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July 30, 2007

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket No. UM ____

In the attached Application for Deferred Accounting, Northwest Natural Gas Company seeks an order from the Commission to defer certain expenses related to its Smart Energy Program. By separate advice filing on June 29, 2007, NW Natural previously requested Commission approval of revisions and additions to its Tariff PUC Or 24 to implement its Smart Energy Program. Initially, NW Natural filed its Smart Energy tariff advice filing concurrent with, and contingent upon, an application for an accounting order that would have funded the startup costs through a reduction in the refund resulting from the settlement of the Northwest Pipeline rate case. In response to feedback from Staff, NW Natural has revised its requested accounting treatment as detailed in the attached application and will be withdrawing its initial application for an accounting order shortly. For the reasons described in the attached application, NW Natural's tariff advice filing for the Smart Energy Program is contingent upon approval of this application for deferred accounting.

NW Natural respectfully requests that this filing be placed on the public meeting agenda with NW Natural's tariff advice filing for the Smart Energy Program, NWN Advice No. OPUC 07-04, Schedule 400, Smart Energy Pilot Program, dated June 29, 2007.

A copy of the Notice of Application has been served on all parties to docket UG 152 as indicated on the attached certificate of service.

Very truly yours,

A handwritten signature in black ink, appearing to read 'S. Adams', written over a horizontal line.

Sarah J. Adams

Enclosures

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of the Application of
NORTHWEST NATURAL for a Deferred
Accounting Order for Certain Smart Energy
Program Startup Costs

**NORTHWEST NATURAL'S APPLICATION
FOR DEFERRED ACCOUNTING**

Under ORS 757.259 and OAR 860-027-0300, Northwest Natural Gas Company ("NW Natural" or the "Company") applies to the Oregon Public Utility Commission (the "Commission") for an order authorizing the Company to defer from the date of this Application forward certain unfunded startup costs associated with NW Natural's Smart Energy pilot program.

I. INTRODUCTION

NW Natural's Smart Energy pilot program is a voluntary program that will enable residential and commercial customers to offset greenhouse gas emissions associated with their natural gas use by purchasing high quality project-based emission reductions from offset projects developed by The Climate Trust.¹ Although the 5-year pilot program will be funded almost entirely by the voluntary participants, the program's success—and related environmental benefits—depends on a portion of its startup costs being spread to all classes of customers eligible for participation in the program. NW Natural shareholders have agreed to pay approximately \$130,000 of the startup costs and to absorb until the Company's next rate case the capital expenditures associated with development of the project. Approximately \$1.048 million of unfunded startup costs remain. These costs will be incurred over the first 3 years of the program, with approximately \$445,000 incurred in the first 12 months.

¹ For more information about the Climate Trust, see NWN Advice No. OPUC 07-4/Miller/101/1-2 (filed June 29, 2007).

II. BACKGROUND

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2 NW Natural is committed to helping our customers reduce their carbon footprint by
3 using natural gas as efficiently as possible. Consistent with this, the Company has formed a
4 successful partnership with Energy Trust of Oregon, Inc. ("ETO") to help customers increase
5 their energy efficiency and plans to continue to find new ways to work with ETO in the
6 future. Additionally, NW Natural supports enactment of federal climate legislation to limit
7 greenhouse gas emissions. Despite this, NW Natural believes it must continue to take steps
8 to help its customers reduce their climate impacts immediately—without waiting for this
9 future regulatory program to take effect.

10 NW Natural's Smart Energy pilot program is such a step. In the proposed pilot
11 program, residential Smart Energy participants will pay a flat amount of \$6 per month or a
12 rate of \$0.10486 per therm. Commercial participants may select a flat amount of their
13 choosing (not less than \$10 per month). This rate is designed to fund the cost of carbon
14 offsets estimated at the time of this filing and the ongoing administrative costs associated
15 with the program.

16 The Smart Energy program rate does not, however, cover the costs associated with
17 program startup. NW Natural did not include the startup costs in the program rates because
18 the Company's market research suggests the program's rates are near the top end of the
19 price customers will pay for a product of this kind. Moving above these rates would likely
20 result in substantially fewer customer signups, and ultimately, an unsuccessful program.

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

1 NW Natural proposes that all customer classes eligible for participation in the
2 program share responsibility for paying these startup costs. Because NW Natural does not
3 believe the program can be successful if these costs are borne solely by program
4 participants, NW Natural's tariff advice filing for the Smart Energy Program is contingent
5 upon approval of this application for deferred accounting.²

6 III. NOTICE

7 Communications regarding this application should be addressed to:

8 Inara K. Scott
9 Rates and Regulatory Affairs
10 NW Natural
11 220 NW Second Ave.
12 Portland, OR 97209
13 telephone: (503) 721-2476
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email: sarah@mcd-law.com

16 IV. DEFERRED ACCOUNTING RULE REQUIREMENTS

17 The following information is provided pursuant to the requirements set forth in OAR
18 860-027-0300(3).

19 A. Description of Utility Revenue or Expense.

20 This application addresses NW Natural's unfunded startup expenses related to the
21 Company's Smart Energy program. As explained above, the success of the program relies
22 in part on the program rate not exceeding a level that customers are willing and able to pay.

23 _____
24 ² NW Natural initially filed its Smart Energy tariff advice filing concurrent with, and
25 contingent upon, an application for an accounting order that would have funded the startup
26 costs through a reduction in the refund resulting from the settlement of the Northwest
Pipeline rate case. NWN Advice No. OPUC 07-4, Schedule 400, Smart Energy Pilot
Program. In response to feedback from Staff, NW Natural has revised its requested
accounting treatment as detailed herein and will withdraw its application for an accounting
order.

1 Consequently, the program rate does not cover the costs associated with program startup.
2 Program startup costs not included in the rate consist of: 1) the costs of initial work by The
3 Climate Trust to develop the program, including the identification, assessment, selection,
4 and contracting of GHG offset projects to be acquired under the Smart Energy Program, as
5 well as consultant and legal fees related to program design and development; 2) capital
6 costs associated with NW Natural's information and phone systems necessary to implement
7 the program; and 3) expenses necessary to market the program in its first three years. For
8 more information about these expenses, please see NW Natural's response to Staff Data
9 Requests 1 and 2, Advice 07-4/UM 1327 (July 24, 2007), attached hereto as Exhibit A.
10 NW Natural shareholders have committed to pay \$130,000 of the startup operating costs
11 and have agreed to absorb the capital costs until the Company's next general rate case.
12 The remaining unfunded startup costs are estimated to be \$1.048 million over 3 years. This
13 will amount to approximately \$445,000 for the 12 months covered by this deferral
14 application.

15 **B. Reasons for Deferral.**

16 ORS 757.259(2)(e) allows the deferral of utility revenues where necessary to match
17 appropriately the costs borne by and benefits received by ratepayers. This request seeks to
18 align the costs NW Natural will incur for its Smart Energy program with the benefits
19 customers receive by reducing the climate impact from use of natural gas in the Northwest
20 and becoming eligible to participate in the program.

21 **1. The Smart Energy Program Offers Broad Benefits.**

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

1 "carbon footprint" and the specific steps they can take to reduce it. As our state and country
2 move toward carbon regulation, it will become more important that all customers make the
3 connection between their energy use and their carbon impacts. Third, the Smart Energy
4 program will provide an opportunity for the State of Oregon, Public Utility Commission, and
5 NW Natural to develop and hone policy tools that will be critical in the upcoming regulation
6 of greenhouse gases. Finally, it is appropriate to collect start-up costs from all customers
7 because the program creates opportunities for all customers to participate. The existence of
8 the program, and its availability to all customers, is of value for all and thus justifies
9 spreading some costs to all NW Natural customers.

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

14 **2. Program Success Depends on Effective Education.**

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

22 **3. Support from All Customers Will Be Modest.**

23 The cost of the Smart Energy program is supported primarily by the voluntary
24 participants, with 78% of all costs coming from them. The remaining 22% will be shared by
25 all NW Natural residential and commercial customers and NW Natural shareholders. The
26 effect on an average residential customer bill is estimated to be less than 11 cents per

1 month for one year. This estimate equates to a 0.1% change over current residential billing
2 rates.

3 **4. NW Natural Shareholders Will Contribute to the Success of Smart**
4 **Energy.**

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

12 Additionally, the Smart Energy program poses shareholder risks unique to the
13 natural gas industry. Unlike the educational component of an electric renewable program,
14 which enhances the "clean-energy" image of electricity, the educational component of this
15 program entails educating customers about how their natural gas use emits carbon dioxide
16 associated with climate change. This very important education presents a significant
17 business risk to NW Natural. See NWN Advice No. OPUC 07-4/Miller/100/6-7. In light of
18 this risk, and the broad customer benefits provided as described above, NW Natural's
19 proposed deferred accounting treatment, for later inclusion in rates, represents an
20 appropriate sharing of costs among the Company, program participants and eligible
21 customers.

22 **C. Proposed Accounting.**

23 During the period of deferral, NW Natural proposes to account for the deferred
24 expenses related to the Smart Energy program by recording the deferral in a sub-account of
25 Account 186 (Miscellaneous Deferred Debits). In accordance with ORS 757.259(3),
26 NW Natural proposes to accrue interest on the unamortized balance at a rate equal to its

1 weighted average cost of capital most recently approved by the Commission. In the
2 absence of deferred accounting, the Company would record Smart Energy program start up
3 expenses in the appropriate sub-account of FERC Account 401.

4 **D. Estimate of Amounts.**

5 The Company estimates the amount to be recorded in the deferred account for the
6 upcoming 12 month period will be approximately \$445,000.

7 **E. Notice.**

8 A copy of the Notice of Application and a list of persons served with the Notice are
9 attached to this Application as Exhibit B.

10 **V. CONCLUSION**

11 NW Natural respectfully requests that, in accordance with ORS 757.259, the
12 Commission authorize the Company to defer the expenses described in this Application.

13 DATED: July 30, 2007.

14 MCDOWELL & RACKNER PC

15 
16 Sarah J. Adams

17 Of Attorneys for NW Natural
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Exhibit A

Rates and Regulatory Affairs
Facsimile: 503.721.2532



July 24, 2007

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

Attn: Vikie Bailey-Goggins
Administrator, Regulatory Operations Division

RE: Advice 07-4 / UM 1327; Staff Request No. 1-5

NW Natural submits the following responses to Staff's request for information in the above-referenced matter.

1. How much of the Smart Energy start up costs will be used to educate the eligible customers and how will the education take place? Please provide a description of each activity and the proposed budget for each, identifying the dollars in each budget that are associated with labor costs. Include an explanation of why each budget amount (including associated labor costs) represent incremental expenses.

NW Natural Response: NW Natural proposes using approximately \$1 million of start up costs to fund Smart Energy educational efforts over a three year period. The company anticipates using a variety of communication vehicles and media strategies to drive awareness of the program, educate customers about the issues and concepts associated with Smart Energy, and motivate customer enrolment.

To successfully promote enrolment in the program, NW Natural must expand its current communication efforts to gain awareness and understanding of several message components: the connection of greenhouse gas emissions (carbon dioxide) and customers' natural gas use, the connection between those emissions and climate change, the concept of carbon offsets, and how participants of Smart Energy can help offset carbon emissions while supporting the development of clean energy projects like biogas.

Because of the number and complexity of messages that need to be communicated, the company's strategy will be to use all available customer communication vehicles and a variety of mass advertising channels to promote awareness of the program.

Mass advertising will be used to generate interest in the program and to promote a call to action for customers to get more information or enroll through printed materials or on the company's website. Bill inserts and the company's website will be used to provide longer, more comprehensive discussion of all the concepts associated with the program. NW Natural also hopes to secure exposure for Smart

Energy by successfully engaging local media on the topic, as climate change has become a widely covered issue in the press.

Table 1 contains an estimated breakdown of expenses by communication channel. While the proposed educational funding of \$1 million over the three year period will not be exceeded, many factors could cause the company to make adjustments to its channel utilization strategy. Given the volatility of media costs, continued media fragmentation, and the evolving relative effectiveness of different types of media, the company may find it necessary to adjust its approach to increase message penetration.

NW Natural will use a variety of criteria to determine if adjustments to its communications approach are necessary, including channel performance, significant changes in media costs by channel, awareness testing results and program adoption rates.

Table 1

Communication Channels	Estimated Costs by Year		
	Sept 2007	2008	2009
Bill Inserts	\$45,000	\$47,000	\$50,000
Television	\$85,000	\$370,000	\$125,000
Print	\$10,000	\$25,000	\$23,000
Online Ads	\$40,000	\$60,000	\$60,000
Consumer Testing	\$10,000	--	--
Website Section	\$10,000	--	--
Media Relations	\$5,000	\$10,000	\$5,000
Promotional Items	\$5,000	\$10,000	\$5,000
Totals	\$210,000	\$522,000	\$268,000

There are no labor expenses included in the start up costs. The educational funding is incremental because Smart Energy is a new, additional program option for customers.

2. How much of the Smart Energy start up costs will be used for advertisement of the program and how does the company plan to target the advertisement(s) to eligible customers? Please provide a description and proposed budget for each segment of the proposed advertising plan by activity and collateral. Identify the dollars in each budget amount that are associated with labor. Include an explanation of why each budget amount (including associated labor costs) represent incremental expenses.

NW Natural Response: The budget amounts listed above include both advertising and educational expenses. NW Natural's educational efforts will also include an advertising component, in that they will be designed to encourage participation in the Smart Energy program. Similarly, all of the advertising will need to also be educational, as NW Natural will be unable to successfully market the program without educating customers as to what the program offers. Given the complexity of the messages that must be communicated, coupled with the variation in our

customer demographics and communication channel utilization, the company believes a comprehensive educational/advertising approach designed to deliver maximized message frequency and repetition at an economical cost is required.

The educational funding, which includes advertising costs, is incremental because Smart Energy is a new, additional program option for customers.

- Please indicate which customers, by rate schedule, would be eligible to participate in the Smart Energy program. If customers receiving service under rate schedules for firm sales are excluded from participating in the program, please provide an explanation (by rate schedule) of why they are excluded.

NW Natural Response: All residential and customer sales customers would be eligible to participate in the Smart Energy program. Firm sales customers are not excluded.

Residential	Commercial
Schedule 1	Schedule 1
Schedule 2	Schedule 3 (SF)
	Schedule 31 (SF)
	Schedule 31 (SI)
	Schedule 32 (SF)
	Schedule 32 (SI)

- Using the latest complete year for which information is available, what percentage of the company's total annual firm sales occurred in the rate schedules eligible to participate in the Smart Energy program.

NW Natural Response: Using actual twelve months ended June 2007 results, the percentage of total Oregon annual firm sales revenues in rate schedules eligible to participate in the Smart Energy program was 93.4%.

- Please provide a cost breakout for Smart Energy startup costs that includes the following:

Item	Year 1	Year 2	Year 3	Year 4	Year 5
Climate Trust Startup costs					
NW Natural A&G					
NW Natural Capital costs					
Education costs					
Advertising costs					

NW Natural Response: The table below provides the details of the \$1,275,200 start up costs for the Smart Energy program. The company proposes to absorb the \$97,200 of capital costs until its next general rate case. Total start up costs to be funded by all residential and commercial customers is \$1,178,000. Total costs of the program, including start up costs, ongoing program costs and the cost of offsets are \$5,680,796.

As explained above, education and advertising costs are shown in total.

Item (Start up only)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Climate Trust Startup costs	78,000	100,000				
NW Natural A&G						
NW Natural Capital costs (Depreciation expense)	9,720	19,440	19,440	19,440	19,440	9,720
Education/advertising costs	210,000	522,000	268,000			
Advertising costs						

Please call if you have questions.

Sincerely,

NW NATURAL

/s/ Inara Scott

Inara K. Scott, Manager
Regulatory Affairs

cc: Ed Durrenburger
Jason Jones

Exhibit B

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of the Application of
NORTHWEST NATURAL for a Deferred
Accounting Order for Certain Smart Energy
Program Startup Costs

NOTICE OF APPLICATION

On July 30, 2007 Applicant Northwest Natural Gas Company ("NW Natural") applied to the Public Utility Commission of Oregon (the "Commission") for authorization to use deferred accounting. Pursuant to ORS 757.259, NW Natural proposes to defer for later inclusion in rates certain expenses associated with its Smart Energy program.

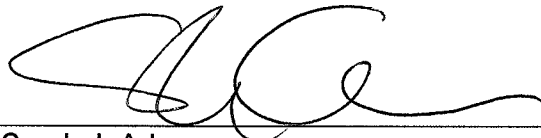
The granting of the Application will not authorize a change in rates, but will permit the Commission to consider allowing such deferred amounts to be included in rates through an adjustment to rates in a subsequent proceeding.

Interested persons can obtain a copy of the Application by contacting:

Sarah J. Adams
McDowell & Rackner PC
520 SW Sixth Avenue, Suite 830
Portland, OR 97204
Telephone: (503) 595-3927

Any person may submit to the Commission written comment on the Application, in accordance with procedures prescribed by the Commission. The deadline for comments on the Application is August 24, 2007.

DATED: July 30, 2007.

McDOWELL & RACKNER PC


Sarah J. Adams
Of Attorneys for NW Natural

CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing NOTICE OF APPLICATION FOR A DEFERRED ACCOUNTING ORDER FOR CERTAIN SMART ENERGY PROGRAM STARTUP COSTS upon all parties of record in docket UG 152, by email and first-class mail to the following parties or attorneys of parties:

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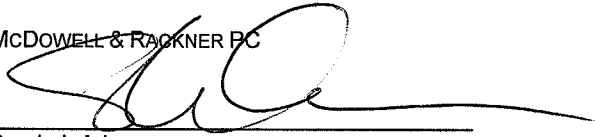
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DATED July 30, 2007.

McDOWELL & RACKNER PC



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