The Climate Trust.¹ Although the 5-year pilot program is
18 funded almost entirely by the voluntary participants, the program's success currently
19 depends on a portion of its communications costs being spread to all classes of customers
20 eligible for participation in the program.

21 The Company herewith files this application with the support of the Portfolio Options
22 Committee (POC)², for the deferral of no more than \$475,000 for communications
23 associated with the Smart Energy™ program.

24 ¹ For more information about the Climate Trust, see NWN Advice No. OPUC 07-4/Miller/101/1-2
25 (filed June 29, 2007).
26 ² The Portfolio Options Committee (POC) is a committee formed to present recommendations to
the Commission regarding residential portfolio options per OAR 860-038-0220. Upon approval of

1 Please consider this application as notice of the Company's intent to file a request to
2 amortize the amounts deferred under this docket for recovery in rates effective November 1,
3 2010.

4 II. BACKGROUND

5 NW Natural is committed to helping our customers reduce their carbon footprint by
6 using natural gas as efficiently as possible. Consistent with this, the Company has formed a
7 successful partnership with Energy Trust of Oregon, Inc. ("Energy Trust") to help customers
8 increase their energy efficiency and plans to continue to find new ways to work with Energy
9 Trust in the future. Additionally, NW Natural supports the enactment of federal climate
10 legislation to limit greenhouse gas emissions. Although legislation is not currently in place,
11 NW Natural believes it must act now to help its customers reduce their greenhouse gas
12 emissions.

13 In 2007, the Company launched its Smart Energy™ Pilot program³ that--in its sales
14 of local, high-quality carbon offsets--educates customers that it is environmentally
15 responsible to reduce natural gas use when possible and to offset the rest. The Company
16 believes its Smart Energy™ Pilot program is a prudent, proactive approach to future carbon
17 legislation. This program will provide the Company with knowledge and experience with
18 carbon legislation that may reduce future compliance costs and allow the Company to
19 search now for low-cost mitigation opportunities that may be more difficult to access in a
20 fully developed compliance market.

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23 the Smart Energy program in 2007, the POC recognized that the Company's carbon offset
24 product was similar in nature to the electric utilities' portfolio options. At its meeting on February
25 8, 2008, the POC unanimously approved a motion to recommend that the Commission include
the Smart Energy™ program under the POC's oversight and that the Company be invited to
serve on the POC. See Order No. 08-278, approving this motion.

26 ³ See Order No. 07-383; Advice No. 07-4.

1 **A. History of Program Costs**

2 Residential Smart Energy™ participants pay a flat amount of \$6 per month or a rate
3 of \$0.10486 per therm. Commercial participants may select a flat amount of their choosing
4 (not less than \$10 per month). This rate was designed to fund the estimated cost of carbon
5 offsets and the ongoing administrative costs associated with the program. It was not
6 designed to cover the costs associated with program start-up costs incurred in 2007 or the
7 communications costs expected in 2008, because the Company's market research
8 suggested the program's prices were set near the top end that customers would pay for a
9 product of this kind.

10 In 2007, the Company agreed to pay all start-up costs associated with the program,
11 which were approximately \$270,000. The Company also agreed it would absorb the capital
12 expenditures associated with development of the project until the Company's next rate case.
13 In 2008, the Company was granted authorization to defer up to \$622,000 for start-up and
14 program education costs as forecasted in Appendix A to Order No. 07-383.

15 In the 2007-2008 program year, the Company succeeded in obtaining its ambitious
16 goal of enrolling 1% of residential customers and 0.2% of commercial customers. However,
17 in doing so, NW Natural learned that customers need to be repeatedly engaged in the offset
18 messaging before they will sign-up for the program. The Company also realized that it had
19 overestimated its revenue forecast by neglecting to build in a lag for mid- and late-year sign-
20 ups. In its initial program forecast, the Company had assumed it would need to defer
21 \$268,000 in the 2008-2009 program year. It became clear that this would be insufficient to
22 maintain the program's trajectory towards self-sufficiency by the end of the fifth program
23 year. Upon learning that its initial assumptions were incorrect, NW Natural met with
24 Citizens' Utility Boards (CUB) and Commission Staff to discuss the Smart Energy™ budget
25 and the need to defer up to \$475,000 in 2009. On November 14, 2008, NW Natural
26 presented its 2009 Smart Energy™ budget to the POC. The POC approved a motion to

1 recommend that the Commission approve the Company's request to defer up to \$475,000
2 for the program communication costs. The Commission granted this request in Order No.
3 09-088.

4 The budgetary lessons learned in the 2007-2008 suggested that the pilot's whole 5-
5 year forecast budget would need to be reconsidered for the program to achieve its goal of
6 self-sufficiency after five years. The Company has consistently contended that the
7 appropriate time to do this is when it performs the required the third-year comprehensive
8 review. Pilot programs by nature are designed to test assumptions; and as a pilot, the
9 Company knew that its initial assumptions regarding pricing and the cost to offer the
10 program would have to be examined, so the Company added in its tariff the requirement to
11 perform a third year comprehensive review of the pilot. Attached, as Exhibit A, is an outline
12 of the preliminary content of this report which is due to the Commission on May 31, 2010.
13 The Company believes that this study will inform any necessary program modification,
14 including possible price changes. The Company has stated that making unstudied program
15 changes before this time would be reactionary and could result in reduced enrollment.

16 **B. 2010 Communication Cost Forecast**

17 In the initial program forecast, the Company assumed program revenue would be
18 sufficient to pay for its 2010 budgeted expenditures. As stated above, the Company has
19 found that increasing or even maintaining Smart Energy™ enrollment requires the delivery
20 of repeated messages through multiple media channels. This challenge was heightened by
21 the economic recession, which made many customers less willing to assume a discretionary
22 expense.

23 In spite of these challenges, NW Natural was able to increase its residential
24 enrollment by 16.1%-- a total of 1.3% of all customers. This was below the goal of 1.5%.
25 The Company exceeded its commercial customer enrollment goal of 0.2% of all customers
26 by 0.1%-- a total of 0.3%. While the Company is encouraged that it is staying near its

1 annual targets, other factors are affecting the programs revenue: The overall number of NW
2 Natural customers and the average monthly therm usage is going down; the means
3 volumetric customers are not bringing in the revenue the Company initially forecast. As
4 mentioned, price assumptions and actual results will be reviewed in the Company's
5 comprehensive third year review due to the Commission on May 31, 2010.

6 On November 9, 2009, NW Natural presented the POC with a proposed budget of
7 \$475,000 for unfunded communications deemed necessary to achieve continued success of
8 the program which includes having over 8,500 customers (about 1% of the Company's
9 customer base) enrolled in Smart Energy,TM achieving a total carbon reduction for the first
10 two program years of approximately 37,001 tons, and making significant strides in bringing
11 biogas to the region.⁴ The POC passed the motion to recommend that the Commission
12 approve the Company's application for reauthorization to defer accounting for an amount not
13 to exceed \$475,000 for the 12-month period, January 1, 2010, through December 20, 2010.

14 III. NOTICE

15 NW Natural hereby waives service by means other than service by electronic mail.
16 Consistent with that waiver, communications regarding this Application should be addressed
17 to all of the following:

18 Inara K. Scott
19 NW Natural
email: Inara.scott@nwnatural.com

20 Rates and Regulatory Affairs
21 NW Natural
email: efilings@nwnatural.com

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26 ⁴ For detailed program year results, see Exhibit B, which is the Company's 2008-2009 Smart
EnergyTM Annual Report

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IV. DEFERRED ACCOUNTING RULE REQUIREMENTS

The following information is provided pursuant to the requirements set forth in OAR 860-027-0300(3) & (4).

A. Description of Utility Revenue or Expense

This application addresses NW Natural's unfunded program communication expenses. The Company expects to incur approximately \$475,000 for ongoing program communication costs during the 12 months covered by this deferral application.

Table 1 below itemizes the Company's proposed 2010 Smart Energy™ communication budget and compares it with the program costs deferred in 2008 and 2009.

Table 1

Communication Expenses - Smart Energy™ Deferral Account			
	2008	2009	2010 (proposed)
The Climate Trust	\$100,000.00	0	0
Costs to start up Smart Energy™ Pilot Program			
Education	\$355,604.47	\$331,000.00	\$295,000
Customer communications, advertising, media outreach			
Interaction	\$111,679.60	\$105,000.00	\$150,000
Direct mail*, email, community outreach, events, sponsorships			
Professional Services	\$13,495.00	\$10,000.00	\$10,000
Creative production, fees			
Promotional	\$35,970.71	\$20,000.00	\$10,000
give-away items, incentives, promotional activities			
Miscellaneous*	\$3,810.16	\$9,000.00	\$10,000
Postage, materials, etc.			
* as the number of participants grows, the cost for customer mailings increase			
Total	\$620,559.94	\$475,000	\$475,000

1 The majority of the 2010 costs will be spent on education about climate change and
 2 the need to reduce greenhouse gas emissions, as well as additional messaging about
 3 biodigester projects and the benefits they provide. The Company will continue to use the
 4 same communication channels that have proved to be effective.
 5 Table 2 below is a rough cost projection for the remainder of the pilot program. This
 6 projection assumes the Company is allowed the \$475,000 deferral for 2010. Please note,
 7 this projection is likely to change as the findings made in the comprehensive third year
 8 review may lead to the Company's making a tariff filing to modify the program with the intent
 9 of insuring that the program is self-funding by the end of the 5-year pilot period.

10 **Table 2**

NW Natural Smart Energy Team Update of Model: for projecting revised enrollment - Actuals through Nov 09							
	2007	2008	2009	2010	2011	2012	Totals
	actual	actual	actual thru Nov				
Summary							
Participants							
Collections	\$26,057	\$272,198	\$487,155	\$717,801	\$891,973	\$1,099,030	\$3,494,214
Offsets	\$18,172	\$189,833	\$339,745	\$485,126	\$600,431	\$738,413	\$2,371,720
Expenses	\$3,019	\$97,528	\$116,625	\$117,683	\$393,641	\$394,681	\$1,123,175
	\$4,866	(\$15,162)	\$30,786	\$114,992	(\$102,100)	(\$34,064)	(\$681)
Paid by Company or General Rates							
Company	\$346,752	\$0	\$0	\$0	\$0	\$0	\$346,752
Deferral	\$0	\$622,000	\$475,000	\$475,000	\$0	\$0	\$1,572,000
	\$346,752	\$622,000	\$475,000	\$475,000	\$0	\$0	\$1,918,752
Participant Offsets							
Dollars for offsets	\$18,172	\$189,833	\$339,745	\$485,126	\$600,431	\$738,413	\$2,371,720
Therms offset	248,493	2,595,825	4,645,764	6,633,744	8,210,467	10,097,261	32,431,555
Tons offset	1,454	15,186	27,178	38,807	48,031	59,069	189,725
Residential participants	2,091	6,176	8,123	11,083	14,080	17,204	
Commercial participants	26	107	202	230	255	293	
Total at year end	2,117	6,283	8,325	11,313	14,336	17,497	

23 **B. Reasons for Deferral**

24 ORS 757.259(2)(e) allows the deferral of utility revenues where necessary to match
 25 appropriately the costs borne by and benefits received by ratepayers. By deferring the
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1 communication costs associated with the Smart Energy™ program and spreading those
2 costs to all customers eligible to participate in the program, this request seeks to align the
3 costs NW Natural will incur for its Smart Energy™ program with the following broad benefits
4 customers receive:

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6 **1. The Smart Energy™ Program Offers Broad Benefits.**

7 The Smart Energy™ program provides a broad array of benefits for all NW Natural
8 customers, whether or not they enroll in the program. First, the program provides real and
9 measurable greenhouse gas benefits. While these offset benefits will be retired by The
10 Climate Trust for the participants, the environmental benefits of these actions accrue to all.
11 Second, the program allows all NW Natural customers an opportunity to learn about their
12 “carbon footprint” and the specific steps they can take to reduce it. As our state and country
13 move toward carbon regulation, it will become more important that all customers make the
14 connection between their energy use and their carbon impacts. Third, the Smart Energy™
15 program will provide an opportunity for the State of Oregon, Public Utility Commission, and
16 NW Natural to develop and hone policy tools that will be critical in the upcoming regulation
17 of greenhouse gases. Fourth, the program has brought biogas projects to the region, which
18 reduce local greenhouse gas emissions and contribute a possible solution towards the
19 regional issue of managing dairy farm waste.⁵ Finally, it is appropriate to collect program
20 educational costs from all customers because the program creates opportunities for all
21 customers to participate. The existence of the program, and its availability to all customers,
22 is of value for all and thus justifies spreading some costs to all NW Natural customers.

23 These broad benefits for customers are valued and expected by NW Natural
24 customers. In a March 2007 survey, 81% of respondents said they “strongly favored” or

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26 ⁵ These projects are discussed in the attached Exhibit B.

1 “somewhat favored” NW Natural offering a program for customers that helps reduce carbon
2 dioxide emissions⁶.

3 **2. Program Success Depends on Effective Education.**

4 A utility carbon offset program is a relatively unknown product that brings with it
5 some complex issues. While concern about climate change is growing, customers are not
6 yet fluent with concepts such as a knowing their “carbon footprint,” and balancing emissions
7 from one activity with “offsets” from another. A successful program pilot requires a steady
8 delivery of broad education about how customers’ gas use produces carbon dioxide, the
9 connection between carbon emissions and climate change, and the concept of carbon
10 offsets.

11 **3. Support from All Customers Will Be Modest.**

12 The effect on an average residential customer bill is estimated to be
13 approximately 4.6 cents per month for 12 months (an annual total of 55 cents). This
14 estimate equates to a 0.07% change over current residential billing rates.

15 **4. NW Natural Shareholders Contribution to the Smart Energy™
16 Demonstrates the Company’s Commitment to the Success of this
17 program pilot.**

18 NW Natural paid all the start-up costs incurred in 2007, which were approximately
19 \$270,000. In addition, NW Natural absorbed the capital costs for the necessary
20 programming of customer information and phone systems. Finally, NW Natural
21 shareholders contributed \$77,000 for Smart Energy™ offsets, which represents a total offset
22 of the natural gas used to heat the Company’s offices, service centers and shops for the
23 entire five-year period of the pilot program.

24 It should be noted that the Smart Energy™ program poses shareholder risks unique
25 to the natural gas industry. Unlike the educational component of an electric renewable
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26 ⁶ See NWN Advice No. OPUC 07-4/Miller/101/1-2.

1 program, which enhances the “clean-energy” image of electricity, the educational
2 component of this program entails educating customers about how their natural gas use
3 emits carbon dioxide associated with climate change. This very important education
4 presents a significant business risk to NW Natural.⁷ In light of this risk, and the broad
5 customer benefits provided as described above, NW Natural’s proposed deferred
6 accounting treatment, for later inclusion in rates, represents an appropriate sharing of costs
7 among the Company, program participants and eligible customers.

8 **C. Proposed Accounting**

9 During the period of deferral, NW Natural proposes to account for the deferred
10 expenses related to the Smart Energy™ program by recording the deferral in a sub-account
11 of Account 186 (Miscellaneous Deferred Debits). In the absence of deferred accounting, the
12 Company would record Smart Energy™ program educational expenses in the appropriate
13 sub-account of FERC Account 401. Ratemaking treatment of deferred amounts will be
14 addressed in a future rate proceeding.

15 **D. Estimate of Amounts**

16 The Company estimates the amount to be recorded in the deferred account for the
17 upcoming 12-month period will be approximately \$475,000, as detailed in Table 1.

18 **E. Entries Deferred under UM 1327 To-Date**

19 As detailed in Table I above, the Company deferred \$621,000 for start up and
20 communications costs in 2008 and \$475,000 for ongoing communication costs in 2009.

21 **F. Reason for Continued Deferred Accounting**

22 The Company requests continued authorization to defer accounting for Smart
23 Energy™ as outlined in Table 1 so that the Company can recover the costs associated with
24 successfully communicating its Smart Energy™ Pilot Program. The successes and

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26 ⁷ See NWN Advice No. OPUC 07-4/Miller/100/6-7.

1 accomplishments of Smart Energy's™ second program year are best summarized in its
2 2008-2009 Annual Report which was filed on October 30, 2009⁸. NW Natural seeks to
3 continue the success of this program which means continuing to educate customer on
4 climate change and on effecting a change in their carbon footprint through reducing usage
5 and offsetting their remaining usage through the purchase of a carbon offset product.
6 Success also means the Company will continue to gain an understanding of carbon offset
7 project development in this interim before carbon legislation is enacted. The Company
8 believes that approval for reauthorization of deferred accounting will allow the Company to
9 continue the conversation with customers about climate change and Smart Energy™, and
10 will enable the program's to remain on target for being self-funding by the end of the five
11 year pilot program.

12 **G Requirements per Commission Order No. 09-263**

13 Below is the information required per Commission Order No. 09-263, issued in
14 Docket UM-1286, Staff's Investigation into Purchased Gas Adjustment Mechanisms:
15

16 **1. A completed Summary Sheet, the location in the PGA filing, and an account**
17 **map that highlights the transfer of dollars from one account to another**

18 Exhibit C includes the Summary Sheet which shows the amounts deferred for
19 residential and commercial customers and demonstrates the transfer of dollars
20 from one account to another. Exhibit C will be included in our 2009 PGA filing as
21 work papers and will be attached to the electronic filing as a file entitled,
22 "Proposed Temps Oregon 20YY-YY PGA filing.xls."

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26 ⁸ See Attached Exhibit B

1 **2. The effective date of the deferral**

2 This application is for the 12-month period beginning January 1, 2010 and ending
3 December 31, 2010.

4 **3. Prior year Order Number approving the deferral**

5 Approval to defer costs associated with Smart Energy™ was last granted under
6 Commission Order No. 09-088.

7 **4. The amount deferred last year.**

8 The amount deferred through September 2009 is shown in Exhibit C. \$620,000
9 was deferred in 2008.

10 **5. The amount amortized last year**

11 No amount has been amortized for 2009. The \$620,000 deferred in 2008 was
12 amortized for collection on November 1, 2009.

13 **6. The interest rate that will apply to the accounts**

14 The interest rate for deferral accounts is 2.05; prior to November 1, 2009, it was
15 8.618%. Monies that have been transferred for amortization have been accruing
16 interest at the rate of 4.27%.

17 **7. An estimate of the upcoming PGA-period deferral and / or amortization**

18 In the 2010 PGA filing, the Company expects to amortize \$475,000 for Smart
19 Energy™ related costs.

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V. CONCLUSION

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

DATED: December 30, 2009. NW NATURAL GAS COMPANY

/s/ JENNIFER GROSS for

Inara K. Scott
Manager, Regulatory Affairs
220 NW Second Ave
Portland, OR 97209

Exhibit A

Smart Energy™ – 3-Year Report

Parameters for the Third Year Report:

Schedule 400, Smart Energy™ Pilot Program, states: “Third-Year Report. In addition to the Annual Report, at the end of the third full program year, the Company will file a more detailed report that includes a program-to-date evaluation as well as a discussion of any state, federal, regulatory or other changes that have or will affect the Program.”

The tariff also states: “The Company will analyze its benefits and determine if the program should be continued as is, modified, or discontinued.”

Preliminary Content Outline

- I. Overview of program
- II. Is the program attaining the stated goals? (Respond to each with narrative and supporting data, e.g. research.)
 1. Smart Energy™ will give customers the opportunity to offset greenhouse gas emissions associated with their gas usage.
 2. The program will purchase high quality project-based emission reductions.
 3. The Climate Trust's first priority will be to bring biogas to the region.
 4. Utilize tactics that provide the greatest return on investment and limit education and marketing expenses to the lowest reasonable levels that will achieve success.
 5. Achieve the following benefits for all customers:
 - a. Specific environmental benefits – reduced GHG for all in region.
 - b. Customer will gain an understanding of carbon emissions, climate change and offsets.
 - c. The experience NWN gains in purchasing, certifying and monitoring offsets will inform policy development.
 6. Is the program delivering on customers' expectation NW Natural offer help in reducing CO₂e emissions, as determined by a survey conducted in March 2007?
 7. Do customers still believe electricity is cleaner and/or greener than natural gas?
 8. Product price analysis --- is it covering the cost of offsets plus administration?
 - The fixed rate was based on the cost, as of June 29, 2007, of offsetting the emissions associated with natural gas use from the “average” residential home using 686 therms per year.
 - The volumetric rate is based on the cost of offsets as of June 29, 2007, \$0.10486 per therm.
 - “The price is near the top end of the range of prices customers would pay for a product of this kind.” Is this still true?
 - What costs has the program funded, e.g. administration, etc.?
 - Will the program be fully self funded by the end of the pilot period, September 2012?
 - Analyze offset price forecasts
 - Analyze offset price to value options
- III. State, federal and regulatory changes that will affect Smart Energy™ and/or customers.
- IV. Conclusions – Recommendations for the remaining two years of the programs pilot period.
- V. Future Outlook

NW Natural Annual Report 2008-09 Smart Energy™ Program Year



INTRODUCTION

NW Natural is proud to be the first stand alone gas utility in the United States to offer its customers the opportunity to offset their greenhouse gas footprint through the purchase of carbon offsets. The Smart Energy™ program was launched September 1, 2007, under the Company's Schedule 400. Under this Schedule, residential and commercial customers may choose to purchase high quality carbon offsets. These offsets are acquired through the development of regional biogas projects. The Company has partnered with The Climate Trust, a nationally recognized leader in the carbon offset industry, which acquires offset projects and leads the effort to quantify, verify and retire each carbon offset.

Smart Energy™ communications educate customers that it is environmentally responsible to reduce natural gas use whenever possible and to offset the rest through the Smart Energy™ program. This is a timely and important message that will ultimately serve Oregon well and prepare us for future carbon legislation. The Company credits the Commission and its Staff for establishing the framework through a decoupling rate mechanism which allows the Company to present this message of efficient and sensible gas usage.

According to the terms and conditions of Schedule 400, NW Natural is annually required to provide the Commission with the program's participation details, an analysis of the funds collected and expenditures related to the product, and a review of the offset expenditures by The Climate Trust, all of which are contained herein.

HIGHLIGHTS

- Construction began on the program's first anaerobic digester, located in Boardman, Oregon. This digester is scheduled to begin operating in November 2009 and producing offsets 1Q 2010.
- Funds were obligated for 10,498 tons at a project in Washington, and 18,813 tons were retired on the Climate Action Reserve registry from a project in Idaho. The program has fully obligated funds for program year one and has obligated 67% of program year two's funds.
- Over 11,000 people registered for the Smart Energy™ Challenge. Participants were asked questions that challenged their knowledge about climate change. The follow-up answers and additional information provided after each question were designed to educate about climate change, carbon emissions, energy efficiency and Smart Energy™. Additionally, Energy Trust of Oregon provided an activity to educate about energy efficiency, thus supporting the program motto, "Use less, offset the rest".
- The Smart Energy™ micro-site has had over 30,000 unique visitors since launching in June; this includes Smart Energy™ Challenge visits.
- Three large commercial customers committed to offset 100% of their natural gas emissions for a minimum of one year enrolled in Smart Energy™: Miller Paint Company, Oregon Convention Center and PARR Lumber Company.
- The Corvallis Community Challenge ended in March 2009 with 2.9% natural gas customers enrolling in Smart Energy™, just short of its 3% goal.
- Our partner, Oregon Convention Center, is aiding our efforts to educate about climate change and its impacts by displaying a life size Smart Energy™ cow in the Ginkoberry Concourse.

TOTAL ACTIVE ENROLLMENTS

Table I details 2008-2009 Smart Energy™ enrollment. As of August 31, 2009, we were just under our second-year enrollment goal for residential customers despite increasing enrollment by over 16% from the previous program year. We exceeded our goal for commercial customers, more than doubling our total from last year. Since the program's inception, a total of 8,165 residential customers have enrolled in Smart Energy.™ When the program was being developed in late 2006, we expected our customer base to grow more than it has. Of the 6,713 active residential customers enrolled, 3,457 or 51.5% have selected the volumetric option. Of the 157 commercial customers enrolled, 124 or 79% are offsetting 100% of their natural gas emissions.

Table I demonstrates active enrollments as of August 31, 2009.

Table I – Active Enrollment (see note)

	GOAL			Actual			
	# of Customers	% of Customers	Enrollments	# of Customers	% of Customers	Enrollments	Enrollment increase from prior year
Residential	626,400	1.50%	9,396	534,795	1.30%	6,713	16.1%
Commercial	64,000	0.20%	128	56,247	0.30%	157	124.3%

NOTE: Original program design included system counts for customers and enrollments. Actual program results will reflect Oregon counts only, as our Washington customers are not eligible to participate in Smart Energy.™

CARBON REDUCTION

Total carbon reductions for our second program year will be approximately 23,268 tons when offsets are purchased and retired. The total carbon reduction for the life of the program will be approximately 37,001 tons.

The Climate Trust received \$290,854 for offset purchases for program participants during the 2008-2009 program year. This total is itemized in Table 2.

Table 2 – Carbon Offsets

Offsets	Dollars	Offsets (tons)
2007-2008 Program Year		
NWN Shareholders	\$77,000	6,160
Smart Energy™ Participants	\$94,659	7,573
Subtotal 2007-2008 Program Year	\$171,659	13,733
2008-2009 Program Year		
Smart Energy™ Participants	\$290,854	23,268
Program to Date	\$462,513	37,001

REPORT FROM THE CLIMATE TRUSTOffset Funds

As of August 31, 2009, program contributions received by The Climate Trust plus money market interest have totaled \$466,680 for the purchasing and managing of offset project contracts. Table 3 provides a summary of the funds received and spent by The Climate Trust.

The Climate Trust spent \$142,163.50 on 18,813 tons of offsets produced in 2008 from a dairy manure management project in Idaho. This transaction was carried out at a rate lower than the contractually obligated price ceiling for offset purchases. As directed under our agreement, The Climate Trust placed \$61,000.50 into a buffer account to use as a hedge against potential future offset price increases or portfolio underperformance, or for additional offset purchases. Table 3 below shows this buffer account as having this amount plus interest.

The Climate Trust has also obligated a total of \$119,048 to a dairy manure management project in Washington. Of this total, \$100,000 is for the purchase of offsets, and \$19,048 is for managing the 10-year term of the contract.

Table 3 - Offset Funds Status: Program to Date

	Funds	Offsets
Funds Received		
NW Natural contribution	\$77,000	6,160
Participant contributions	\$385,513	30,841
Money market interest	\$4,167	333
<i>Subtotal</i>	<i>\$466,680</i>	<i>37,334</i>
Funds Obligated		
Whitesides Dairy	\$142,163	18,813
Farm Power WA Dairy	\$119,048	10,498
Buffer account	\$61,036	
<i>Subtotal</i>	<i>\$322,247</i>	<i>29,311</i>
Net funds status	\$144,433	8,023

Funding Obligation Commitment

The Climate Trust is contractually required to obligate all program year collections within 16 months following the end of a program year. Under this schedule, funds collected in the first program year (from September 1, 2007 through August 31, 2008) must be obligated by January 1, 2010. The first year program contributions are equivalent to 13,733 tons of offsets. To date, The Climate Trust has obligated funds for 29,311 tons of offsets using program funds, exceeding the obligation requirement. The excess offsets have been applied to the 2008-2009 program year requirements, accounting for 67% of the offsets needed for the second program year. The Climate Trust anticipates meeting the second year commitment later this year when the carbon benefits from the Three Mile Canyon project are quantified using a detailed carbon quantification process as required by the carbon accounting protocol.

Table 4 - Commitment Status

Program Year	Timeline (Sept 1-Aug 31)	Tons Demand	Tons Obligated	Difference	PUC Deadline	Status (% met)
1	2007-2008	13,733	29,311	(15,578)	1/1/2010	100%
2	2008-2009	23,268	15,578	7,690	1/1/2011	67%
3	2009-2010	TBD	TBD	TBD	1/1/2012	TBD
4	2010-2011	TBD	TBD	TBD	1/1/2013	TBD
5	2011-2012	TBD	TBD	TBD	1/1/2014	TBD

Activities

- Evaluated, contracted for and retired 18,813 tons of offsets produced in 2008 from the Whitesides dairy manure management project in Idaho. The offsets from this project meet the Climate Action Reserve (CAR) standard and they are listed on CAR's registry as retired offsets on behalf of Smart Energy™ program participants.
- Evaluated and contracted for a 10-year supply of offsets from the Farm Power dairy manure management project located near Mt. Vernon, Washington. This project is expected to start producing offsets by year end.
- Reviewed a total of 14 potential biogas utilization offset projects and are actively considering others.
- Continued to work with the Three Mile Canyon project developers on offset project design issues including methodologies for accurately quantifying the potential stream of offsets from this project.
- Met regularly with NW Natural employees to update them on the status of our offset acquisition efforts and to provide guidance on the latest regulatory developments that could affect the market for offsets from biogas utilization projects.

COMMUNICATION AND CUSTOMER EDUCATION

Consistent with our approach in the 2007-2008 program year, our communication efforts focused on educating customers about climate change, carbon emissions and energy efficiency. We utilized an integrated approach including advertising and public relations to establish general awareness. To encourage enrollment we executed direct communications such as traditional mail, email, customer communications, community outreach and events.

Unique for this year was the development and delivery of the "Smart Energy™ Challenge." This was a five-month, integrated campaign designed to deliver our key messages while encouraging long-term engagement and ultimately enrollment. All of our communications channels were used to deliver the challenge to our Oregon customers.

Our paid, earned and direct communication strategy was designed to supply a wide-reach and high-frequency message during the May through October time period. Our goal was to touch our highest density service territories multiple times with multiple methods, to learn and then to act. Through this strategy, we focused on the following three key messages to educate and encourage enrollment: *Take the Smart Energy™ Challenge and find out how to minimize your carbon footprint and learn about climate*

Exhibit B

change. And: Reducing your carbon footprint is as easy as (cow) pie. And: Join Smart Energy™ and help bring biogas to Oregon.

Our communication efforts were successful in delivering millions of impressions as represented below:

Broadcast	1,712,242 +
Radio	3,377,050 +
Transit / outdoor	8,170,550 +
Print	396,000 +
Online	20,000,000 +
Online-direct	1,293,000 +
Community outreach / events	410,000 +
Customer Communications	3,250,000 +
Public Relations/social media	1,015,702 +

These communication efforts were effective at increasing customer participation as displayed in Chart-3. When communications were in the market, we experienced more enrollments; the converse is also true.

THE SMART ENERGY™ PROGRAM YEAR SPENDING

The charts below demonstrate the costs associated with the second year (September 1, 2008 to August 31, 2009) of the Smart Energy™ program.

Chart 1 – Costs: Education & Climate Trust

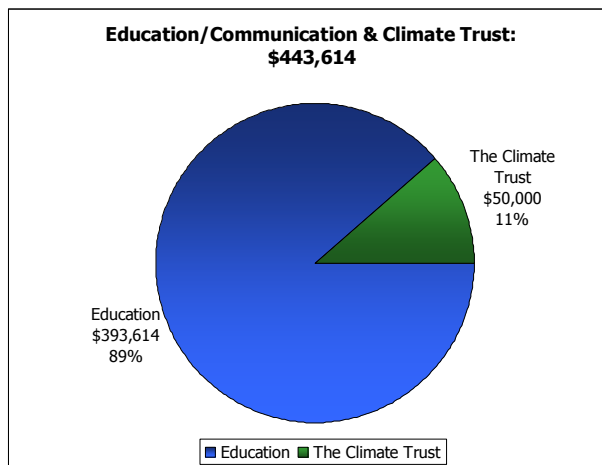


Chart 2 – Total Expenditures

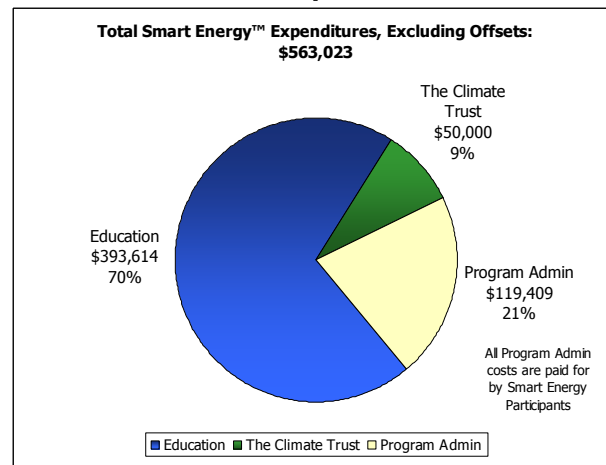


Chart 1 illustrates the costs spent on customer communications and education and The Climate Trust fees which totaled \$443,614. These costs were deferred for later inclusion in general rates. Per the agreement between the Company and The Climate Trust, a total of \$100,000 for the program implementation was paid in the 2008 calendar year. The Climate Trust invoiced the Company quarterly for \$25,000. The Company was invoiced for a total of \$50,000 in September and December 2008.

Chart 2 summarizes all costs related to the program excluding the funds for offsets. A total of \$563,023 was spent for the communication and education of customers, Climate Trust fees and program administration. 70% of all costs were for customer education and communication. Program

Exhibit B

administration costs of \$119,409, or 21% of total costs, were funded totally by program participants. An additional breakdown of these costs are provided in Table 5.

Table 5 – Expenses by type and source

Expenses	Deferral	Smart Energy™ Participants	Total
Education	\$393,614	\$0	\$393,614
The Climate Trust	\$50,000	\$0	\$50,000
Program Admin	\$0	\$119,409	\$119,409
Total	\$443,614	\$119,409	\$563,023

Chart 3 illustrates the education and communications expenses by month in relation to the total number of Smart Energy™ participants. The Company was able to maintain the participation level throughout the heating season, when enrollment campaigns typically cease. This is especially notable considering the strained economic conditions and the significant gas cost increase included in the Company’s 2008-2009 Purchased Gas Adjustment filing effective November 2008.

Chart 3 – Education/Communications Costs and Enrollment

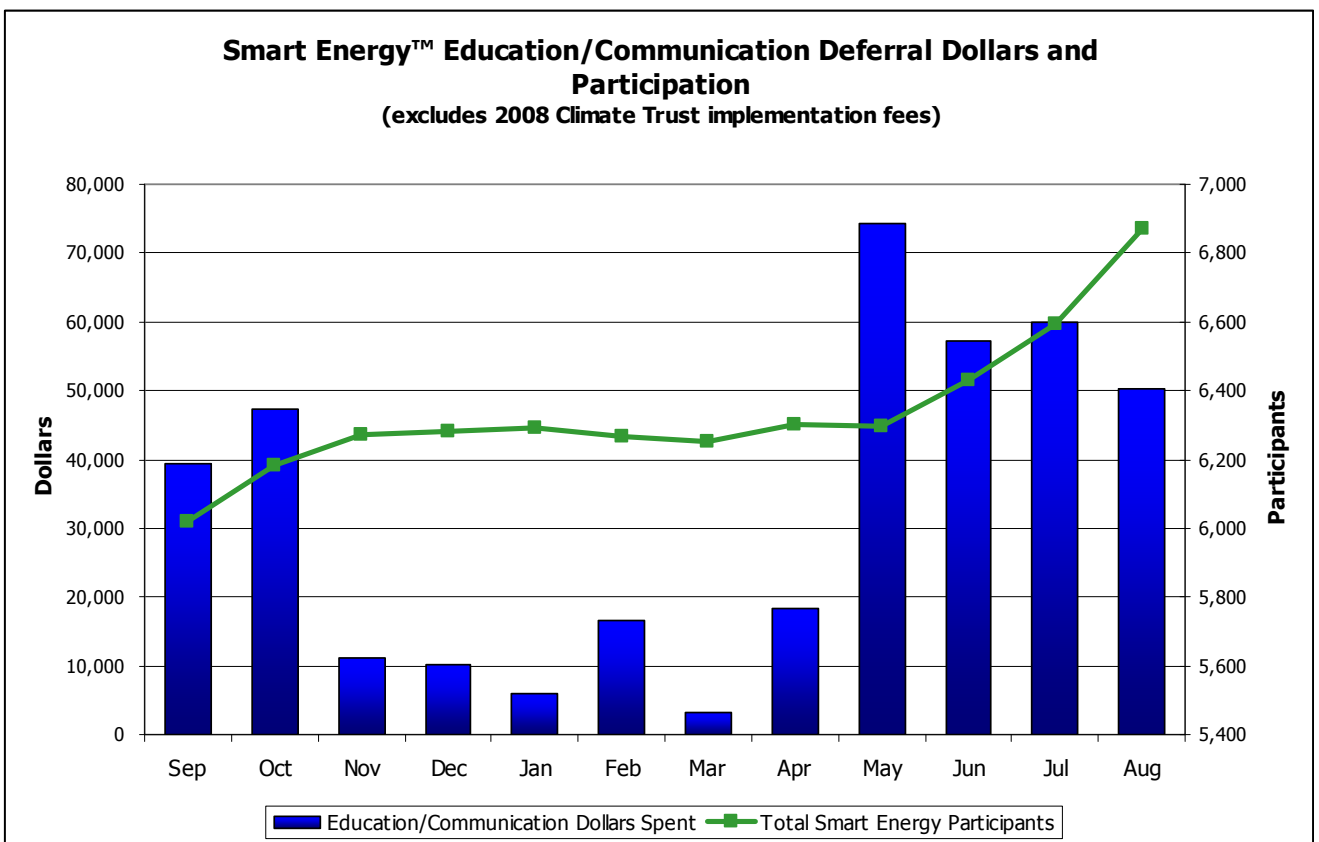
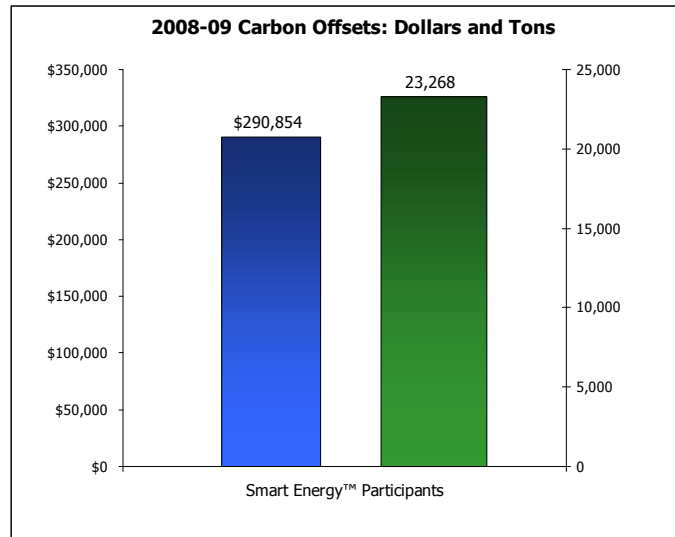


Chart 4 details the funds sent to The Climate Trust for the purchase and retirement of offsets and the resulting tons offset. For this second program year, Smart Energy™ participants have funded \$290,854 towards the offset of 23,268 tons of carbon emissions. Additional detail was provided above in Table 2.

Chart 4 – Carbon Offsets

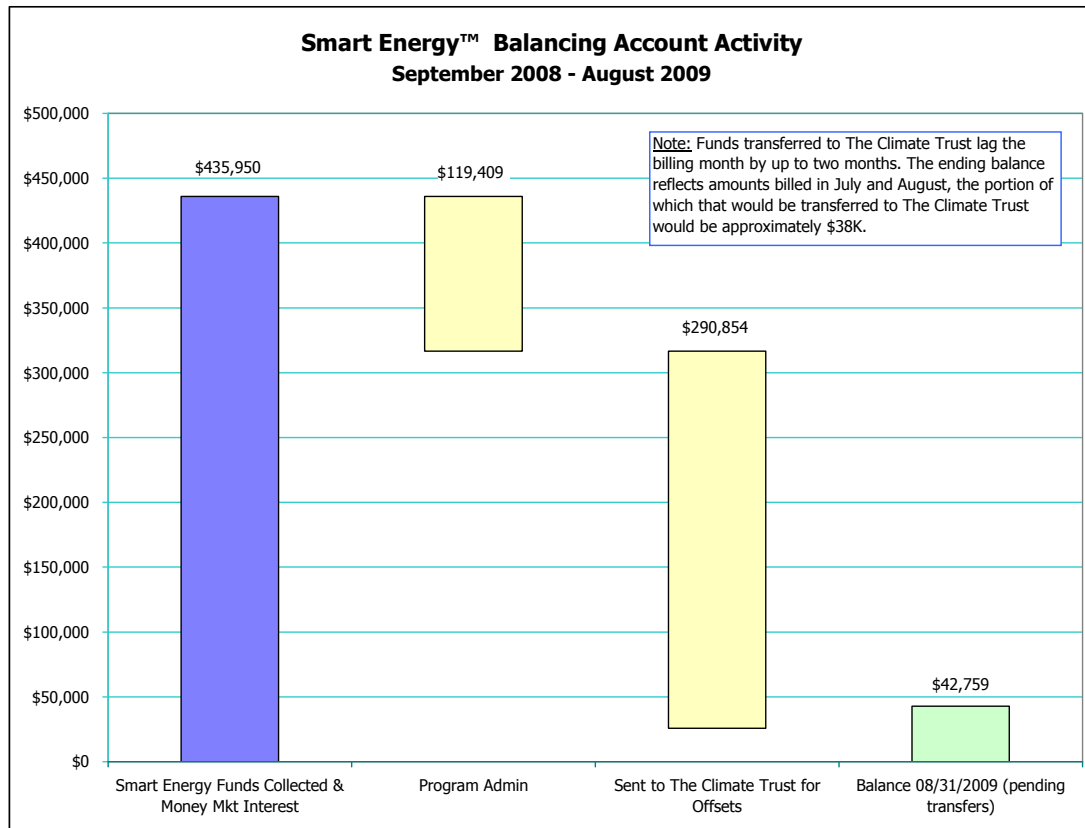
ANALYSIS OF PARTICIPANT FUNDS COLLECTED

The Company continues to use a balancing account to record the activity of the Smart Energy™ program. Increases (credits) to the account include monthly receipts from customer billings and money market interest on the bank account the Company has set up solely for Smart Energy™ funds. Decreases (debits) to the account include the cost of the program administration and the transfer of funds to The Climate Trust for the purchase of offsets. Program administration costs consist primarily of the payroll and payroll overheads associated with the program manager. Schedule 400 provides for the payment of program administration costs from funds collected.

The Company transfers 70% of the funds collected from participants to The Climate Trust. This reflects the projected split of program administrative costs and funds for offset purchases over the course of the five year pilot program. This 70% was determined when the program price was originally established. Using 70% will mitigate the funding mismatch due to the seasonality of Smart Energy™ funds collected (half of the participants enrolled in the program select the volumetric option) versus the fairly fixed expenses of program administration. It was also anticipated that the use of the 70% transfer practice would mitigate additional funding/cost mismatches in later years of the program, when program participants would pay for customer education and communication expenses.

The activity and current balance of the Smart Energy™ balancing account is detailed in Chart 5. The ending credit balance reflects the lag that occurs between when customers are billed and when funds are ultimately transferred to The Climate Trust. Collections through June have been transferred. The portion of July and August collections due to be transferred are approximately \$19,100 and \$19,300, respectively, and will be transferred in October and November, respectively.

Chart 5 – Analysis of funds collected



CARBON OFFSET PROJECTS

BIODIGESTERS

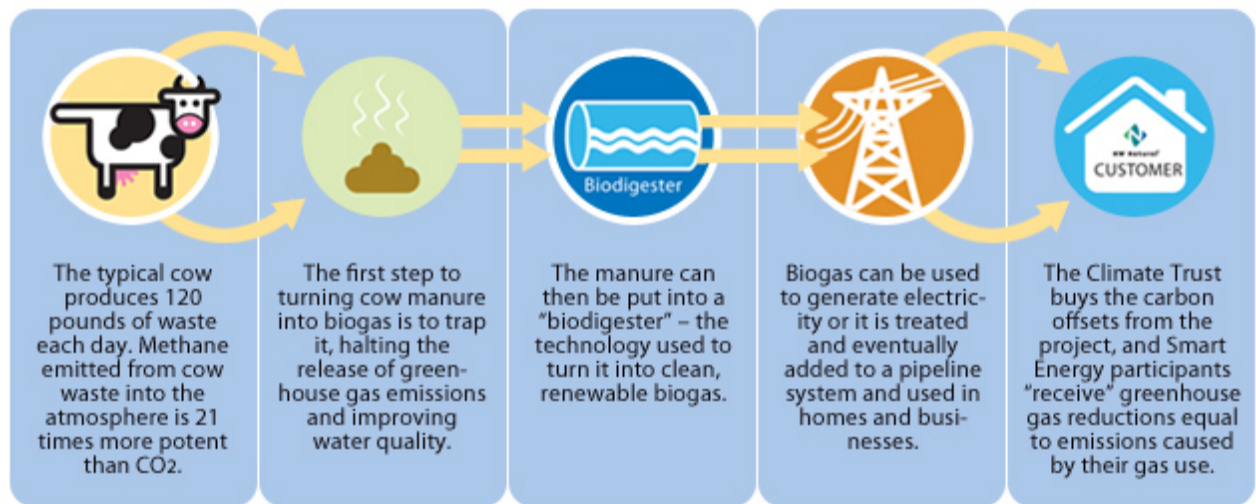
The Smart Energy™ Program offers customers the option to purchase carbon offsets acquired through high quality, project-based emissions reductions. NW Natural chose to focus on developing biodigester projects since these projects capture methane, which is at least 21 times more potent of a greenhouse gas than carbon dioxide. Biodigesters also produce biogas, a renewable energy source that can be used:

- Onsite to replace other fuels like propane or oil
- To generate electricity for use onsite or placed on the grid
- Once national standards are established it could be added to pipeline supply

Smart Energy™ funding supports the development of regional biodigester projects, helping to protect the viability of large and small Oregon farms that need a cost-effective way to manage livestock waste.

The graphic below illustrates how a biodigester produces biogas and reduces methane emissions.

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BIODIGESTERS – PROJECT STATUS

For the reasons stated above, NW Natural is committed to the development of regional biodigesters. We have learned that our efforts are accelerated when we engage partners like the Bonneville Environmental Foundation (BEF). In addition to partnering with BEF in Project I, NW Natural continues to explore other partnerships that will help move biodigesters forward. The status of current projects and opportunities in the pipeline are outlined below:

Project I

- Project I is a commercial demonstration project. The project broke ground in 2Q 2009 and is scheduled to begin operation in November 2009. In 2008 NW Natural reported that it anticipated the project would be operational in early March 2009. The delays were due to permitting hurdles and to additional time necessary to acquire materials. This project is being developed through a partnership with NW Natural, BEF, the owner of the dairy operation where the biodigester will be sited and a biodigester technology company. This project will convert waste into biogas that will then be used to offset onsite propane use for the dairy operations. Conservative estimates suggest this first test unit will reduce carbon emissions by 3,300 tons annually. The Climate Trust will purchase and retire the offsets associated with this project on behalf of Smart Energy™ customers.

Project I is sited on a large farm that could accommodate another 12-15 biodigesters, potentially capturing an additional 40,000 plus tons of carbon each year. Future projects at this site will consider a more diverse use of the biodigester-produced biogas including using the gas to run a gas chiller (for milk cooling), to generate electricity, or to offset a neighbor’s energy needs.

Project II

- *Update:* This project is still in development. The owner of the dairies is working with Washington State University, who is currently conducting bench tests. The dairy owner is still committed to moving forward with a project once WSU has completed their tests; possibly in 2010.
- *As reported last year:* The second project is with a small dairy operation that has 1,500 cows (750 at 2 separate farms). In the first phase, two farms will be sited with biodigesters. NW Natural is serving in an advisory role to this project. In addition to the 4,500 tons of

Exhibit B

carbon that will be captured annually, the Company expects to gain the experience and understanding necessary to replicate this solution for other small sustainable farms. As this project moves forward, The Climate Trust will lead the effort to quantify, verify and retire offsets on behalf of Smart Energy™ customers.

Project III

- The Climate Trust invested Smart Energy™ funds in a project they were contracting with for the carbon reduction stream. Farm Power is on a dairy farm in Washington State and is using the biogas to generate electricity for Puget Sound Energy. The project began producing power on August 30, 2009, and The Climate Trust expects the first verified offsets to be recorded before the end of 2010.

Project IV

- The Climate Trust is evaluating several potential projects. One, located in the Willamette Valley on a family owned farm, is scheduled to begin operation in 2Q or 3Q of 2010. This project would provide an opportunity for Smart Energy™ to support a small dairy and demonstrate the viability of biodigester use on farms of all sizes. Preliminary emission reductions are estimated at 3,859 – 4,300 tons annually. The dairy has approximately 1,200 cows. The biogas will be used for power production.

SUMMARY

The economic crisis that spanned the second year of the program contributed greatly to the residential enrollment goal not being reached. In addition, NW Natural experienced a year of low customer growth, which further impacted the company's ability to achieve pre-established enrollment goals. NW Natural is optimistic that 2010 will bring stronger enrollment in Smart Energy™ as the economy begins to recover. The Company is solidly committed to the program and communicating the important messages about climate change, energy efficiency and carbon emissions.

Commercial enrollment exceeded its goal due in part due to aggressive work done in 2008 that resulted in several large customers enrolling in early 2009: Miller Paint Company, Oregon Convention Center and Parr Lumber Company.

Ultimately NW Natural considers the second year a success. The progress made on bringing biogas to the region, extensive education through the Smart Energy™ Challenge and the exposure levels realized represent tremendous advances for the program and in reducing the impacts of climate change.

As the program has evolved, it has become evident that making the program self-funding will take longer than originally forecasted. While the Company has come close to or exceeded the enrollment goals as a percentage of customers, the general decline in customer growth means a lower level of participation than was anticipated when the program price was designed. Fortunately great progress has been made in the first two years and enrollments should increase as the economy recovers.

The implications of a carbon constrained future are inescapable. Through the Smart Energy™ program, NW Natural has taken the initiative in addressing the problem of climate change by bringing not only information, but also actual solutions to the region.

Exhibit C

Company: Northwest Natural Gas Company
 State: Oregon
 Description: Deferral of Smart Energy Costs
 Account Number: 186304
 Info: Docket UM 1327
 Deferrals for 2008 calendar year granted in Order 07-383 (not to exceed \$622K)
 Deferrals for 2009 calendar year granted in Order 09-088 (not to exceed \$475K)

Interest is not applied to this account

1 Debit (Credit)

2

3

4	Month/Year	Note	Deferral	Transfers	Interest	Activity	Total Balance	2008 Deferral Balance	2009 Deferral Balance	
5	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(g1) 2	(g2) 2	
6										
7	Beginning Balance							0.00		
8										
9	Dec-07		0.00		N/A	0.00	0.00			
10	Jan-08		7,740.00		N/A	7,740.00	7,740.00			
11	Feb-08		4,060.11		N/A	4,060.11	11,800.11			
12	Mar-08		6,600.17		N/A	6,600.17	18,400.28			
13	Apr-08		59,697.78		N/A	59,697.78	78,098.06			
14	May-08		62,601.73		N/A	62,601.73	140,699.79			
15	Jun-08		39,771.58		N/A	39,771.58	180,471.37			
16	Jul-08		98,075.90		N/A	98,075.90	278,547.27			
17	Aug-08		155,472.78		N/A	155,472.78	434,020.05			
18	Sep-08		89,356.30		N/A	89,356.30	523,376.35			
19	Oct-08		47,183.57		N/A	47,183.57	570,559.92			
20	Nov-08		11,211.63		N/A	11,211.63	581,771.55			
21	Dec-08	1	60,214.00	(19,985.55)	N/A	40,228.45	622,000.00	622,000.00		
22	Jan-09		5,900.68		N/A	5,900.68	627,900.68	622,000.00	5,900.68	
23	Feb-09		16,521.87		N/A	16,521.87	644,422.55	622,000.00	22,422.55	
24	Mar-09		3,200.00		N/A	3,200.00	647,622.55	622,000.00	25,622.55	
25	Apr-09		18,343.06		N/A	18,343.06	665,965.61	622,000.00	43,965.61	
26	May-09		74,303.56		N/A	74,303.56	740,269.17	622,000.00	118,269.17	
27	Jun-09		57,151.50		N/A	57,151.50	797,420.67	622,000.00	175,420.67	
28	Jul-09		59,873.77		N/A	59,873.77	857,294.44	622,000.00	235,294.44	
29	Aug-09		50,354.10		N/A	50,354.10	907,648.54	622,000.00	285,648.54	
30	Sep-09		34,752.82		N/A	34,752.82	942,401.36	622,000.00	320,401.36	
31	Oct-09									
32										
33										
34										
35	Amount Deferred for the 2009 Calendar Year, through September:							320,401.36		

36 NOTES

- 37
- 38 1 Transfer to O&M expense to limit deferral for 2008 to \$622K, per Order 07-383
- 39 2 Deferrals are authorized on a calendar year. The total balance is broken down into the 2 separate deferral years for convenience of review
- 40 3 **No Amortization has been recorded in 2009; amortization of the 2008 deferral will begin effective November 1, 2009.**



CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing APPLICATION FOR REAUTHORIZATION TO DEFER EXPENSES FOR SMART ENERGY PILOT PROGRAM COMMUNICATION COSTS upon all parties of record in this proceeding (UM 1327), by e-mailing an electronic copy of the filing to the following parties or attorneys of parties:

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DATED at Portland, Oregon, this 30th day of December 2009.

/s/ Jennifer Gross

Jennifer Gross
Tariff and Regulatory Compliance Consultant
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