

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 45

In the Matter of)	
)	
NORTHWEST NATURAL GAS)	NORTHWEST PIPELINE GP's
COMPANY, dba NW NATURAL)	COMMENTS
)	
2008 Integrated Resource Plan)	
)	

INTRODUCTION

In its 2008 Integrated Resource Plan (IRP), NW Natural identifies its Preferred Portfolio for serving the forecasted demand for natural gas in its Oregon service territory. The Preferred Portfolio reflects the Palomar 100 case which includes contracting for 100,000 Dth/d of new capacity on the Palomar East Pipeline while terminating 77,000 Dth/d of vintage capacity on Northwest Pipeline GP (Northwest).

Because many of the important details about the Preferred Portfolio are unclear or unknown, interveners cannot fully evaluate it. Determining whether the Preferred Portfolio is the best option for Oregon ratepayers depends upon clarification of a number of these details. Therefore, to assist all parties in fully understanding the effects of the Preferred Portfolio, Northwest believes the following questions should be considered.¹

QUESTIONS

NW Natural's rate on Palomar has not been made public. Additionally, the rate it pays may increase depending on the final cost of construction of Palomar East. The Precedent Agreement NW Natural entered into for capacity on Palomar East provides for a rate cap (as referenced in the IRP assumptions, page 3A-2), but details about the rate cap are not available. Northwest has only limited information about the rate cap gleaned from Staff comments, all of which are partially redacted.²

That NW Natural will pay pre-negotiated rates on both the Eastern and Western Palomar Zones is a matter of public record. That there is an "Alternate Rate" is also public. Staff further notes that NW Natural "was unable to provide an estimate of the amount that NW Natural would pay annually for service under the FTSA's" but that in the UI 276 process NW Natural provided a spreadsheet estimating a potential maximum increase in transportation costs of \$800,000.³ The

¹ For purposes of these comments, Northwest will focus on the two scenarios in play—the "Palomar 100 Portfolio" (Sensitivity 5, RMix 1 of the IRP, page 5-3A-22) and the "No Palomar, No CD Turnback" ((Scenario 5, IRP RMix 4 of the IRP, page 5-3A-12).

² Application for Affiliated Interest Agreements between NW Natural and Palomar Gas Transmission, LLC, pg. 8.; Order No. 08-107, Appendix A, Staff Recommendation, pg. 4.

³ Order No. 08-107, Appendix A, Staff Recommendation, pp. 4 – 5.

\$800,000 equates to an approximately \$0.02 per dekatherm increase over Northwest's existing rates.

Question 1:

A recent article in *The Oregonian*⁴ stated that the cost of the entire proposed Palomar line from Madras to Astoria, Oregon would be about \$650 million and that about half of the line would go from Madras to Molalla. Extrapolating from the article, Northwest estimates the rate for 200,000 Dth/d of capacity, the volume NW Natural assumes will be subscribed on Palomar East, could range between roughly \$0.62 and \$0.69 per dekatherm (an \$0.11 to \$0.18 rate premium over Northwest's \$0.41 rate). How does NW Natural reconcile the resulting rate increase with the estimated \$0.02 rate increase given to Staff in the UI 276 process?

Question 2:

Northwest has relatively recent experience in constructing capacity in the Pacific Northwest, including its Evergreen Project (FERC Docket No. CP02-4) in 2003 and its Capacity Replacement Project (FERC Docket No. CP05-32) in 2006. Additionally, Northwest has prepared cost estimates for the proposed Pacific Connector Gas Pipeline (an approximate 230-mile pipeline to connect the proposed Jordan Cove LNG facility in Coos Bay, Oregon to Northwest's Grants Pass lateral system in Douglas County, Oregon and to PG&E's and Tuscarora's systems near Malin, Oregon) and the Blue Bridge Pipeline Project (up to 172 miles of pipeline looping along the Columbia River Gorge and the I-5 corridor to provide up to 500 MDth/d of capacity to serve the market growth in the region). Both Pacific Connector and Blue Bridge have been proposed for service in the same time frame as Palomar. Northwest is also familiar with the Palomar route and some of the construction challenges to be faced in building Palomar East. Palomar East's sponsors will face many geographic and environmental hurdles, such as multiple river crossings, extreme elevation changes and construction through old growth forest habitat for high profile threatened and endangered species, such as the Northern spotted owl. Additionally, steel and construction prices have increased dramatically. Based on these factors, Northwest estimates the costs for Palomar could be considerably higher than referenced in *The Oregonian*. Have the geographical and environmental challenges and increased material and construction costs been included in the Palomar East cost estimate?

Question 3:

NW Natural has represented that it will pay a negotiated rate or an alternate rate, but the calculation of that rate is not clear. Is the rate NW Natural will pay a fixed rate regardless of the costs and level of subscribed capacity on Palomar East, a percentage of maximum rate based on actual construction costs and subscribed capacity, or otherwise?

Question 4:

If NW Natural's rate is fixed regardless of the cost of construction, has the possibility that other Palomar East shippers may have to subsidize NW Natural's rate in order for the Palomar sponsors to earn a reasonable return been taken into consideration? What is the likelihood that Palomar East would be fully subscribed if other shippers had to subsidize NW Natural's rate, and would the need for such subsidization impact the viability of the project?

⁴ *Northwest Natural's Big Pipes, Big Dreams*, *The Oregonian*, June 22, 2008, <http://www.oregonlive.com/business/oregonian/index.ssf?/base/business/121394310569470.xml&coll=7>

Question 5:

Does the selection of the Palomar 100 case as the Preferred Portfolio take into consideration the risk of rate increases on Northwest due to NW Natural's turnback to Northwest of 77,000 Dth/d in the Palomar 100 case? NW Natural's assumptions do not seem to take this risk of cost reallocation into consideration. Not only could this cost increase be applied to NW Natural's remaining 275,044 of firm Northwest capacity, but it could also be imposed on other Northwest customers generally, including other utilities regulated by the OPUC, such as Portland General Electric, Cascade Natural Gas Corporation, and Avista Corporation as well as industrial customers in the state of Oregon.

Question 6:

NW Natural justifies Palomar East by citing the need for "supply path diversity"⁵ and the need to minimize risk associated with its dependency on one pipeline. Does the selection of the Palomar 100 case as the Preferred Portfolio take into account the risk reduction associated with Northwest's proposed Blue Bridge Pipeline project which would loop Northwest's system along the Columbia River Gorge?

Question 7:

Why are the "Total Supply Costs" higher in the No Palomar, No CD Turnback case beginning in 2009-10 than in the Palomar 100 case?

Question 8:

Why does the need for satellite LNG at Eugene and Salem differ between the two cases, and why is the increment of "WFM Main" higher in the in the No Palomar, No CD Turnback case when the capacity provided by Palomar is only replacement capacity from Stanfield across the Columbia River Gorge?

Question 9:

NW Natural states on pages 3-11 to 3-12 that its IRP assumes recall of 7,000 Dth/d of capacity currently in evergreen with a one-year notice period. This is reflected in both cases. Why is the recall of all or a part of the 30,000 Dth/d release that terminates in 2010 not considered as part of the No Palomar, No CD Turnback case? Would that be a cheaper alternative than acquiring incremental Northwest capacity in the last three years of the plan?

Question 10:

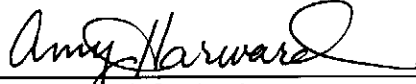
NW Natural currently transports on GTN from Kingsgate to Stanfield to deliver to its Northwest capacity that originates at Stanfield. Under its Palomar 100 case, NW Natural will have to transport the gas further on GTN between Stanfield and Madras. Since GTN has mileage-based rates and fuel, based on GTN's currently effective rates and fuel, Northwest estimates that NW Natural would have to pay an additional approximately \$0.09 per dekatherm (assuming \$7 gas). Has NW Natural included an assumption for this cost? Has NW Natural factored in to its analysis potential rate increases on GTN if the Ruby Pipeline that is proposed to deliver Rockies gas to Malin, Oregon is constructed?

⁵ Note that NW Natural does not claim that Palomar East would confer *supply* diversity—only *path* diversity—because Palomar East would not increase access to additional supply. Northwest already has access to gas supplies from British Columbia, Alberta and the Rockies.

Question 11:

NW Natural has been a major proponent of the proposed LNG projects on the Columbia River, like Bradwood Landing. Did NW Natural also consider subscribing to capacity on the proposed Sunstone Pipeline that is being jointly developed by Williams Gas Pipeline, TransCanada Pipeline and Sempra Pipelines & Storage to bring additional Rockies supplies to Stanfield?

Respectfully submitted this 3rd day of July, 2008

A handwritten signature in black ink that reads "Amy Harward". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Amy Harward, Senior Attorney
Northwest Pipeline GP

CERTIFICATE OF SERVICE

I certify that I have on this day served the foregoing document upon all parties of record in this proceeding via electronic mail and/or U.S. mail.

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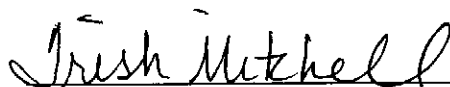
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DATED this 7th day of July, 2008.



Trish Mitchell