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August 28, 2007

VIA ELECTRONIC FILING

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

Re: Docket No. UM 1327

Enclosed for filing is Northwest Natural Gas Company's Amended Application for a Deferred Accounting Order for Certain Smart Energy Program Start-up Costs.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lisa F. Rackner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Lisa F. Rackner

Enclosures

cc: Ed Durrenberger
Ed Busch
Lee Sparling

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM 1327**

4 In the Matter of the Application of
5 NORTHWEST NATURAL for a Deferred
6 Accounting Order for Certain Smart Energy
7 Program Start-up Costs

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

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 authorizing the Company to defer from January 1, 2008 through
11 December 31, 2008 certain unfunded start-up costs associated with NW Natural's Smart
12 Energy pilot program. This Amended Application is intended to replace in its entirety the
13 initial application filed by the Company in this docket on July 30, 2007.

14 **I. INTRODUCTION**

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

22 On July 30, 2007 NW Natural filed its initial application to defer certain Smart Energy
23 program start-up costs. In that application the Company offered to contribute approximately
24 \$130,000 toward the program's start-up costs, and requested that the remaining \$1.18 in
25

26 ¹ For more information about the Climate Trust, see NWN Advice No. OPUC 07-
4/Miller/101/1-2 (filed June 29, 2007).

1 start-up costs be deferred for inclusion in customer rates. Staff opposed NW Natural's
2 application, and at the August 21, 2007 Public Meeting, the Commission requested that NW
3 Natural provide the Commission with some additional information. The Commission further
4 suggested that Staff and the Company attempt to resolve their differences.

5 In the week since the August 21st Public Meeting, the Company has had several
6 discussions with Staff in which it has provided additional information regarding the
7 educational and economic benefits NW Natural's customers will enjoy as a result of Smart
8 Energy program. In addition, as described below, the Company has agreed to substantially
9 increase its economic contribution to the start-up costs of the program. Specifically,
10 NW Natural shareholders have now agreed to pay all start-up costs incurred in 2007, which
11 are expected to be approximately \$288,000, and to absorb until the Company's next rate
12 case the capital expenditures associated with development of the project.

13 Accordingly, the Company requests authorization to defer the approximately
14 \$622,000 which it expects to incur in start-up costs for the program in 2008—the period
15 covered by this Amended Application.²

16 II. BACKGROUND

17 NW Natural is committed to helping our customers reduce their carbon footprint by
18 using natural gas as efficiently as possible. Consistent with this, the Company has formed a
19 successful partnership with Energy Trust of Oregon, Inc. ("ETO") to help customers increase
20 their energy efficiency and plans to continue to find new ways to work with ETO in the
21 future. Additionally, NW Natural supports enactment of federal climate legislation to limit
22 greenhouse gas emissions. Despite this, NW Natural believes it must continue to take steps
23 to help its customers reduce their climate impacts immediately—without waiting for this
24 future regulatory program to take effect.

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26 ² NW Natural also expects to incur approximately \$268,000 in start-up costs in 2009. The Company is not requesting deferral of these amounts at this time.

1 NW Natural's Smart Energy pilot program is such a step. In the proposed pilot
2 program, residential Smart Energy participants will pay a flat amount of \$6 per month or a
3 rate of \$0.10486 per therm. Commercial participants may select a flat amount of their
4 choosing (not less than \$10 per month). This rate is designed to fund the cost of carbon
5 offsets estimated at the time of this filing and the ongoing administrative costs associated
6 with the program.

7 The Smart Energy program rate does not, however, cover the costs associated with
8 program start-up. NW Natural did not include the start-up costs in the program rates
9 because the Company's market research suggests the program's rates are near the top end
10 of the price customers will pay for a product of this kind. Moving above these rates would
11 likely result in substantially fewer customer signups, and ultimately, an unsuccessful
12 program.

13 Program start-up costs not included in the monthly rate consist of initial work by The
14 Climate Trust to develop the program, capital costs associated with NW Natural's
15 information and phone systems, as well as the first three years of marketing the product.
16 NW Natural proposes that all customer classes eligible for participation in the program share
17 responsibility for paying these start-up costs.

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III. NOTICE

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

- | | |
|---|--|
| Inara K. Scott
NW Natural
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| Rates and Regulatory Affairs
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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).

A. Description of Utility Revenue or Expense.

This application addresses NW Natural's unfunded start-up expenses related to the Company's Smart Energy program. As explained above, the success of the program relies in part on the program rate not exceeding a level that customers are willing and able to pay. Consequently, the program rate does not cover the costs associated with program start-up. Program start-up costs not included in the rate consist of: 1) the costs of initial work by The Climate Trust to develop the program, including the identification, assessment, selection, and contracting of GHG offset projects to be acquired under the Smart Energy Program, as well as consultant and legal fees related to program design and development; 2) capital costs associated with NW Natural's information and phone systems necessary to implement the program; and 3) expenses necessary to market the program in its first three years. For more information about these expenses, please see Staff's Memorandum dated August 28, 2007.

1 NW Natural shareholders have committed to pay all start-up operating costs incurred
2 in 2007, which is estimated to be \$288,000. In addition, NW Natural's shareholders have
3 agreed to absorb the capital costs until the Company's next general rate case. The
4 Company expects to incur approximately \$622,000 in additional start-up costs during the
5 12 months covered by this deferral application.

6 **B. Reasons for Deferral.**

7 ORS 757.259(2)(e) allows the deferral of utility revenues where necessary to match
8 appropriately the costs borne by and benefits received by ratepayers. This request seeks to
9 align the costs NW Natural will incur for its Smart Energy program with the benefits
10 customers receive by reducing the climate impact from use of natural gas in the Northwest
11 and becoming eligible to participate in the program.

12 **1. The Smart Energy Program Offers Broad Benefits.**

13 The Smart Energy program provides a broad array of benefits for all NW Natural
14 customers, whether or not they enroll in the program. First, the program provides real and
15 measurable greenhouse gas benefits. While these offset benefits will be retired by The
16 Climate Trust for the participants, the environmental benefits of these actions accrue to all.
17 Second, the program allows all NW Natural customers an opportunity to learn about their
18 "carbon footprint" and the specific steps they can take to reduce it. As our state and country
19 move toward carbon regulation, it will become more important that all customers make the
20 connection between their energy use and their carbon impacts. Third, the Smart Energy
21 program will provide an opportunity for the State of Oregon, Public Utility Commission, and
22 NW Natural to develop and hone policy tools that will be critical in the upcoming regulation
23 of greenhouse gases. Finally, it is appropriate to collect start-up costs from all customers
24 because the program creates opportunities for all customers to participate. The existence of
25 the program, and its availability to all customers, is of value for all and thus justifies
26 spreading some costs to all NW Natural customers.

1 These broad benefits for customers are valued and expected by NW Natural
2 customers. In a March 2007 survey, 81% of respondents said they “strongly favored” or
3 “somewhat favored” NW Natural offering a program for customers that helps reduce carbon
4 dioxide emissions. See NWN Advice No. OPUC 07-4/Miller/101/1-2.

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

6 A utility carbon offset program is a relatively unknown product that brings with it
7 some complex issues. While concern about climate change is growing, customers are not
8 yet fluent with concepts such as a “carbon footprint,” and with the idea of balancing
9 emissions from one activity with “offsets” from another. To successfully promote enrollment
10 in Smart Energy, NW Natural will need to conduct broad education about how customers’
11 gas use produces carbon dioxide, the connection between carbon emissions and climate
12 change, and the concept of carbon offsets.

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

14 The cost of the Smart Energy program is supported primarily by the voluntary
15 participants, with 78% of all costs coming from them. The remaining 22% will be shared by
16 all NW Natural residential and commercial customers and NW Natural shareholders. The
17 effect on an average residential customer bill is estimated to be approximately 6 cents per
18 month for one year. This estimate equates to a 0.1% change over current residential billing
19 rates.

20 **4. NW Natural Shareholders Will Contribute to the Success of Smart**
21 **Energy.**

22 NW Natural will pay all the start-up costs incurred in 2007, which the Company
23 estimates to be \$288,000. In addition, NW Natural will absorb the capital costs
24 (approximately \$97,200) for the necessary programming of customer information and phone
25 systems until the Company’s next general rate case. Finally, NW Natural shareholders will
26 purchase the first blocks of Smart Energy offsets at the time the tariff is approved.

1 NW Natural will provide a fixed contribution of \$77,000, which represents a total offset of the
2 natural gas used to heat its offices, service centers and shops for the entire five-year period
3 of the pilot program.

4 It should be noted that the Smart Energy program poses shareholder risks unique to
5 the natural gas industry. Unlike the educational component of an electric renewable
6 program, which enhances the "clean-energy" image of electricity, the educational
7 component of this program entails educating customers about how their natural gas use
8 emits carbon dioxide associated with climate change. This very important education
9 presents a significant business risk to NW Natural. See NWN Advice No. OPUC 07-
10 4/Miller/100/6-7. In light of this risk, and the broad customer benefits provided as described
11 above, NW Natural's proposed deferred accounting treatment, for later inclusion in rates,
12 represents an appropriate sharing of costs among the Company, program participants and
13 eligible customers.

14 **C. Proposed Accounting.**

15 During the period of deferral, NW Natural proposes to account for the deferred
16 expenses related to the Smart Energy program by recording the deferral in a sub-account of
17 Account 186 (Miscellaneous Deferred Debits). In accordance with ORS 757.259(3),
18 NW Natural proposes to accrue interest on the unamortized balance at a rate equal to its
19 weighted average cost of capital most recently approved by the Commission. In the
20 absence of deferred accounting, the Company would record Smart Energy program start-up
21 expenses in the appropriate sub-account of FERC Account 401. Ratemaking treatment of
22 deferred amounts will be addressed in a future rate proceeding.

23 **D. Estimate of Amounts.**

24 The Company estimates the amount to be recorded in the deferred account for the
25 upcoming 12 month period will be approximately \$622,000.

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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: August 28, 2007.

MCDOWELL & RACKNER PC



Lisa F. Rackner
Sarah J. Adams

NW NATURAL GAS COMPANY

Inara K. Scott
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Attorneys for NW Natural

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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

Lowrey R. Brown
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Bob Jenks
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DATED: August 28, 2007.



Lisa F. Rackner
Attorney for NW Natural