

Rates and Regulatory Affairs
Facsimile: 503.721.2516



February 25, 2011

VIA ELECTRONIC FILING

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

ATTN: Filing Center

Re: **OPUC Docket UM 1420** - Application for Reauthorization to Defer Accounting of
NW Natural's Industrial DSM Program Costs

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"),
files herewith the above-referenced Application for Reauthorization to Defer Accounting of NW
Natural's Industrial DSM Program Costs.

A notice concerning this application will be sent to all parties who participated in
the Company's most recent general rate case, UG 152. A certificate of service and a copy of
the notice are attached as Exhibit E.

Please call me at (503) 226-4211 extension 3590 if you have any questions.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
Tariff and Regulatory Compliance

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3
4 **UM 1420**

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7
8 In the Matter of NW Natural Gas Company's)
9 Application for Authorization) APPLICATION FOR
10 For Deferred Accounting of Expenses) REAUTHORIZATION TO
11 For Industrial Demand Side Management) DEFERRED ACCOUNTING
12 Programs)
13
14
15

16 In accordance with ORS 757.259, ORS 757.262, and OAR 860-027-0300, NW
17 Natural Gas Company ("NW Natural" or the "Company") files this application
18 ("Application") with the Public Utility Commission of Oregon ("Commission") for an order
19 reauthorizing the Company to record and defer with interest all costs associated with
20 studying, planning, administering, and delivering Demand Side Management ("DSM")
21 programs to Industrial Firm Sales Customers,¹ Industrial Interruptible Sales Customers,²
22 and Schedule 32 Commercial Sales Customers³ (referred to hereafter collectively as
23 "Industrial Customers")
24

25 **I. INTRODUCTION**

26 The Company has offered DSM programs to its Residential and Commercial customers since 2002.⁴ In 2009, the Company began offering its Industrial Customers a

¹ Industrial firm customers served on the Company's Rate Schedules 3, 31, and 32.

² Industrial interruptible customers served on the Company's Rate Schedules 31 and 32.

³ Commercial customers served on Rate Schedule 32.

⁴ The Company established Residential and Commercial DSM programs in accordance with Commission Order No. 02-634, which approved the Company's Residential and Commercial decoupling mechanism. *Re NW Natural Gas Co.'s Application for Public Purposes Funding and Distribution Margin Normalization*, Docket UG 143, Order No. 02-634 at 4-5 (Sept. 12, 2002). Because decoupling removes the risk of experiencing a lost margin when customers adopt efficiency measures, it made sense to simultaneously introduce DSM programs. Order No. 02-634 also established the Company's public purpose charge which, in part, funds the Company's Residential and Commercial DSM programs. As agreed to by parties of both decoupling dockets (UG 143 and UG 163), industrial customers were exempt from the decoupling mechanism and the public purpose charge. *Id.*; *Re NW Natural Gas Co. Investigation Regarding Possible Continuation of Distribution Margin Normalization Tariff*,

1 program (“Industrial DSM Program”), established in response to NW Natural’s 2008
2 Integrated Resource Plan (“IRP”) wherein the Company identified cost-effective DSM
3 from its Industrial Firm Sales Customers.

4 Although the Company’s 2008 IRP did not include a DSM technical potential
5 study for Industrial Interruptible Sales Customers, the program offering was extended to
6 this customer class in accordance with the program parameters established in a
7 Memorandum of Understanding (“MOU”) signed by NW Natural, Citizens’ Utility Board
8 (“CUB”), Northwest Industrial Gas Users (“NWIGU”) and Commission Staff (collectively
9 referred to hereafter as “Parties”). The MOU stated the Company would provide an
10 energy efficiency program to Industrial Customers for two years, after which time Parties
11 would consider whether the program should continue being offered to Interruptible Sales
12 Customers.

13 NW Natural believes it is appropriate that its Industrial DSM program continue as
14 a permanent offering. Attached as Exhibit A is a worksheet that demonstrates the cost-
15 effectiveness of the Industrial DSM Program. Table I shows that the Industrial Firm
16 Sales and the Industrial Interruptible Sales offerings both pass the utility and societal
17 benefit cost ratio tests. Table II compares the levelized cost of the whole Industrial DSM
18 Program with the levelized cost for other programs currently offered, demonstrating that
19 the Industrial DSM Program is well within an acceptable range for cost-effectiveness.
20 The Industrial DSM Program’s levelized cost per therm of \$0.31 is far below the \$0.60
21 cost per therm established as an Energy Trust of Oregon (“Energy Trust”) performance
22 metric in Commission Order No. 08-529.

23 Attached as Exhibit B is a worksheet that demonstrates the technical DSM
24 potential for both the Industrial Firm Sales Customers and the Industrial Interruptible

Docket UG 163, Order No. 05-934 (Aug. 25, 2005). Commercial customers served on Rate Schedule 32 were considered industrial customers at the time Commission Order No. 02-634 was issued and were, therefore, excluded from the DSM programs considered therein, as described below. See *id.*

1 Sales Customers as determined in the Company's 2011 IRP docketed as LC 51.
2 Acquiring this cost-effective DSM is appropriate per OAR 860-027-0310(2) which says,
3 "The Commission encourages energy utilities to acquire cost-effective conservation
4 resources." Section (2)(a)(A) of this rule further says, "Acquisition of least-cost
5 resources should be the energy utility's most profitable course of action." In compliance
6 with this rule, NW Natural purports that it is the Company's responsibility to continue
7 offering it Industrial DSM Program.

8 NW Natural further asserts that the ongoing program should continue being
9 offered to Industrial Interruptible Sales Customers with no annual spending cap.
10 Industrial Interruptible Sales Customers want energy efficiency programs as
11 demonstrated by their participation during the program's pilot period. All customers
12 benefit from wider participation in energy saving programs since reduced energy needs
13 result in less demand on the gas system and fewer carbon emissions. Also, per Order
14 No. 02-634, the Company is required to offer Commercial Interruptible Customers
15 programs funded through the Schedule 301, Public Purpose Surcharge. It is reasonable
16 to consistently offer DSM programs to both Commercial and Industrial Interruptible
17 customers, because without it some customers could switch the rates schedule on which
18 they receive natural gas service in order to access energy efficiency rebates and then
19 switch to a different rate schedule to avoid paying toward program cost recovery.
20 Besides this potential gaming, excluding Industrial Interruptible Customers or continuing
21 to manage annual spending on this customer class would be administratively
22 burdensome. These points were presented to Parties to assist them as they considered
23 the manner in which the program should continue.

24 Parties have reviewed the pilot program and have agreed that it is appropriate for
25 the Company to continue to acquire cost-effective DSM from Industrial Firm Sales
26 Customers and Schedule 32 Commercial Sales Customers as well as Industrial
27 Interruptible Sales Customers. Parties have also agreed to remove the \$500,000 annual

1 spending cap that was imposed upon the Industrial Interruptible Sales Customers.
2 Attached as Exhibit C is an MOU signed by Parties to document these agreed upon
3 program parameters.

4 The Company's Industrial DSM Program acquires a least cost resource in
5 accordance with OAR 860-027-0310 and ORS 757.262, which allows the Commission to
6 adopt policies designed to encourage the acquisition of cost-effective conservation
7 resources. As such, NW Natural asks the Commission to grant the Company's request
8 for deferral of expenses associated with delivering the Industrial DSM Program and use
9 the authority granted it in ORS 757.262 to acknowledge that the amortization of
10 Industrial DSM Program costs for collection is not subject to the requirements of ORS
11 757.259, or any other earnings test.

12 II. NOTICE

13 NW Natural hereby waives service by means other than service by electronic
14 mail. Consistent with that waiver, communications regarding this Application should be
15 addressed to all of the following:

16 Rates and Regulatory Affairs	Jennifer Gross
17 NW Natural	Tariff & Regulatory Compliance Consultant
18 220 NW Second Avenue	NW Natural
19 Portland, Oregon 97209	220 NW Second Avenue
20 Telephone: (503) 226-4211 x3589	Portland, Oregon 97209
21 Facsimile: (503) 721-2516	Telephone: (503) 226-4211 x3590
22 E-mail: efiling@nwnatural.com	Facsimile: (503) 721-2516
23	E-mail: jennifer.gross@nwnatural.com
24	

25 III. DEFERRED ACCOUNTING RULE REQUIREMENTS

26 The following information is provided pursuant to the requirements set forth in
27 OAR 860-027-0300(3) and (4), and Commission Order No. 09-263.

28 A. Description of Utility Expense – OAR 860-27-0300(3)(a)

29 In this Application, the Company is requesting to defer the costs associated with
30 studying, planning, administering, and delivering its Industrial DSM Program. This
31 program seeks to acquire DSM for Industrial Firm Sales Customers, Industrial Firm

1 Sales Customers and Schedule 32 Commercial Customers to the extent it is cost-
2 effective.

3 The Energy Trust administers the Company's Industrial DSM Program. The
4 Energy Trust is a non-profit organization established in response to Oregon's electric
5 deregulation legislation, which requires third-party administration of independently
6 owned electric utilities' DSM programs.⁵ The Energy Trust currently administers NW
7 Natural's Residential and Commercial DSM programs,⁶ as well as the Company's pilot
8 Industrial DSM program for which this Application seeks approval to defer costs.

9 The Company's Industrial DSM Program complies with the stipulation adopted in
10 Commission Order No. 05-934. That stipulation prevents the Company from charging
11 the Schedule 301, Public Purpose Charge to industrial customers served on Schedules
12 3, 31, 32, and special contracts, and prevents those customers from being eligible for
13 Energy Trust DSM programs funded by the Public Purpose Charge.⁷ The Industrial
14 DSM Program discussed in this Application will not be charged under Schedule 301.
15 Instead, the Company will defer all costs associated with the administration and delivery
16 of the Industrial DSM Program for the 12-month period, March 1, 2011, through
17 February 28, 2012, for future amortization among Industrial Firm Sales Customers,
18 Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers
19 in the Company's next annual Purchased Gas Adjustment Mechanism.

20 **B. Reasons for Deferral – OAR 860-027-0300(3)(b)**

21 The Company requests deferral of the costs associated with the administration
22 and delivery of the Industrial DSM Program. ORS 757.259(2)(e) allows the deferral of

⁵ ORS 757.612(3)(c).

⁶ Order No. 02-634 requires third party administration of NW Natural's Residential and Commercial DSM programs. *Re NW Natural Gas Co.'s Application for Public Purposes Funding and Distribution Margin Normalization*, Docket UG 143, Order No. 02-634 at 5 (Sept. 12, 2002).

⁷ *Re NW Natural Gas Co. Investigation Regarding Possible Continuation of Distribution Margin Normalization Tariff*, Docket UG 163, Order No. 05-934, Appendix A at 3 (Aug. 25, 2005).

1 utility expenses where necessary to match appropriately the costs borne by and benefits
2 received by ratepayers. This request seeks to align the benefits customers receive from
3 the Company's Industrial DSM Program with the costs of the program by allowing the
4 Company to defer for later inclusion in rates the program costs.

5 **C. Proposed Accounting – OAR 860-027-0300(3)(c)**

6 NW Natural proposed to account for the deferred expenses related to the
7 Industrial DSM Program by recording the deferral in a sub-account of Account 186
8 (Miscellaneous Deferred Debits). In the absence of deferred accounting, the Company
9 would record Industrial DSM Program expenses in the appropriate sub-account of FERC
10 Account 909.

11 **D. Estimate of Amounts – OAR 860-027-0300(3)(d)**

12 The Company estimates the amount to be recorded in the deferred account for
13 the 12-month period beginning March 1, 2011, through February 28, 2012, to be
14 approximately \$1,900,000.

15 **E. Descriptions of Entries Deferred under UM 1420 – OAR 860-027-0300(4)(a)**

16 Exhibit C, which is attached, demonstrates all amounts deferred to date under
17 UM 1420.

18 **F. Reason for Continued Deferral – OAR 860-027-0300(4)(b)**

19 The Company continues to offer its Industrial DSM Program. The acquisition of
20 cost-effective DSM is in compliance with OAR 860-027-0310 which encourages utilities
21 to provide the least cost resources as identified in its most recent IRP.

22 **G. Requirements per Commission Order No. 09-263**

23 Below is the information required per Commission Order No. 09-263, issued in
24 Docket UM-1286, Staff's Investigation into Purchased Gas Adjustment Mechanisms:

1 **1. A completed Summary Sheet, the location in the PGA filing, and an**
2 **account map that highlights the transfer of dollars from one account to**
3 **another**

4 Exhibit D includes the Summary Sheets which show the amounts deferred
5 and amortized in 2010-2011. Exhibit D will be included in the 2011 PGA filing
6 work papers and in the electronic file entitled "Proposed Temps Oregon
7 2011-12 PGA filing.xls. "

8 **2. The effective date of the deferral**

9 This application is for the 12-month period beginning March 1, 2011, and
10 ending February 28, 2012.

11 **3. Prior year Order Number approving the deferral**

12 Approval to defer costs associated with the Industrial DSM Program was last
13 granted under Commission Order No. 10-131.

14 **4. The amount deferred last year.**

15 An estimated total of \$1,798,220 will have been deferred for the deferral year
16 of March 1, 2010, through February 28, 2011. This amount includes \$75,139
17 of interest.

18 **5. The amount amortized last year**

19 \$938,043 was placed in rates for collection beginning November 1, 2010.
20 \$233,473 was amortized from November 1, 2010, through December 31,
21 2010.

22 **6. The interest rate that will apply to the accounts**

23 The interest rate for the deferral account is 8.618%. The interest rate for the
24 amortization account is the 2010 Modified Blended Treasury Rate of 2.24%.

25 //

26 //

27 //

EXHIBIT A

NW Natural's Oregon Industrial DSM Program

Results for all projects through the end of 2010

Table I

Program History	Program Cost	Annual Therm Savings	\$/Therm	LC	Utility BCR	Societal BCR
NWN Industrial Firm Sales	\$943,879	425,598	\$2.22	\$0.25	3.5	1.3
NWN Industrial Interruptible Sales	\$582,646	187,979	\$3.10	\$0.23	3.0	1.4

Table II

Comparable Levelized Costs	2010 - Preliminary	
Overall Gas Program	\$	0.31
Existing Buildings	\$	0.26
New Buildings	\$	0.29
Existing Homes	\$	0.47
New Homes and Products	\$	0.98

2/9/2011

NWN Industrial Firm and Interruptible Deployment Schedule - All interruptible + Industrial Firm rate class

Note1: The savings below represent Energy Trust stretch case savings and are not meant to be interpreted as the conservative goal**Note2:** savings and expenditures associated with projects committed, but not completed, in 2010 are not included in this worksheet

Incremental Annual Savings by Year, Therms

DSM Program	Total Potential	2011	2012	2013
Industrial Firm - Ind rate class	6,938,968	480,000	468,645	556,107
Industrial Interruptible	8,511,774	100,000	175,000	225,000
Commercial Firm - Ind rate class	150,000	5,750	6,500	7,000
Commercial Interruptible	1,864,767	71,140	101,919	107,028
Industrial Total	15,450,742	580,000	643,645	781,107
Commercial Total	2,014,767	76,890	108,419	114,028
All DSM	17,465,510	656,890	752,064	895,134

Cumulative annual savings by year, Therms

DSM Program		2011	2012	2013
Industrial Firm - Ind rate class		480,000	948,645	1,504,752
Industrial Interruptible		100,000	275,000	500,000
Commercial Firm - Ind rate class		5,750	12,250	19,250
Commercial Interruptible		71,140	173,059	280,086
Industrial Total		580,000	1,223,645	2,004,752
Commercial Total		76,890	185,309	299,336
All DSM		656,890	1,408,954	2,304,088

Incremental Annual Savings by Year, Therms

DSM Program	2014	2015	2016	2017	2018
Industrial Firm - Ind rate	626,731	628,695	630,005	607,087	498,110
Industrial Interruptible	250,000	250,000	300,000	300,000	300,000
Commercial Firm - Ind r	7,500	7,500	7,500	7,500	7,500
Commercial Interruptible	117,244	117,244	117,244	117,244	117,244
Industrial Total	876,731	878,695	930,005	907,087	798,110
Commercial Total	124,744	124,744	124,744	124,744	124,744
All DSM	1,001,475	1,003,440	1,054,749	1,031,831	922,855

Cumulative annual savings by year, Therms

DSM Program	2014	2015	2016	2017	2018
Industrial Firm - Ind rate	2,131,483	2,760,178	3,390,183	3,997,270	4,495,380
Industrial Interruptible	750,000	1,000,000	1,300,000	1,600,000	1,900,000
Commercial Firm - Ind r	26,750	34,250	41,750	49,250	56,750
Commercial Interruptible	397,331	514,575	631,820	749,064	866,309
Industrial Total	2,881,483	3,760,178	4,690,183	5,597,270	6,395,380
Commercial Total	424,081	548,825	673,570	798,314	923,059
All DSM	3,305,564	4,309,003	5,363,753	6,395,584	7,318,439

Incremental Annual Savings by Year, Therms

DSM Program	2019	2020	2021	2022	2023
Industrial Firm - Ind rate	385,860	273,610	273,610	273,610	217,484
Industrial Interruptible	300,000	300,000	300,000	300,000	250,000
Commercial Firm - Ind r	7,500	7,500	7,500	7,500	7,500
Commercial Interruptible	117,244	117,244	117,244	117,244	117,244
Industrial Total	685,860	573,610	573,610	573,610	467,484
Commercial Total	124,744	124,744	124,744	124,744	124,744
All DSM	810,604	698,354	698,354	698,354	592,229

Cumulative annual savings by year, Therms

DSM Program	2019	2020	2021	2022	2023
Industrial Firm - Ind rate	4,881,240	5,154,849	5,428,459	5,702,069	5,919,553
Industrial Interruptible	2,200,000	2,500,000	2,800,000	3,100,000	3,350,000
Commercial Firm - Ind r	64,250	71,750	79,250	86,750	94,250
Commercial Interruptible	983,553	1,100,797	1,218,042	1,335,286	1,452,531
Industrial Total	7,081,240	7,654,849	8,228,459	8,802,069	9,269,553
Commercial Total	1,047,803	1,172,547	1,297,292	1,422,036	1,546,781
All DSM	8,129,043	8,827,397	9,525,751	10,224,105	10,816,334

Incremental Annual Savings by Year, Therms

DSM Program	2024	2025	2026	2027	2028
Industrial Firm - Ind rate	217,484	161,359	49,109	49,109	49,109
Industrial Interruptible	250,000	200,000	200,000	200,000	200,000
Commercial Firm - Ind r	6,500	5,500	5,500	4,000	4,000
Commercial Interruptible	76,377	66,160	66,160	50,835	50,835
Industrial Total	467,484	361,359	249,109	249,109	249,109
Commercial Total	82,877	71,660	71,660	54,835	54,835
All DSM	550,361	433,019	320,769	303,943	303,943

Cumulative annual savings by year, Therms

DSM Program	2024	2025	2026	2027	2028
Industrial Firm - Ind rate	6,137,037	6,298,396	6,347,505	6,396,614	6,445,722
Industrial Interruptible	3,600,000	3,800,000	4,000,000	4,200,000	4,400,000
Commercial Firm - Ind r	100,750	106,250	111,750	115,750	119,750
Commercial Interruptible	1,528,908	1,595,067	1,661,227	1,712,062	1,762,897
Industrial Total	9,737,037	10,098,396	10,347,505	10,596,614	10,845,722
Commercial Total	1,629,658	1,701,317	1,772,977	1,827,812	1,882,647
All DSM	11,366,695	11,799,714	12,120,482	12,424,426	12,728,369

Incremental Annual Savings by Year, Therms

DSM Program	2029	2030	Total
Industrial Firm - Ind rate	49,109	49,109	6,543,940
Industrial Interruptible	200,000	200,000	4,800,000
Commercial Firm - Ind r	4,000	4,000	127,750
Commercial Interruptible	50,835	50,835	1,864,566
Industrial Total	249,109	249,109	11,343,940
Commercial Total	54,835	54,835	1,992,316
All DSM	303,943	303,943	13,336,255

Cumulative annual savings by year, Therms

DSM Program	2029	2030
Industrial Firm - Ind rate	6,494,831	6,543,940
Industrial Interruptible	4,600,000	4,800,000
Commercial Firm - Ind r	123,750	127,750
Commercial Interruptible	1,813,731	1,864,566
Industrial Total	11,094,831	11,343,940
Commercial Total	1,937,481	1,992,316
All DSM	13,032,312	13,336,255

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

In the Matter of NW Natural Gas Company's)	
Application for Reauthorization)	
For Deferred Accounting of Expenses)	Memorandum of
For Industrial Demand Side Management)	Understanding
Programs)	

This Memorandum of Understanding ("MOU") is entered into for the purpose of documenting the ongoing applicability and funding parameters for Northwest Natural Gas Company's ("NW Natural" or the "Company") industrial demand side management program ("Industrial DSM Program").

PARTIES

The parties to this MOU are Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board ("CUB"), the Northwest Industrial Gas Users ("NWIGU"), and NW Natural (together, the "Parties").

BACKGROUND

In the attached Memorandum of Understanding included as Exhibit A ("Exhibit A"), Parties agreed that the Company would develop industrial DSM programs administered by Energy Trust of Oregon ("Energy Trust") wherein cost-effective energy efficiency would be acquired from Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Customers (collectively referred to hereafter as "Industrial Customers"). The program would be piloted for two years beginning May 15, 2009. During the pilot phase, all cost-effective DSM could be procured from Industrial Firm Sales Customers and Schedule 32 Commercial Customers, but program expenditures for the Industrial Interruptible Sales Customers were capped annually at \$500,000. Exhibit A establishes that after the two-year pilot phase, Parties would review the inclusion of Industrial Interruptible Sales Customers. This MOU documents the Parties' decision regarding ongoing program applicability and funding.

NW Natural is filing this MOU as supporting documentation to its Application for Reauthorization for Deferred Accounting ("Application") for the costs associated with administering and delivering Industrial DSM Program.

III. AGREEMENT

Parties agree to the following:

- 1) NW Natural will continue to offer its Industrial DSM Program that will be applicable to Industrial Interruptible Sales Customers, Schedule 32 Commercial Sales Customers, and Industrial Interruptible Customers.
- 2) The Energy Trust will continue to administer and deliver NW Natural's Industrial DSM Program.
- 3) Program costs will be appropriate for achieving the cost-effective therm savings targets as identified in the Company's most current IRP for the applicable customer classes. The \$500,000 annual spending cap that was required for Industrial Interruptible Sales Customers during the pilot phase is removed on a forward going basis.
- 4) Staff, CUB, and NWIGU agree that the Commission should grant NW Natural's Application in order to appropriately align the benefits customers receive from the Company's Industrial DSM Program with the costs of the program.
- 5) NW Natural will request that the costs deferred as a result of its Application be amortized for recovery across Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. NW Natural will request authorization to defer costs of the Industrial DSM Program each year.
- 6) The Parties agree to support and recommend that the Commission support NW Natural's request to recover the costs of Industrial DSM in the manner described in above.
- 7) By entering into this MOU, 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 MOU, other than those specifically identified in the body of this

MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

8) This MOU may be executed in counterparts and each signed counterpart shall constitute an original document.

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

NWIGU

STAFF

By: Paula E. Pyron

By: _____

Date: 2/14/2011

Date: _____

CUB

NW NATURAL

By: _____

By: _____

Date: _____

Date: _____

MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

8) This MOU may be executed in counterparts and each signed counterpart shall constitute an original document.

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

NWIGU

STAFF

By: _____

By: _____

Date: _____

Date: _____

CUB

NW NATURAL

By: 

By: _____

Date: 2-14-11

Date: _____

MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

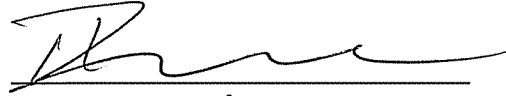
8) This MOU may be executed in counterparts and each signed counterpart shall constitute an original document.

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

NWIGU

STAFF

By: _____

By:  _____

Date: _____

Date: 2-24-11 _____

CUB

NW NATURAL

By: _____

By: _____

Date: _____

Date: _____

MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

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NWIGU

STAFF

By: _____

By: _____

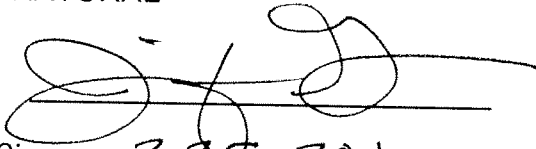
Date: _____

Date: _____

CUB

NW NATURAL

By: _____

By:  _____

Date: _____

Date: 2-25-2011

UM 1420 – Exhibit C
Exhibit A to Post Pilot MOU

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

In the Matter of NW Natural Gas Company's)	
Application for Authorization)	
For Deferred Accounting of Expenses)	Memorandum of Understanding
For Industrial Demand Side Management)	
Programs)	

This Memorandum of Understanding ("MOU") is entered into for the purpose of clarifying the continuation and applicability of Northwest Natural Gas Company's ("NW Natural" or the "Company") industrial demand side management program ("Industrial DSM Program").

PARTIES

1. The parties to this MOU are Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board ("CUB"), the Northwest Industrial Gas Users ("NWIGU"), and NW Natural (together, the "Parties").

BACKGROUND

2. The Company currently offers DSM programs to its residential and most of its commercial sales customers.¹ The Company established residential and commercial sales DSM programs in accordance with the Stipulation adopted by the Commission in Order No. 02-634.² That Stipulation also established the Company's public purpose charge that funds the Company's residential and commercial sales DSM programs as well as low income weatherization programs.³ As agreed to by parties to both decoupling dockets (UG 143 and UG

¹ Commercial Customers served on Rate Schedule 32 were classified as Industrial customers when Order No. 02-634 was issued, so these customers are not served under the DSM programs or charged the public purpose charge required therein. See *Re NW Natural Gas Co.'s Application for Public Purposes Funding and Distribution Margin Normalization*, Docket UG 143, Order No. 02-634 at 3-4 (Sept. 12, 2002).

² Order No. 02-634 at 3-4.

³ *Id.* at 4-5.

163), industrial customers were exempt from the decoupling mechanism and the public purpose charge.⁴

3. In its most recent Integrated Resource Plan (“IRP”), NW Natural found that it could potentially save 22,000 therms of energy per year from Industrial Firm Sales Customers.⁵ The cumulative achievable savings for industrial firm sales energy efficiency programs in Oregon could reduce consumption by 540 thousand therms by 2022 and approximately 570 thousand therms by 2028.⁶ The amount of DSM that may be available to the Company on a cost-effective basis for Interruptible Sales Customers⁷ is not known because the IRP does not plan for these customers. Schedule 32 Commercial Customers were not studied as a customer class separate from other commercial customers.

4. The Parties have agreed that simultaneously developing industrial DSM programs for Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Customers would prove beneficial to customers, because a larger customer base would increase energy savings and allow costs to be spread more broadly, thus reducing the impact of rates related to industrial DSM. The Company plans to develop such a program (“Industrial DSM Program”) for these three classes of customers that is separate from the programs for residential and commercial sales customers that already exist.

5. The MOU adopted by the Commission in Order No. 05-934 prevents the Company from charging the Schedule 301, Public Purpose Charge to industrial customers served on Schedules 3, 31, and 32 and special contracts, and prevents those customers from being eligible for Energy Trust of Oregon (“Energy Trust”) funding for DSM programs.⁸ The

⁴ *Id.*; *Re NW Natural Gas Co. Investigation Regarding Possible Continuation of Distribution Margin Normalization Tariff*, Docket UG 163, Order No. 05-934, Appendix A at 3 (Aug. 25, 2005).

⁵ *Re NW Natural’s 2008 Integrated Resource Plan*, Docket LC 45, Integrated Resource Plan at 4-7 (April 15, 2008). Firm Industrial Sales Customers include industrial firm customers served on the Company’s Rate Schedules 3, 31, and 32.

⁶ *Id.*

⁷ Interruptible Sales Customers are industrial interruptible customers served on the Company’s Schedules 31 and 32.

⁸ *Re NW Natural Gas Co. Investigation Regarding Possible Continuation of Distribution Margin Normalization Tariff*, Docket UG 163, Order No. 05-934, Appendix A at 3 (Aug. 25, 2005).

Parties have entered into this MOU in part to clarify that the Stipulation adopted in Order No. 05-934 does not prevent industrial customers from participating in or being charged for the Company's Industrial DSM Program as it is delineated in this MOU.

6. The Energy Trust is a non-profit organization established in response to Oregon's electric deregulation legislation, which requires third-party administration of independently owned electric utilities' DSM programs.⁹ The Energy Trust currently administers NW Natural's residential and commercial sales DSM programs.

7. NW Natural is filing this MOU as supporting documentation to its Application for Deferred Accounting ("Application") for the costs associated with studying, planning, administering, and delivering Industrial DSM.

III. AGREEMENT

8. Using funds provided by NW Natural, the Energy Trust will provide cost effective DSM as identified in the Company's 2008 IRP to Industrial Firm Sales Customers and future analysis of DSM potential. The Energy Trust will also study the availability of DSM for Industrial Interruptible Sales Customers and Schedule 32 Commercial Sales Customers. The Energy Trust will offer DSM to Industrial Firm Sales Customers and Schedule 32 Commercial Firm Sales customers to the extent it is cost-effective; the Energy Trust will also provide cost-effective DSM to Industrial Interruptible customers for a pilot period of 2 years, at an annual cost not to exceed \$500,000.

9. The Energy Trust will develop, administer, and deliver NW Natural's Industrial DSM Program.

10. Staff, CUB, and NWIGU agree that the Commission should grant NW Natural's Application in order to appropriately align the benefits customers receive from the Company's Industrial DSM Program with the costs of the program.

⁹ ORS 757.612(3)(c).

11. NW Natural will request that the costs deferred as a result of its Application be amortized for recovery across Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. NW Natural will request authorization to defer costs of the Industrial DSM Program each year for two years, after which time the Parties will review the success of this plan. The Parties will specifically review the inclusion of Industrial Interruptible Sales Customers and future program budgets.

12. The Parties agree to support and recommend that the Commission support NW Natural's request to recover the costs of Industrial DSM in the manner described in paragraph 11.

13. By entering into this MOU, 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 MOU, other than those specifically identified in the body of this MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

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

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

NWIGU

STAFF

By: _____

By: _____

Date: _____

Date: _____

CUB

NW NATURAL

By: _____

By: _____

Date: _____

Date: _____

11. NW Natural will request that the costs deferred as a result of its Application be amortized for recovery across Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. NW Natural will request authorization to defer costs of the Industrial DSM Program each year for two years, after which time the Parties will review the success of this plan. The Parties will specifically review the inclusion of Industrial Interruptible Sales Customers and future program budgets.

12. The Parties agree to support and recommend that the Commission support NW Natural's request to recover the costs of Industrial DSM in the manner described in paragraph 11.

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

NWIGU

STAFF

By: _____

By: _____

Date: _____

Date: _____

CUB

NW NATURAL

By: _____

By: [Handwritten Signature]

Date: _____

Date: 2/2/09

11. NW Natural will request that the costs deferred as a result of its Application be amortized for recovery across Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. NW Natural will request authorization to defer costs of the Industrial DSM Program each year for two years, after which time the Parties will review the success of this plan. The Parties will specifically review the inclusion of Industrial Interruptible Sales Customers and future program budgets.

12. The Parties agree to support and recommend that the Commission support NW Natural's request to recover the costs of Industrial DSM in the manner described in paragraph 11.

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

NWIGU

STAFF

By: Paula E. Ayron

By: _____

Date: 2/11/09

Date: _____

CUB

NW NATURAL

By: _____

By: _____

Date: _____

Date: _____

UM 1420 - EXHIBIT C

11. NW Natural will request that the costs deferred as a result of its Application be amortized for recovery across Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. NW Natural will request authorization to defer costs of the Industrial DSM Program each year for two years, after which time the Parties will review the success of this plan. The Parties will specifically review the inclusion of Industrial Interruptible Sales Customers and future program budgets.

12. The Parties agree to support and recommend that the Commission support NW Natural's request to recover the costs of Industrial DSM in the manner described in paragraph 11.

13. By entering into this MOU, 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 MOU, other than those specifically identified in the body of this MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

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

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

NWIGU

STAFF

By: _____

By: Bonnie B. Jatom

Date: _____

Date: February 10, 2009

CUB

NW NATURAL

By: _____

By: _____

Date: _____

Date: _____

UM 1420 - EXHIBIT C

11. NW Natural will request that the costs deferred as a result of its Application be amortized for recovery across Industrial Firm Sales Customers, Industrial Interruptible Sales Customers, and Schedule 32 Commercial Sales Customers. NW Natural will request authorization to defer costs of the Industrial DSM Program each year for two years, after which time the Parties will review the success of this plan. The Parties will specifically review the inclusion of Industrial Interruptible Sales Customers and future program budgets.

12. The Parties agree to support and recommend that the Commission support NW Natural's request to recover the costs of Industrial DSM in the manner described in paragraph 11.

13. By entering into this MOU, 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 MOU, other than those specifically identified in the body of this MOU. No Party shall be deemed to have agreed that any provision of this MOU is appropriate for resolving issues in any other proceeding, except as specifically identified in this MOU.

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

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

NWIGU

STAFF

By: _____

By: _____

Date: _____

Date: _____

CUB

NW NATURAL

By: *B. Adams*

By: _____

Date: 2-11-09

Date: _____

EXHIBIT D

Company: Northwest Natural Gas Company
 State: Oregon
 Description: Deferral of Industrial DSM Costs
 Account Number: 186232
 Docket UM 1420
 09-10 Deferral approved in Order 09-092
 10-11 Deferral approved in Order 10-131

1	Debit	(Credit)												
2														
3														
4	Month/Year	Note	Deferral	Adjustment	Transfers	TOTAL Interest	Interest Rate	Mar 09 - Feb 10 Interest	Mar 10 - Feb 11 Interest	Activity	TOTAL Balance	Mar 09 - Feb 10 Balance 1\	Mar 10 - Feb 11 Balance	
5		(a)	(b)	(c)	(d)	(e)	(e1)	(e2)	(e3)	(f)	(g)	(g1)	(g2)	
6														
7	Beginning Balance													
8	Apr-09										0.00			
9	May-09		225,000.00			807.94	8.618%	807.94	0.00	225,807.94	225,807.94	225,807.94		
10	Jun-09		75,000.00			1,890.99	8.618%	1,890.99	0.00	76,890.99	302,698.93	302,698.93		
11	Jul-09		75,000.00			2,443.20	8.618%	2,443.20	0.00	77,443.20	380,142.13	380,142.13		
12	Aug-09		75,000.00			2,999.37	8.618%	2,999.37	0.00	77,999.37	458,141.50	458,141.50		
13	Sep-09		75,000.00			3,559.53	8.618%	3,559.53	0.00	78,559.53	536,701.03	536,701.03		
14	Oct-09		75,000.00			4,123.72	8.618%	4,123.72	0.00	79,123.72	615,824.75	615,824.75		
15	Nov-09		75,000.00			4,691.96	8.618%	4,691.96	0.00	79,691.96	695,516.71	695,516.71		
16	Dec-09		75,000.00			5,264.28	8.618%	5,264.28	0.00	80,264.28	775,780.99	775,780.99		
17	Jan-10		75,000.00			5,840.71	8.618%	5,840.71	0.00	80,840.71	856,621.70	856,621.70		
18	Feb-10		75,000.00			6,421.28	8.618%	6,421.28	0.00	81,421.28	938,042.98	938,042.98		
19	Mar-10		145,833.00			523.66	8.618%	0.00	523.66	146,356.66	1,084,399.64	938,042.98	146,356.66	
20	Apr-10	1	145,833.00	(26,919.02)		1,381.42	8.618%	0.00	1,381.42	120,295.40	1,204,695.04	938,042.98	266,652.06	
21	May-10		145,833.00			2,438.67	8.618%	0.00	2,438.67	148,271.67	1,352,966.71	938,042.98	414,923.73	
22	Jun-10		145,833.00			3,503.51	8.618%	0.00	3,503.51	149,336.51	1,502,303.22	938,042.98	564,260.24	
23	Jul-10		145,833.00			4,575.99	8.618%	0.00	4,575.99	150,408.99	1,652,712.21	938,042.98	714,669.23	
24	Aug-10		145,833.00			5,656.18	8.618%	0.00	5,656.18	151,489.18	1,804,201.39	938,042.98	866,158.41	
25	Sep-10		145,833.00			6,744.12	8.618%	0.00	6,744.12	152,577.12	1,956,778.51	938,042.98	1,018,735.53	
26	Oct-10		145,833.00			7,839.88	8.618%	0.00	7,839.88	153,672.88	2,110,451.39	938,042.98	1,172,408.41	
27	Nov-10	2	145,833.00		(938,042.98)	8,943.51	8.618%	0.00	8,943.51	(783,266.47)	1,327,184.92	0.00	1,327,184.92	
28	Dec-10		145,833.00			10,055.06	8.618%	0.00	10,055.06	155,888.06	1,483,072.98	0.00	1,483,072.98	
29	Jan-11		145,833.00			11,174.60	8.618%	0.00	11,174.60	157,007.60	1,640,080.58	0.00	1,640,080.58	
30	Feb-11	forecast	145,837.00			12,302.19	8.618%	0.00	12,302.19	158,139.19	1,798,219.77	0.00	1,798,219.77	
31														
32	Subtotals												75,138.79	

NOTES

- 1\ Refund of unspent monies received from The Energy Trust of Oregon
 - 2\ Transfer to 186233 Amort Industrial DSM for amortization
- Deferrals are authorized on a program year (Mar - Feb). The total balance is broken down into the 2 separate deferral years for convenience of review

Summary:	
March 1, 2010 - February 28, 2011 Deferral Year:	
Deferral & Adjustments	1,723,080.98
Interest @ 8.618%	75,138.79
Total Deferral Balance @ 12/31/09	<u>1,798,219.77</u>

EXHIBIT D

Company: Northwest Natural Gas Company
 State: Oregon
 Description: Amortization of Industrial DSM Costs
 Account Number: 186233
 Docket UG 198
 Amortization of 09-10 Deferral approved in Order 10-431

1 Debit (Credit)

2

3

4	Month/Year	Note	Amortization	Transfers	TOTAL Interest	Interest Rate	Activity	TOTAL Balance
5	(a)	(b)	(c)	(d)	(e)	(e1)	(f)	(g)

6

7 Beginning Balance

8	Oct-10							0.00
---	--------	--	--	--	--	--	--	------

9	Nov-10	1	(138,357.17)	938,042.98	1,621.88	2.240%	801,307.69	801,307.69
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10	Dec-10		(95,115.84)		1,407.00	2.240%	(93,708.84)	707,598.85
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11	Jan-11							
----	--------	--	--	--	--	--	--	--

12	Feb-11							
----	--------	--	--	--	--	--	--	--

13	Mar-11							
----	--------	--	--	--	--	--	--	--

14	Apr-11							
----	--------	--	--	--	--	--	--	--

15	May-11							
----	--------	--	--	--	--	--	--	--

16	Jun-11							
----	--------	--	--	--	--	--	--	--

17	Jul-11							
----	--------	--	--	--	--	--	--	--

18	Aug-11							
----	--------	--	--	--	--	--	--	--

19	Sep-11							
----	--------	--	--	--	--	--	--	--

20

21	Subtotals		(233,473.01)		3,028.88			
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22

23 NOTES

24 1\ Transfer from 186232 Deferral of Industrial DSM

25



February 25, 2011

**NOTICE OF APPLICATION FOR REAUTHORIZATION TO
DEFER EXPENSES OR REVENUES**

To All Parties Who Participated in UG 152:

Please be advised that today Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), applied for a deferred accounting order regarding Industrial Demand Side Management Program expenses. Copies of the Company's Application are available for inspection at its main office.

The purpose of this Notice is to inform parties and other interested persons that participated in the Company's most recent general rate case that the Application was filed. **This is not a rate case.**

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: Jennifer Gross
220 NW Second Avenue
Portland, Oregon 97209-3991
Telephone: (503) 226-4211, ext. 3590

Public Utility Commission of Oregon
Attn: Vikie Bailey-Goggins
550 Capitol St., NE, Ste. 215
PO Box 2148
Salem, Oregon 97308-2148
Telephone: (503) 378-6366

Any person may submit written comments on this application to the Commission within 25 days of 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 on the 25th day of February 2011, I served the foregoing NOTICE OF APPLICATION FOR REAUTHORIZATION TO DEFER RELATED TO THE INDUSTRIAL DSM PROGRAM in docket UM 1420 upon each party listed below by U.S. mail, postage prepaid, or where paper service is waived, by electronic mail.

UG 152

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COOS COUNTY OFFICE OF LEGAL
COUNSEL
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COQUILLE OR 97423

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