

Rates and Regulatory Affairs  
Facsimile: 503.721.2532



September 12, 2007

**VIA ELECTRONIC FILING**

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

ATTN: Filing Center

Re: **OPUC Docket Nos. UG 152/UG 163:** Explanatory Brief of NW Natural

Northwest Natural Gas Company, dba NW Natural (NW Natural or the "Company"), files herewith the above-referenced Explanatory Brief.

Please call me at 1-503-721-2476 if you have any questions or require any further information.

Sincerely,

/s/ Inara Scott

Inara K. Scott, Manager  
Rates & Regulatory Affairs

IKS/cmt  
enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
UG 152/ UG 163**

In the Matter of	)	
	)	EXPLANATORY
NORTHWEST NATURAL	)	
	)	BRIEF OF
Extending the Term of Weather-Adjusted Rate	)	
Mechanism (WARM) and Distribution Margin	)	NW NATURAL
Normalization (DMN)	)	

**I. BACKGROUND**

**Weather Adjusted Rate Mechanism (WARM)**

On August 22, 2003, the Commission issued Order No. 03-507 establishing WARM. The Commission approved WARM as part of a stipulation resolving issues in NW Natural’s general rate filing. See Order No. 03-507, Appendix C (Partial Stipulation Regarding Weather Adjusted Mechanism). The mechanism adjusts customers' bills due to deviations in weather from that assumed in the rate case and is intended to allow the company to recover its fixed costs by either raising rates when weather is unusually warm or lowering rates when weather is unusually cold. Per the terms of the stipulation, NW Natural’s WARM program will expire September 30, 2008. In addition, the stipulation noted that, “Four years following WARM implementation, by September 28, 2007, the Company may submit to the Commission....a request to continue the program.” *Id.* at Appendix C, page 3.

On November 13, 2003, the Commission modified WARM in Order No. 03-655. Specifically, that Order:

1 – BRIEF OF NW NATURAL

- Redefined the heating season to be Billing Cycle Ending Dates from November 15th through May 15th.
- Defined Billing Cycle Ending Date to be the date of the meter read.
- Removed Demand Charges from the Margin.

On August 16, 2004, the Commission modified WARM in Order No. 04-463. In that Order, the Commission made changes to the program that would control or cap the amount by which WARM could increase customer bills in both absolute and percentage terms and that would minimize the effect of a customer's usage on the WARM adjustment for others. WARM was further modified to address problems with cross-subsidization and cross-customer impacts.

### **Distribution Margin Normalization (DMN)**

On September 12, 2002, the Commission entered Order No. 02-634 in Docket No. UG 143, adopting a stipulation that authorized NW Natural to implement DMN. Under the terms of the stipulation, the partial decoupling mechanism would terminate on September 30, 2005, unless extended by the Commission. The stipulation further provided that by March 31, 2005, NWN would submit the results of an independent study regarding the partial decoupling mechanism's effectiveness and would ask the Commission to open an investigation to consider whether the partial decoupling mechanism should be continued.

On August 25, 2005, the Commission extended the DMN tariff for four years, so that it could be evaluated alongside WARM. See Order No. 05-934. Further, the parties stated that having the DMN tariff in effect one year longer than WARM will "ensure that

any delay in analyzing and potentially extending WARM will not affect DMN.” *Id.* at 2.

DMN is currently scheduled to expire on September 30, 2009.

## II. STIPULATION

Beginning May 31, 2007, NW Natural, the Staff of the Public Utility Commission of Oregon, the Citizens’ Utility Board of Oregon, the Northwest Industrial Gas Users, the Northwest Energy Coalition, the Community Action Partnership of Oregon, the Oregon Energy Coordinators Association, and the Oregon Department of Energy (collectively, the “Parties”) held discussions regarding an extension of both WARM and DMN. During the course of those meetings, the Parties determined it to be more efficient to consider WARM and DMN concurrently. Because the mechanisms interact, and the issues that may be discussed with regard to each are likely to overlap, concurrent examination of the two mechanisms appeared to be a more efficient use of the Parties’ time.

Ultimately, the Parties agreed on a Stipulation that extends both DMN and WARM until October 31, 2012. NWN filed this stipulation on August 28, 2007. See Stipulation, attached as Exhibit A.

The Parties agreed to the Stipulation in part because they determined it would be helpful to have several years of data on the functioning of WARM, so it can be more fully considered in the future. The Stipulation will allow parties to create more informed recommendations regarding WARM because of a reporting requirement that requires NW Natural to provide the Parties with an annual report on the functioning of WARM. The report will include the following data for the prior WARM year (*i.e.*, for the November 30, 2007 report, data from December 1, 2006, to May 15, 2007): actual Heating Degree Day differences experienced; charges or credits actually charged by

month and total across heating seasons or years in which the mechanism was in place; what percent of bills they were and actual amounts outside the limits that were deferred; and other factors related to WARM, such as number of opt-outs, customer calls, at-fault complaints, and billing issues by heating season or year; total charge or credit recorded by month for each heating season and year of the program; and financial impact, for example in earnings per share or return on equity.

No operational changes were made to either DMN or WARM. The Stipulation contains several provisions including a rate case moratorium, a force majeure clause, off ramps related to NW Natural's Integrity Management Program and Advanced Meter Reading program, and an agreement to provide information and respond to discovery requests. Finally, the Parties agreed an extension to both WARM and DMN, to October 31, 2012.

### **III. CONCLUSION**

Under the terms of the stipulation adopted in Order No. 03-507, NW Natural was required to submit to the Commission by September 28, 2007, a request to continue WARM. See Appendix C at 3. The Company respectfully requests that the Stipulation (Exhibit A attached hereto) be placed on the Commission's September 20, 2007 public meeting, in order to ensure continuous authorization for WARM.

DATED: September 12, 2007

Respectfully submitted,

          /s/ Inara Scott            
Inara K. Scott  
Manager, Regulatory Affairs

Rates and Regulatory Affairs  
Facsimile: 503.721.2532



August 28, 2007

**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: **DOCKET NOS. UG 163/UG 152**  
Extending the Term of Weather-Adjusted Rate Mechanism  
(WARM) and Distribution Margin Normalization (DMN)

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), hereby files a Stipulation extending the term of weather-adjusted rate mechanism (WARM) and distribution margin normalization (DMN) mechanism, and establishing an annual reporting requirement on WARM.

The Company is required to file for an extension by September 28, 2007 before the program expires on September 30, 2008. The Company respectfully requests that the Stipulation be placed on the Commission's September 20, 2007 public meeting.

Please call if you have questions.

Sincerely,

/s/ Inara K. Scott

Inara K. Scott  
Manager, Regulatory Affairs

enclosures

**BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON**

**UG 163/UG 152**

In the Matter of

NORTHWEST NATURAL

Extending the Term of Weather-Adjusted Rate  
Mechanism (WARM) and Distribution Margin  
Normalization (DMN).

STIPULATION

This Stipulation is entered into for the purpose of extending the terms of Northwest Natural Gas Company's ("NW Natural") weather-adjusted rate mechanism ("WARM") and distribution margin normalization ("DMN") mechanism, and establishing an annual reporting requirement on WARM.

**PARTIES**

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon, the Citizens' Utility Board of Oregon, the Northwest Industrial Gas Users, the Northwest Energy Coalition, the Community Action Partnership of Oregon, the Oregon Energy Coordinators Association, and the Oregon Department of Energy (collectively, the "Parties").

**BACKGROUND**

2. Per the WARM Stipulation adopted in Order 03-507, NW Natural's WARM program will expire September 30, 2008.

3. Per the DMN Stipulation adopted in Order No. 05-934, the DMN tariff will expire on September 30, 2009.

4. According to Order 05-934, the Parties' intent in staggering the expiration dates of these two programs was to ensure that "any delay in analyzing and potentially extending WARM [did] not impact DMN." Order 03-934 at 2.

5. Despite the staggered expiration dates, the Parties now believe it is efficient to consider WARM and DMN concurrently. Because the mechanisms interact, and the issues that may be discussed with regard to each are likely to overlap, concurrent examination of the two mechanisms would be a more efficient use of the Parties' time.

6. In addition, the Parties agree that it would be helpful to have several years of annual data on the functioning of WARM, so it can be more fully considered in the future.

## AGREEMENT

### 7. WARM

a. The Parties agree that NW Natural will continue to implement WARM as currently described in Schedule 195 and further described in the WARM Stipulation, except as provided in this Stipulation.

b. **Extension of Term:** The Parties agree to extend the term of WARM through October 31, 2012.

c. **Reports:** Beginning November 30, 2007, and annually thereafter until November 2011, NW Natural will provide the Parties with a factual report on the functioning of WARM. The report will include the following data for the prior WARM year (*i.e.*, for the November 30, 2007 report, data from December 1, 2006 to May 15, 2007): actual Heating Degree Day differences experienced; charges or credits actually charged by month and total across heating seasons or years in which the mechanism was in place; what percent of bills they were and actual amounts outside the limits that were deferred; and other factors related to WARM, such as number of opt-outs, customer calls, at-fault complaints, and billing issues by heating season or year; total charge or credit recorded by month for each heating season and year of the program; and financial impact, for example in earnings per share or return on equity. NW Natural agrees to respond to Parties' data requests regarding the report and underlying data within a reasonable time.

### 8. DMN

a. The Parties agree that NW Natural will continue to implement DMN as currently described in Schedule 190 and further described in the DMN Stipulation, except as provided in this Stipulation.

b. **Extension of Term:** The Parties agree to extend the term of DMN through October 31, 2012.

### 9. Rate Case Moratorium

NW Natural agrees not to file a general rate case prior to September 1, 2011, subject to the following exceptions:

a. **Integrity Management Program (IMP):** NW Natural intends to request that IMP costs continue to be treated as capital expenditures to be recovered on an annual basis after the program expires in 2009. If the Parties do not support NW Natural's request and the Parties cannot agree on an alternative form of recovery, or the Commission does not approve recovery of prudent costs pursuant to NW Natural's request, NW Natural may file a general rate case.

b. **Advanced Meter Reading:** If Portland General Electric (PGE) receives Commission approval of its automated metering infrastructure tariff (Docket UE 189) or otherwise notifies NW Natural that it is terminating the agreement governing the PGE &



NW Natural joint meter reading territory (JMR), NW Natural intends to implement automated meter reading ("AMR") in the territory currently covered by the JMR agreement. If the Parties do not support a request by NW Natural for the opportunity to recover the capital costs for its AMR project on an annual basis and the Parties cannot agree on an alternative form of recovery, or the Commission does not approve recovery of prudent costs pursuant to NW Natural's request, NW Natural may file a general rate case.

c. **Extraordinary Events:** The Parties and NW Natural understand and agree that there may be an extraordinary event or series of events that would lead NW Natural and the Parties to determine that a general rate case may be filed prior to September 1, 2011. Extraordinary events in this stipulation are items that do not lend themselves to other regulatory mechanisms, such as a deferral, and are expected to have significant negative impact on NW Natural's on-going, normalized regulated earnings.

In the case of such an event, NW Natural will work in good faith with the Parties before taking any action before the Commission. If NW Natural and the other Parties agree that the event constitutes an extraordinary event as defined in this stipulation, NW Natural may file a general rate case. If consensus cannot be reached, NW Natural may request that the Commission make a determination as to whether the event constitutes an extraordinary event as defined in this Stipulation. In such filing, NW Natural will have the burden of showing that it faces an extraordinary event as defined in this stipulation.

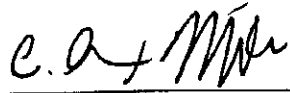
10. The parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

11. By entering into this Stipulation, no party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

12. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each party on the date entered below such party's signature.

NORTHWEST NATURAL GAS  
COMPANY

By   
C. Alex Miller  
Director, Regulatory Affairs and  
Forecasting

Date: 8/22/07

CITIZENS' UTILITY BOARD  
OF OREGON

By \_\_\_\_\_  
Robert Jenks  
Executive Director

Date: \_\_\_\_\_

OREGON DEPARTMENT OF ENERGY

By \_\_\_\_\_  
Philip H. Carver

Date: \_\_\_\_\_

NW ENERGY COALITION

By \_\_\_\_\_  
Steven Weiss  
Sr. Policy Associate

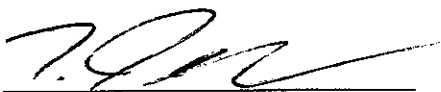
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NATURAL RESOURCES DEFENSE  
COUNCIL

By \_\_\_\_\_  
Steven Weiss

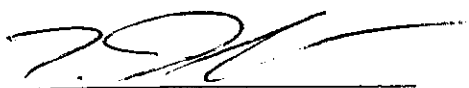
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COMMUNITY ACTION PARTNERSHIP  
OF OREGON

By   
Jim Abrahamson  
Community Action Partnership  
of Oregon

Date: 8/23/07

OREGON ENERGY COORDINATORS  
ASSOCIATION

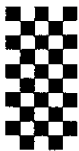
By   
Jim Abrahamson  
Oregon Energy Coordinators  
Association

Date: 8/23/07

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By: \_\_\_\_\_  
Jason Jones  
Attorney for Staff  
Oregon Department of Justice

Date: \_\_\_\_\_



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CLB

**NORTHWEST NATURAL GAS COMPANY**

**CITIZENS' UTILITY BOARD OF OREGON**

By \_\_\_\_\_  
C. Alex Miller  
Director, Regulatory Affairs and Forecasting

By Robert Jenks  
Robert Jenks  
Executive Director

Date: \_\_\_\_\_

Date: 8-24-07

**OREGON DEPARTMENT OF ENERGY**

**NW ENERGY COALITION**

By \_\_\_\_\_  
Philip H. Carver

By \_\_\_\_\_  
Steven Weiss  
Sr. Policy Associate

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**NATURAL RESOURCES DEFENSE COUNCIL**

**COMMUNITY ACTION PARTNERSHIP OF OREGON**

By \_\_\_\_\_  
Steven Weiss

By \_\_\_\_\_  
Jim Abrahamson  
Community Action Partnership of Oregon

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**OREGON ENERGY COORDINATORS ASSOCIATION**

**STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON**

By \_\_\_\_\_  
Jim Abrahamson  
Oregon Energy Coordinators Association

By: \_\_\_\_\_  
Jason Jones  
Attorney for Staff  
Oregon Department of Justice

Date: \_\_\_\_\_

Date: \_\_\_\_\_

NORTHWEST NATURAL GAS  
COMPANY

CITIZENS' UTILITY BOARD  
OF OREGON

By \_\_\_\_\_  
C. Alex Miller  
Director, Regulatory Affairs and  
Forecasting

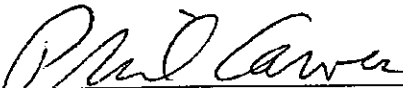
By \_\_\_\_\_  
Robert Jenks  
Executive Director

Date: \_\_\_\_\_

Date: \_\_\_\_\_

OREGON DEPARTMENT OF ENERGY

NW ENERGY COALITION

By   
Philip H. Carver

By \_\_\_\_\_  
Steven Weiss  
Sr. Policy Associate

Date: Aug. 24, 2007

Date: \_\_\_\_\_

NATURAL RESOURCES DEFENSE  
COUNCIL

COMMUNITY ACTION PARTNERSHIP  
OF OREGON

By \_\_\_\_\_  
Steven Weiss

By \_\_\_\_\_  
Jim Abrahamson  
Community Action Partnership  
of Oregon

Date: \_\_\_\_\_

Date: \_\_\_\_\_

OREGON ENERGY COORDINATORS  
ASSOCIATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By \_\_\_\_\_  
Jim Abrahamson  
Oregon Energy Coordinators  
Association

By: \_\_\_\_\_  
Jason Jones  
Attorney for Staff  
Oregon Department of Justice

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**NORTHWEST NATURAL GAS  
COMPANY**

By \_\_\_\_\_  
C. Alex Miller  
Director, Regulatory Affairs and  
Forecasting

Date: \_\_\_\_\_

**CITIZENS' UTILITY BOARD  
OF OREGON**

By \_\_\_\_\_  
Robert Jenks  
Executive Director

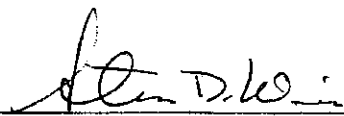
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**OREGON DEPARTMENT OF ENERGY**

By \_\_\_\_\_  
Philip H. Carver

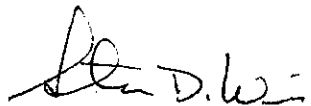
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**NW ENERGY COALITION**

By  \_\_\_\_\_  
Steven Weiss  
Sr. Policy Associate

Date: 8/22/07

**NATURAL RESOURCES DEFENSE  
COUNCIL**

By  \_\_\_\_\_  
Steven Weiss

Date: 8/22/07

**COMMUNITY ACTION PARTNERSHIP  
OF OREGON**

By \_\_\_\_\_  
Jim Abrahamson  
Community Action Partnership  
of Oregon

Date: \_\_\_\_\_

**OREGON ENERGY COORDINATORS  
ASSOCIATION**

By \_\_\_\_\_  
Jim Abrahamson  
Oregon Energy Coordinators  
Association

**STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON**

By: \_\_\_\_\_  
Jason Jones  
Attorney for Staff  
Oregon Department of Justice

Date: \_\_\_\_\_

NORTHWEST NATURAL GAS  
COMPANY

CITIZENS' UTILITY BOARD  
OF OREGON

By \_\_\_\_\_  
C. Alex Miller  
Director, Regulatory Affairs and  
Forecasting

By \_\_\_\_\_  
Robert Jenks  
Executive Director

Date: \_\_\_\_\_

Date: \_\_\_\_\_

OREGON DEPARTMENT OF ENERGY

NW ENERGY COALITION

By \_\_\_\_\_  
Philip H. Carver

By \_\_\_\_\_  
Steven Weiss  
Sr. Policy Associate

Date: \_\_\_\_\_

Date: \_\_\_\_\_

NATURAL RESOURCES DEFENSE  
COUNCIL

COMMUNITY ACTION PARTNERSHIP  
OF OREGON

By \_\_\_\_\_  
Steven Weiss

By \_\_\_\_\_  
Jim Abrahamson  
Community Action Partnership  
of Oregon


Date: \_\_\_\_\_

Date: \_\_\_\_\_

OREGON ENERGY COORDINATORS  
ASSOCIATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By \_\_\_\_\_  
Jim Abrahamson  
Oregon Energy Coordinators  
Association

By  \_\_\_\_\_  
Jason Jones  
Attorney for Staff  
Oregon Department of Justice

Date: \_\_\_\_\_

Date: \_\_\_\_\_

08/27/2007 14:18 FAX 5036360703

PAULA\_PYRON

NORTHWEST INDUSTRIAL GAS USERS

By: Paula E. Pyron  
Paula E. Pyron  
Executive Director

Date: 8/24/07



CERTIFICATE OF SERVICE

I hereby certify that on the 28th day of August, 2007, I served the foregoing NORTHWEST NATURAL'S STIPULATION in OPUC Docket Nos. UG 163/UG 152 upon all parties on the service lists in these dockets by mailing a copy properly addressed with first class postage prepaid.

/s/ Kelley C. Miller  
 Kelley C. Miller, Staff Assistant  
 Rates & Regulatory Affairs  
 NW NATURAL  
 220 NW Second Avenue  
 Portland, Oregon 97209-3991  
 1.503.226.4211, extension 3589

Official Service List  
UG 163

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Official Service List  
**UG 152**

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<p>KATHERINE A MCDOWELL MCDOWELL &amp; RACKNER PC 520 SW SIXTH AVE – STE 830 PORTLAND OR 97204 katherine@mcd-law.com</p>	<p>STEVEN WEISS NORTHWEST ENERGY COALITION 4422 OREGON TRAIL CT NE SALEM OR 97305 steve@nwenergy.org</p>
<p>PAULA E PYRON NORTHWEST INDUSTRIAL GAS USERS 4113 WOLF BERRY COURT LAKE OSWEGO OR 97035-1827 ppyron@nwigu.org</p>	<p>PATRICK G HAGER PORTLAND GENERAL ELECTRIC 121 SW SALMON ST 1WTC0702 PORTLAND OR 97204 patrick.hager@pgn.com</p>
<p>JUDY JOHNSON PUBLIC UTILITY COMMISSION PO BOX 2148 SALEM OR 97308-2148 judy.johnson@state.or.us</p>	<p>DONALD W SCHOENBECK REGULATORY &amp; COGENERATION SERVICES INC 900 WASHINGTON ST STE 780 VANCOUVER WA 98660-3455 dws@r-c-s-inc.com</p>
<p>JAY T WALDRON SCHWABE WILLIAMSON &amp; WYATT 1211 SW 5TH AVE STE 1600-1900 PORTLAND OR 97204-3795 jwaldron@schwabe.com</p>	<p>JAMES F FELL STOEL RIVES LLP 900 SW FIFTH AVE, STE 2600 PORTLAND OR 97204-1268 jffell@stoel.com</p>



## CERTIFICATE OF SERVICE

I hereby certify that on the 12th day of September, 2007, I served the foregoing NORTHWEST NATURAL'S EXPLANATORY BRIEF in OPUC Docket Nos. UG 163/UG 152 upon all parties on the service lists in these dockets by mailing a copy properly addressed with first class postage prepaid.

/s/ Kelley C. Miller  
Kelley C. Miller, Staff Assistant  
Rates & Regulatory Affairs  
NW NATURAL  
220 NW Second Avenue  
Portland, Oregon 97209-3991  
1.503.226.4211, extension 3589

Official Service List  
**UG 163**

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