

Rates and Regulatory Affairs
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**VIA ELECTRONIC AND
FIRST CLASS MAIL**

February 18, 2005

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

Re: **DOCKET UM 1147: INVESTIGATION RELATED TO
DEFERRED ACCOUNTING**

Reply Comments of NW Natural

Enclosed for filing are an original and five copies of NW Natural's Reply Comments in the above-referenced docket.

Please contact me if you have any questions.

Sincerely,

/s/ C. Alex Miller

C. Alex Miller, Manager
Rates and Regulatory Affairs

CAM/kcm

enclosures

cc: UM 1147 Service List

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1147

In the Matter of)	
)	
PUBLIC UTILITY COMMISSION OF)	REPLY COMMENTS OF
OREGON)	NORTHWEST NATURAL GAS
)	COMPANY
Staff Request to Open an Investigation)	
Related to Deferred Accounting)	

Introduction

Pursuant to the Status Conference Memorandum dated November 5, 2004, and subsequent Ruling Granting a Motion for Extension of Time dated January 10, 2005, Northwest Natural Gas Company (NW Natural) hereby files the following limited Reply Comments in this proceeding regarding the Public Utility Commission of Oregon's ("Commission") policies regarding deferred accounting applications.

I.

Reply Comments

A. The OPUC Should Recognize Gas/Electric Utility Distinctions in Determining Any Policy Change in This Proceeding.

The purpose of this docket is to clarify and revise, if necessary, the Commission's policies regarding all deferred accounting applications. *See*, Status Conference Memorandum, November 5, 2004. NW Natural filed Opening comments stating that it believes the Commission's current policy and procedures for processing and determining requests for deferred accounting are adequate and it does not propose any specific changes at this time, particularly if such changes would result in limiting or restricting the ability of utilities and the Commission to use deferred accounting.

In its Opening Comments, however, the Northwest Industrial Gas Users (“NWIGU”) has made some relevant observations that NW Natural feels should be considered in this proceeding. Specifically, NWIGU observes that most of the focus of the parties’ comments in this proceeding so far have been on deferred accounting practices and issues as they relate to the electric utilities, and that there are important distinctions that should be recognized as between gas and electric utilities, including differences regarding the types of risks and events that cause them to request deferred accounting treatment. NWIGU Opening Comments at pp. 1-2. NW Natural agrees with NWIGU that there are important distinctions that should be recognized between gas and electric utilities.

NW Natural’s use and experience with deferred accounting has not been one-sided in its favor. Rather, in most instances, the deferred accounting request has resulted in benefits for gas consumers. Specifically, on page 4 of Exhibit 2 of PGE’s Opening Comments in this proceeding, NW Natural’s deferred accounting issues are identified. Many of the deferrals support tariffs or other ratemaking mechanisms, or regard mechanisms that remove financial hurdles for NW Natural and enables it to do things that benefit its customers, such as deferrals regarding: gas commodity cost issues, refunds to customers regarding interstate pipelines and state taxes, and profit sharing regarding optimization and Mist interstate storage services.

The positive outcome for customers that has resulted from many of NW Natural’s own deferral requests should not be lost in the context of this proceeding where many parties seek to further limit and restrict the ability of utilities and the Commission to use deferred accounting. The Commission should strive to retain the flexibility it has had to date to accomplish a wide range of regulatory and policy objectives. In this regard, like NWIGU, NW Natural urges the Commission to keep the distinctions between gas and electric utilities in mind during its consideration of any clarifications or revisions to its generically applicable deferred accounting policy in this docket.

B. Interest Rate for Deferral Balances.

Many commenters have expressed a preference to use shorter-term interest rates regarding deferral balances instead of applying the utility's overall rate of return. See, for example, CUB's Opening Comments at p. 10; Staff's Opening Comments at p. 1. In this regard, NW Natural believes that the interest rate on deferred balances was meant to reflect the cost of ratepayers' borrowing as well as the utility's borrowing, and that using the overall rate of return struck a balance in this regard.

WHEREFORE, NW Natural respectfully submits the above reply comments in this proceeding.

DATED: this 18th day of February, 2005

Respectfully submitted,

/s/ C. Alex Miller

C. Alex Miller
General Manager
Rates & Regulatory Affairs



CERTIFICATE OF SERVICE

I hereby certify that on the 18th day of January, 2005, I served the foregoing OPENING COMMENTS OF NW NATURAL IN OPUC DOCKET UM 1147 upon each party listed below by emailing an electronic copy to all parties on the service list in this docket as of the above date followed by mailing a copy in a sealed envelope, postage prepaid, and depositing same at the United States Post Office in Portland, Oregon.

_____/s/ Kelley Miller_____
Kelley Miller, Administrative Assistant
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OPUC DOCKET NO. UM 1147

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