

Rates and Regulatory Affairs  
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June 29, 2007

**VIA ELECTRONIC FILING**

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

Attention: Filing Center

Re: OPUC Docket No. UM \_\_\_\_;

Application of NW Natural for Accounting Order Regarding Smart Energy  
Program Expenditures

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), files herewith in quintuplicate, the above-referenced Application for Accounting Order Regarding Smart Energy Program Expenditures.

The purpose of this Application is to obtain an order from the Commission that a reserve be established for NW Natural's Smart Energy program expenditures. This reserve will be initially funded by reducing the amount of the refund due to residential and commercial customers as a result of the settlement of the Northwest Pipeline (NWPL) rate case. By separate advice filing, NW Natural requests Commission approval of revisions and additions to its Tariff P.U.C Or. 24 to implement the Smart Energy Program. NW Natural's tariff advice filing for the Smart Energy Program is contingent upon obtaining the accounting order requested in this Application.

NW Natural respectfully requests that this filing be placed on the public meeting agenda that also acts on NW Natural's tariff advice filing for the Smart Energy Program, NWN Advice No. OPUC 07-4, Schedule 400, Smart Energy Pilot Program, dated June 29, 2007.

Copies of this letter and the filing made herewith are available in the company's main and district offices in Oregon.

Public Utility Commission of Oregon  
UM \_\_\_\_ Application of NW Natural for Accounting Order Regarding Smart Energy Program  
Expenditures  
June 29, 2007; Page 2

Please address correspondence on this matter to me, with copies to the following:

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Please do not hesitate to call if you have questions or desire further information.

Sincerely,

/s/ Inara K. Scott

Inara K. Scott, Manager,  
Regulatory Affairs

NCS/cmt

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

Northwest Natural Gas Company )

Docket No. UM \_\_\_\_

APPLICATION FOR ACCOUNTING ORDER REGARDING  
SMART ENERGY PROGRAM EXPENDITURES

Pursuant to Sections 757.120 and 757.125 of the Oregon Revised Statutes,

Northwest Natural Gas Company (NW Natural) hereby files this Application with the Public Utility Commission of Oregon (Commission) for an Order authorizing the proposed accounting treatment described herein for NW Natural's Smart Energy program expenditures. In support of this Application, NW Natural provides the following information:

I. BACKGROUND

NW Natural has proposed a Smart Energy tariff that will allow residential and commercial customers to offset the greenhouse gas emissions associated with their natural gas use. NW Natural is partnering in this program with The Climate Trust, an Oregon-based nonprofit organization with the mission of purchasing high quality project-based emission reductions. The Climate Trust will develop greenhouse gas offset projects on behalf of Smart Energy participants with the first priority for these projects being to help bring biogas to the region. Further details of the proposed Smart Energy program are provided in the testimony provided by NW Natural filed with the proposed tariff.

NW Natural believes our first priority with our customers regarding climate change is to help them reduce their carbon footprint by using natural gas as efficiently as possible. The Company has had a successful partnership with Energy Trust of Oregon, Inc. (ETO); we plan to continue to find new ways to work with ETO to help customers increase their energy efficiency.

NW Natural believes there will be a federal program to limit greenhouse gas emissions and supports enactment of federal climate legislation. However, the Company believes that we should not wait for this future regulatory program to take effect before we help our customers reduce their climate impacts. During this “voluntary phase” of carbon regulation, NW Natural believes it is appropriate to allow voluntary participants to offset their carbon footprint using high quality projects such as those developed by The Climate Trust.<sup>1</sup>

In the proposed pilot program, residential Smart Energy participants will pay a flat amount of \$6 per month or a rate of \$0.10486 per therm. Commercial participants may select a flat amount of their choosing (not less than \$10 per month). This premium is designed to fund the cost of carbon offsets estimated at the time of this filing and the ongoing administrative costs associated with the program. This premium does not cover the costs associated with program startup. NW Natural’s market intelligence suggests these rates are near the top end of the price customers will pay for a product of this kind. Moving above these rates would likely result in substantially fewer customer signups, and ultimately, an unsuccessful program.

Program startup costs not included in the monthly rate consist of initial work by The Climate Trust to develop the program, capital costs associated with NW Natural’s information and phone systems, as well as the first three years of marketing the product. NW Natural is committed to paying \$130,000 of the startup operating costs and agrees to absorb the capital costs until its next general rate case. Remaining unfunded startup costs are estimated to be \$1.048 million.

NW Natural proposes that all residential and commercial customers share in these unfunded startup costs. Because we do not believe the program can be successful if these costs are borne solely by program participants, NW Natural’s tariff advice filing for the Smart Energy

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<sup>1</sup> For more information about the Climate Trust, *see* NWN Advice No. OPUC 07-4/Miller/101/1-2.

Program is contingent upon having these costs funded as described in the request for accounting order below.

## II. ACCOUNTING ORDER REQUEST

Pursuant to ORS 757.120 and 757.125, NW Natural requests that the Commission issue an accounting order that a reserve be established for NW Natural's Smart Energy program expenditures. This reserve will be initially funded by reducing the amount of the refund due to residential and commercial customers as a result of the settlement of the Northwest Pipeline (NWPL) rate case. The amount of the refund reduction would be \$1.048 million. NW Natural's tariff advice filing for the Smart Energy Program is contingent upon obtaining this accounting order. In support of this Application, NW Natural provides the following information:

### A. *Program Success Depends on Effective Education.*

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

### B. *The Smart Energy Program Offers Broad Benefits.*

The Smart Energy program provides a broad array of benefits for all NW Natural customers, whether or not they enroll in the program. First, the program provides real and measurable greenhouse gas benefits. While these offset benefits will be retired by The Climate Trust for the participants, the environmental benefits of these actions accrue to all. Second, the

program allows all NW Natural customers an opportunity to learn about their “carbon footprint” and the specific steps they can take to reduce it. As our state and country move toward carbon regulation, it will become more important that all customers make the connection between their energy use and their carbon impacts. Third, the Smart Energy program will provide an opportunity for the State of Oregon, Public Utility Commission, and NW Natural to develop and hone policy tools that will be critical in the upcoming regulation of greenhouse gases. Finally, the practice of collecting start-up costs from all customers can be justified because the program creates opportunities for all customers to participate. The existence of the program, and its availability to all customers, is of value for all and thus justifies spreading some costs to non-participants.

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

*C. Support from all Customers will be Modest.*

The cost of the Smart Energy program is supported primarily by the voluntary participants, with 78% of all costs coming from them. The remaining 22% will be shared by all NW Natural residential and commercial customers and NW Natural shareholders. The effect of the proposed reduction in the NWPL refund to an average residential customer is estimated to be less than 11 cents per month for one year. This estimate equates to a 0.1% change over current residential billing rates.

Any unused funds remaining in the reserve at the end of the first three years of the program will be refunded back to all residential and commercial customers.

*D. NW Natural Shareholders will Contribute to the Success of Smart Energy.*

NW Natural will pay \$130,000 of the startup operating costs and agrees to absorb the capital costs (approximately \$97,200) for the necessary programming of customer information and phone systems until its next general rate case. In addition, NW Natural shareholders will purchase the first blocks of Smart Energy offsets at the time the tariff is approved. NW Natural will provide a fixed contribution of \$77,000, which represents a total offset of the natural gas used to heat its offices, service centers and shops for the entire five-year period of the pilot program.

The Smart Energy program will require NW Natural to educate customers about how natural gas use emits carbon dioxide associated with climate change. This very important education presents a significant business risk to NW Natural. *See*, NWN Advice No. OPUC 07-4/Miller/100/6-7. In light of this risk, and the broad customer benefits provided as described above, NW Natural believes the shareholder contributions to the Smart Energy program and the amount requested to be funded by the NWPL refund is an appropriate sharing of costs among the Company, program participants and all customers.

*E. A Simplified Solution for Cost Recovery*

NW Natural has proposed using a portion of the expected NWPL refund to fund the startup costs for the Smart Energy program. These costs include initial work by The Climate Trust to develop the program and the first three years of marketing the product. NW Natural expects the total refund related to the NWPL settlement to be roughly between \$5 million and \$6 million for the remaining PGA tracker year. The amount of the proposed refund reduction would be just over \$1 million. The proposed methodology provides a simplified solution that avoids the

use of Deferred Accounting and the administrative burden associated with it, and minimally impacts the rates paid by all customers.

### III. CONCLUSION

For the reasons set forth above, NW Natural respectfully requests that the Commission issue an order granting its request to establish a reserve for the Smart Energy program and that this reserve be funded by reducing the amount of the refund due to residential and commercial customers as a result of the settlement of the NWPL rate case.

Respectfully submitted,

NW Natural

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