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August 7, 2014

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
Post Office Box 1088
Salem, Oregon 97308-1088

Attn: Filing Center

Re: UM ____; Application for Authorization to Defer Certain Expenses or Revenues

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), files herewith the above-referenced Application for Authorization to Defer Certain Expenses or Revenues.

A notice of this Application has been served on all parties who participated in the Company’s most recent general rate case, UG 221. A copy of the notice is attached.

Sincerely,

/s/ Mark R. Thompson

Mark R. Thompson
Manager, Rates & Regulatory Affairs

attachments

1 BEFORE THE PUBLIC UTILITY COMMISSION

2 OF

3 OREGON

4 UM _____

5 In the Matter of the Application)
6 by NORTHWEST NATURAL GAS COMPANY,)
7 dba NW NATURAL, for Authorization)
8 to Defer Certain Expenses or Revenues)
9 Pursuant to ORS 757.259)

10 APPLICATION FOR AUTHORIZATION
11 TO DEFER CERTAIN EXPENSES OR REVENUES

12 Northwest Natural Gas Company, dba NW Natural (NW Natural or Company),
13 hereby files with the Public Utility Commission of Oregon (Commission) this application
14 seeking authorization to use deferred accounting pursuant to ORS 757.210 and
15 757.259, and OAR 860-27-300, for the 12-month period beginning August 7, 2014
16 through August 6, 2015 for all net revenues and/or net costs that will be associated with
17 the Company’s activities related to the drilling of certain wells (“Post-Carry wells”) in the
18 Jonah Field, pursuant to the amended agreements that govern NW Natural’s joint
19 venture in gas reserves in the field.

20 NW Natural seeks to defer these net revenues or net costs so that they can be
21 returned to or recovered from customers through the Company’s annual Purchased Gas
22 Adjustment (PGA), pursuant to ORS 757.210(1)(b), or other mechanism deemed
23 appropriate by the Commission.
24

1 NW Natural believes that the Company's annual deferral for gas commodity
2 costs, filed as part of its annual PGA, may be sufficient to authorize the Company to
3 defer these revenues or expenses. (See, e.g. NW Natural's reauthorization application
4 approved by the Commission for the current gas year in Order No. 13-441, authorizing
5 the deferral of commodity gas cost variations to be recovered or refunded in accordance
6 with Schedule P or its successor).¹ However, in discussions to date, the Company,
7 Staff, and customer representatives have been unable to agree on a precise process for
8 cost recovery, and have been discussing various alternatives to flowing the costs and
9 revenues through this year's PGA. The parties have discussed that it will likely be
10 appropriate to delay cost recovery until after this year's PGA, pending a prudence
11 review by the Commission of NW Natural's activities. In light of the potential that cost
12 recovery could be delayed until after this year's PGA, and in the interest of ensuring that
13 the Company is authorized to supply the revenues to, or assign the appropriate costs to
14 rates, the Company files this deferral application as a safeguard measure. If the
15 Commission determines that the Company's normal gas cost commodity deferral is
16 sufficient to cover the revenues and costs associated with the ongoing drilling of Post-
17 Carry wells, then the Commission may, of course, deny this petition, or request that NW
18 Natural withdraw it in light of such finding.

19 In support of this Application, NW Natural states:

20 **///**

¹ Schedule P provides for the inclusion of "Gas Reserves" in purchased gas costs, to the extent that those costs result from agreements authorized by the Commission.

1 **A. NW Natural**

2 NW Natural is a public utility in the state of Oregon and is subject to the
3 jurisdiction of the Commission regarding rates, service and accounting practices. NW
4 Natural also provides retail natural gas service in the states of Oregon and Washington.

5 **B. Statutory Authority**

6 This application is filed pursuant to ORS 757.259, which empowers the
7 Commission to authorize the deferral of expenses or revenues of a public utility for later
8 inclusion in rates.

9 **C. Communications**

10 Communications regarding this Application should be addressed to:

11 NW Natural
12 e-filing for Regulatory Affairs
13 220 NW Second Avenue
14 Portland, Oregon 97209-3991
15 Telephone: (503) 226-4211, ext. 3589
16 Facsimile: (503) 721-2516
17 E-mail: eFiling@nwnatural.com

18 and

19
20
21 Mark Thompson
22 Manager, Rates and Regulatory Affairs
23 NW Natural
24 220 NW Second Avenue
25 Portland, Oregon 97209-3991
26 Telephone: (503) 721-2476
27 E-mail: mark.thompson@nwnatural.com

1 **D. Description of Expenses or Revenues for which Deferred Accounting is**
2 **Requested - OAR 860-027-300(3)(a)**

3 NW Natural hereby requests the authorization to use deferred accounting for all
4 associated expenses and revenues related to gas reserves capital costs (including
5 drilling and completion costs, tie-in costs, cathodic protection costs, and transactions
6 costs), including the following:

- 7 a. Depletion, or the volumetric amortization of the gas reserves capital
8 costs
- 9 b. midstream, or gathering and processing expenses
- 10 c. severance and ad valorem taxes based on production
- 11 d. operating expenses referred to as lease operating expenses (LOE)
- 12 e. carrying costs on the capital investment

13 Please note that the items above are consistent with the elements included in the
14 calculation of the cost of gas related to NW Natural's joint venture with Encana Oil &
15 Gas (USA) Inc. ("Encana"), to develop gas reserves in the Jonah Field in Wyoming,
16 approved by the Commission in UM 1520.

17 In UM 1520, the Commission reviewed NW Natural's application for authorization
18 to enter into a Carry and Earning Agreement and joint venture with Encana. Under the
19 agreement, NW Natural funded certain drilling activities in the Jonah Field, and in
20 exchange received an interest in the production of gas from the field. The Commission
21 found that it was prudent for NW Natural to enter into the Carry and Earning Agreement
22 in Order No. 11-176 (which confirmed a prior order).

4 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

1 Earlier this year, NW Natural and Encana entered into an amendment to the
2 Carry and Earning Agreement to terminate the obligation to fund and drill “carry” wells.
3 This was done in order to facilitate Encana’s sale of the Jonah Field to a TPG company
4 (Jonah Energy), given that Encana wanted to sell the property clear of the carry and
5 earning obligations. As part of negotiations with Encana, NW Natural was able to obtain
6 a favorable upward adjustment to the volumes that it would have otherwise received
7 under the performance of the Carry and Earning Agreement. This upward change in
8 volumes helped restore the volumes that NW Natural and Encana had expected at the
9 time they entered into the original agreement, making up for differences that were due
10 to lower production than anticipated, and changes in the drilling schedule that Encana
11 made pursuant to the contract. After the amendment, NW Natural expects that it will
12 receive the amounts of gas that were originally contemplated, adjusted to reflect that
13 only 72 of the original 102 wells were drilled.

14 Because the original agreement was amended after drilling only 72 of the 102
15 wells, 30 of the original 102 wells were left undeveloped. There are an additional 8
16 wells that would have been left undeveloped even if the drilling program had been
17 completed. Under the amended agreement, NW Natural has an opportunity to
18 participate in the drilling of these undeveloped wells (Post-Carry wells) when Jonah
19 Energy proposes to drill each of them. When proposed, NW Natural can make one of
20 the following choices:

21 1) In the event that the analysis shows that the well is expected to be beneficial to
22 customers, consent to the development of the proposed well and pay its “working

1 interest” share of costs to drill, complete, and equip the well (these costs are
2 equal to the percentage of ownership that NW Natural has in the section where
3 the proposed well will be drilled); or
4 2) If the analysis of the well does not show a benefit to customers, non-consent to
5 development of the proposed well, and forego its share of gas from that well until
6 gas sale proceeds equal 200% of the total capital costs and operating costs of
7 the well, after which time NW Natural would receive a portion of the gas equal to
8 its percentage ownership in the section.

9 Under the agreement, NW Natural has only 30 days to make a decision after receiving
10 notice from Jonah Energy, reflecting the necessity for a short turnaround, given the
11 availability of drilling equipment and scheduling.

12 In early May, NW Natural received notice from Jonah Energy that it wished to drill
13 several wells in sections where NW Natural has a working interest. NW Natural
14 conducted analysis to determine the expected gas costs that would be associated with
15 the wells, as well as the ultimate prices that would be expected to be paid by customers
16 if NW Natural were to seek to add the gas from the wells to its gas portfolio. NW
17 Natural determined that, for most of the wells to date, the gas is favorably priced, largely
18 due to the terms of the amended agreement, which had provided NW Natural a
19 substantial working interest in the relevant sections of the Jonah Field. Consequently,
20 NW Natural has elected to participate in the drilling of certain wells, and to not
21 participate in the drilling of certain other wells proposed by Jonah Energy.

1 NW Natural intends to file, in the near-term, an application for the Commission to
2 review the activities of NW Natural to date, as well as the Company's proposed
3 approach to managing its rights in the Jonah Field in the future. NW Natural expects
4 that the resulting docket will deal with the details that will be necessary for the
5 Commission to determine the prudence of NW Natural's actions, and does not intend for
6 those activities to be reviewed pursuant to this safeguard deferral filing. NW Natural is
7 currently in the process of preparing its application, and seeking to establish times to
8 review its proposal in more details with the Staff and parties.

9 **E. Reason for Application for Authorization of Deferred Accounting - OAR**
10 **860-027-0300(3)(c)**

11 The authorization for deferred accounting treatment as described above can be
12 authorized pursuant to ORS 757.259(2)(d) because the described balances are "utility
13 expenses or revenues, the recovery or refund of which the commission finds should be
14 deferred in order to minimize the frequency of rate changes ... or to match appropriately
15 the costs borne by and benefits received by ratepayers." Additionally, NW Natural's
16 Tariff P.U.C. Or. 25 Schedule P provides for the collection of gas commodity costs
17 through deferred accounting treatment and subsequent amortization through the
18 Company's Purchased Gas Adjustment, which is implemented pursuant to ORS
19 757.210(1)(b).

20 **///**

1 **F. Accounting – OAR 860-027-0300(3)(c)**

2 The charges incurred for gas costs pursuant to the PGA activity and other
3 incurred gas costs, absent the requested account 191 deferral, would be recorded as
4 increases/decreases in the appropriate 80X gas expense subaccounts. The Company
5 intends to include the activity for the Post-Carry wells in the monthly deferred
6 accounting calculations, consistent with the inclusion of the carry and earning activity.
7 The tracking of the investment and related expenses will be accomplished so that the
8 activity can be reported on and reviewed on a stand-alone basis, allowing for complete
9 transparency.

10 **G. Estimated Amounts Subject to Deferral – OAR 860-027-0300(3)(d)**

11 NW Natural estimates that it will defer a net credit of between \$1 million and \$4
12 million for the wells consented to through July 31, 2014, related to the revenues and
13 expenses for this transaction. The estimates could change based on market prices and
14 future drilling opportunities.

15 **H. The effective date of the deferral**

16 This application is for the 12-month period beginning August 7, 2014 and ending
17 August 6, 2015.

18 **I. The interest rate that will apply to the accounts**

19 The interest rates used for deferral and amortization will be equivalent to the
20 rates used for commodity gas cost deferrals.

21 **J. Notification of Filing**

1 A notice of this Application has been served on all parties who participated in the
2 Company's most recent general rate case, UG 221, and is attached to this Application.

3 DATED this 7th day of August 2014.

4 Respectfully submitted,

5 NW NATURAL

6 */s/ Mark R. Thompson*

7 _____
8 Mark R. Thompson
9 Rates & Regulatory Affairs
10 220 NW Second Avenue
11 Portland, Oregon 97209-3991
12 Phone: (503) 721-2476
13 Email: mark.thompson@nwnatural.com



August 7, 2014

**NOTICE OF APPLICATION FOR AUTHORIZATION TO
DEFER CERTAIN EXPENSES OR REVENUES**

To All Parties Who Participated in UG 221:

Please be advised that today Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), applied for authorization to defer certain expenses or revenues, pursuant to the provisions of ORS 757.259. Copies of the Company's application are available for inspection at its main office.

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 221, 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: Kelley Miller
220 NW Second Avenue
Portland, Oregon 97209-3991
Telephone: (503) 226-4211 ext 3589

Public Utility Commission of Oregon
Attn: Judy Johnson
3930 Fairview Industrial Drive SE
PO Box 1088
Salem, Oregon 97308-1088
Telephone: (503) 378-6636

Any person may submit to the Commission written comments on this matter no sooner than 25 days from the date of this Application. 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.



CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER CERTAIN EXPENSES OR REVENUES, upon each party listed in the Service List in docket UG 221 by electronic mail.

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DATED at Portland, Oregon, this 7th of August, 2014

/s/ Kelley C. Miller
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