

Rates and Regulatory Affairs
Facsimile: 503.721.2532



October 17, 2006

NWN Advice No. OPUC 06-13B

VIA ELECTRONIC FILING

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

Attn: Filing Center

Re: UG 174 Replacement Sheets: Schedule P “Purchased Gas Cost Adjustments”: Purchased Gas Cost and Technical Rate Adjustments

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), files herewith revisions to its Tariff, P.U.C. Or. 24, stated to become effective with service on and after November 1, 2006. A request for approval on less than statutory notice is already on file in this matter.

Fourth Revision of Sheet P-1,
Schedule P,
“Purchased Gas Cost Adjustments”;

Third Revision of Sheet P-2,
Schedule P,
“Purchased Gas Cost Adjustments (continued)”;

Fourth Revision of Sheet P-3,
Schedule P,
“Purchased Gas Cost Adjustments (continued)”;

Seventh Revision of Sheet P-4,
Schedule P,
“Purchased Gas Cost Adjustments (continued)”; and

Fourth Revision of Sheet P-5,
Schedule P,
“Purchased Gas Cost Adjustments (continued)”; and

Original Sheet P-6,
Schedule P,
“Purchased Gas Cost Adjustments (continued)”.

The Company hereby withdraws Sheets P-1 through P-5, filed in NWN Advice No. OPUC 06-13A, dated October 4, 2006. All other materials in that file are requested to become effective as filed.

The Company requests that the tariff sheets filed herewith be permitted to become effective with service on and after November 1, 2006.

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

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

Kelley C. Miller, Staff Assistant
Rates & Regulatory Affairs
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2532
Telephone: (503) 226-4211, ext. 3589

Sincerely,

NW NATURAL

/s/ Onita King

Onita R. King, Manager
Tariffs and Regulatory Compliance

NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 24

Fourth Revision of Sheet P-1
Cancels Third Revision of Sheet P-1

SCHEDULE P PURCHASED GAS COST ADJUSTMENTS

APPLICABILITY:

This schedule applies to all schedules for natural gas Sales Service within the entire territory served by the Company in the State of Oregon. The definitions and provisions described herein shall establish the natural gas costs for Purchased Gas Adjustment (PGA) deferral purposes on a monthly basis.

PURPOSE:

The purpose of this schedule is to allow the Company, on established Adjustment Dates, to adjust rate schedules for changes in the cost of gas purchased in accordance with the rate adjustment provisions described herein.

This Schedule is an "automatic adjustment clause" as defined in ORS 757.210, and is subject to the customer notification requirements as described in OAR 860-022-0017.

DEFINITIONS:

1. **Actual Commodity Cost:** The natural gas supply costs for commodity actually paid for the month, including Financial Transactions, fuel use, and distribution system lost and unaccounted for natural gas (LUGF) plus Gas Storage Facilities withdrawals, plus or minus the cost of natural gas associated with pipeline imbalances, plus propane costs, plus odorization charges, if applicable, less Net Commodity Off-System Sales Revenues for the month, plus actual Variable Transportation Costs, plus commodity-related reservation charges, less all transportation demand charges embedded in commodity costs.
2. **Net Commodity Off-System Sales Revenues:** Revenues from the sale of natural gas to a party other than the Company's Oregon Sales Service customers less costs associated with the sales transactions.
3. **Variable Transportation Costs:** Variable transportation costs, including Pipeline volumetric charges, and other variable costs related to volumes of commodity delivered to Sales Service customers.
4. **Actual Non-Commodity Cost:** Actual Non-Commodity gas costs shall be equal to actual Demand Costs, less actual Capacity Release Benefits, plus or minus actual Pipeline refunds or surcharges.
5. **Demand Costs:** Fixed monthly Pipeline costs and other demand-related natural gas costs such as capacity reservation charges, plus any transportation demand charges embedded in commodity costs.
6. **Capacity Release Benefits:** This component includes revenues associated with pipeline capacity releases. The benefits to customers, through the monthly PGA deferrals, shall be 100% of the capacity release revenues up to the full Pipeline rate, and 80% of the capacity release revenues exceeding amounts reflecting full Pipeline rates. Capacity release revenues shall be quantified on a transaction-by-transaction basis.

(C)

(continue to Sheet P-2)

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NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 24

Third Revision of Sheet P-2
Cancels Second Revision of Sheet P-2

SCHEDULE P PURCHASED GAS COST ADJUSTMENTS (continued)

DEFINITIONS (continued):

7. Estimated Annual Sales Weighted Average Cost of Gas (Annual Sales WACOG): (C)
The estimated Annual Sales WACOG is used for purposes of calculating the monthly gas cost deferral costs for entry into the Account 191 sub-accounts calculated by the following formula: (Normalized Purchases at Adjusted Contract Prices) divided by (last year's (i.e., July 1 – June 30) actual sales volumes, weather-normalized).
- a. "Normalized Purchases" means last year's (July 1 – June 30) actual sales volumes, "weather-normalized", plus a percentage for distribution system LUGF.
 - b. "Weather-normalized" means normalizing assumptions and methods set at the utility's last rate case.
 - c. "Distribution system embedded LUGF" means the 5-year average of actual distribution system LUGF, not to exceed 2%.
 - d. "Adjusted contract prices" means actual and projected contract prices that are adjusted by each associated Canadian pipeline's published (closest to August 1) fuel use and line loss amount provided for by tariff, and by each associated U.S. pipeline's tariffed rate.
- Effective November 1, 2006: (C)
- | | | |
|---|------------------|--------|
| Estimated Annual Sales WACOG per therm (w/ revenue sensitive): | \$0.75951 | (C)(N) |
| Estimated Annual Sales WACOG per therm (w/o revenue sensitive): | \$0.73637 | (N) |
8. Estimated Winter Sales WACOG: The Company's weighted average Commodity Cost of Gas for the five-month period November through March. (N)
- Effective November 1, 2006:
- | | | |
|---|------------------|-----|
| Estimated Winter Sales WACOG per therm (w/ revenue sensitive): | \$0.81905 | (N) |
| Estimated Winter Sales WACOG per therm (w/o revenue sensitive): | \$0.79410 | (T) |
9. Estimated Non-Commodity Cost: Estimated annual Non-Commodity gas costs shall be equal to estimated annual Demand Costs, less estimated annual Capacity Release Benefits, plus or minus estimated annual pipeline refunds or surcharges. (T)
10. Estimated Non-Commodity Cost per Therm – Firm Sales: The portion of the Estimated annual Non-Commodity Cost applicable to Firm Sales Service divided by last year's (i.e., July 1 – June 30) actual Firm Sales Service volumes, weather normalized. (C)
- Effective November 1, 2006: (N)
- | | | |
|--|------------------|-----|
| Estimated Non-Commodity Cost per therm-Firm Sales (w/revenue sensitive): | \$0.13136 | (C) |
| Estimated Non-Commodity Cost per therm-Firm Sales (w/o revenue sensitive): | \$0.12736 | (N) |

(continue to Sheet P-3)

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**SCHEDULE P
PURCHASED GAS COST ADJUSTMENTS
(continued)**

DEFINITIONS (continued):

- 19. Embedded Non-Commodity Cost – MDDV Based Sales Service: The Estimated Non-Commodity Cost per Therm – MDDV Based Firm Sales Service multiplied by the Actual Monthly MDDV Sales Service Volumes. (M)(T)
- 20. Financial Transactions: Cost of Financial Transactions related to gas supply, including but not limited to, hedges, swaps, puts, calls, options and collars that are exercised to provide price stability/control or supply reliability for sales service customers. (T)
- 21. Gas Storage Facilities: The cost of natural gas for injections shall be the actual cost of purchasing gas for storage and the cost of injection of the gas into the storage facility. Withdrawals of natural gas shall be valued at the weighted average cost of gas in the facility plus any variable withdrawal costs. For purposes of annual rate filings, the cost of inventory in storage shall be an overall average cost including existing inventory volumes and costs and refill inventory volumes and costs. Refill volumes will be priced at the expected pricing used in each filing. Only the cost of natural gas withdrawn from Gas Storage Facilities will be included in the Actual Commodity Cost, as defined herein. (T)
(C)
(C)
- 22. Seasonalized Fixed Charges: The projected monthly non-Commodity costs of gas recovery, calculated by multiplying the Embedded Non-Commodity Costs by Oregon normalized sales. (M)

CALCULATION OF MONTHLY GAS COSTS FOR DEFERRAL PURPOSES:

The Company shall maintain sub-accounts of Account 191. Monthly entries into these sub-accounts shall be made to reflect: 1) the difference between the monthly Actual Commodity Cost and the monthly Embedded Commodity Cost, 2) the difference between Actual Non-Commodity Cost and the monthly portion of Estimated Non-Commodity Cost and, 3) the difference between Embedded Non-Commodity Cost and monthly Seasonalized Fixed Charges. The entries shall be calculated each month as follows: (C)

- 1. A debit or credit entry shall be made equal to 100% of the difference between the monthly Actual Non-Commodity Cost and the Monthly Embedded Non-Commodity Cost, net of revenue sensitive effects. (C)
(C)

(continue to Sheet P-5)

NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 24

Fourth Revision of Sheet P-5
Cancels Third Revision of Sheet P-5

SCHEDULE P PURCHASED GAS COST ADJUSTMENTS (continued)

CALCULATION OF MONTHLY GAS COSTS FOR DEFERRAL PURPOSES (continued):

2. A debit or credit entry shall be made equal to 100% of any monthly difference between Embedded Non-Commodity Costs and Monthly Seasonalized Fixed Charges. The monthly Seasonalized Fixed Charges for the period November 1, 2006 through November 30, 2007 are:

November 2006	\$6,754,373
December 2006	\$13,410,153
January 2007	\$12,633,985
February	\$10,593,818
March	\$9,535,319
April	\$7,166,669
May	\$4,730,318
June	\$2,507,809
July	\$1,121,585
August	\$1,004,680
September	\$ 2,202,844
October	\$ 6,030,248
November	\$10,014,610
ANNUAL TOTAL	<u>\$80,952,038</u>

3. A debit or credit entry shall be made equal to 67% of the difference between the Actual Commodity Cost and the Embedded Commodity Cost. A debit or credit entry will also be made equal to 100% of the difference between storage withdrawals priced at the actual book inventory rate as of October 31 prior to the PGA year and storage withdrawals priced at the inventory rate used in the PGA filing.
4. Monthly differentials shall be deemed to be positive if actual costs exceed embedded costs and to be negative if actual costs fall below embedded costs.
5. The cost differential entries shall be debited to the sub-accounts of Account 191 if positive, and credited to the sub-accounts of Account 191 if negative.
6. Interest - The Company shall not compute interest on the deferrals accrued from November 2006 to October 2007, until amortization begins November 1, 2007. The Company shall compute interest on existing deferred balances on a monthly basis using the interest rate(s) approved by the Commission.

(M)

(T)

(C)

(T)

(T)

(M)

(continue to Sheet P-6)

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**SCHEDULE P
PURCHASED GAS COST ADJUSTMENTS
(continued)**

AMORTIZATION OF PGA ACCOUNT DEFERRALS:

The balances in the sub-accounts of Account 191 shall be amortized over the twelve (12) month period commencing with the November 1 adjustment date or such other time period acceptable to the Company and the Commission. The amount of amortization for the PGA Accounts shall consist of an amount necessary to recover or return the amount accumulated in the sub-accounts and other deferral accounts.

(M)(C)

ADJUSTMENT DATES:

The Adjustment Date shall be November 1 of each year for changes in annual gas costs. The Company may file out-of-cycle PGA adjustments to be effective at times other than November 1 of each year, if the sum of the Company's annual Actual Commodity Cost and Actual Non-Commodity Costs differs from the sum of the annual Embedded Commodity Cost and Embedded Non-Commodity Costs, by ten percent (10%) or more, or for such other reasons and on such terms as the Commission may approve.

(C)

(C)

TIME AND MANNER OF FILING:

Applications will be made to the Commission not less than sixty (60) days in advance of the requested effective date.

AMOUNT OF ADJUSTMENT:

The amount of adjustment to be made to customers' rates effective on each November 1 adjustment date shall consist of the sum of the changes in the Embedded Commodity Cost and Non-Commodity Cost and the change in amortization rates of the PGA Accounts, as well as other deferral accounts as the Commission may approve.

GENERAL TERMS:

Service under this Rate Schedule is governed by the terms of this Rate Schedule, the General Rules and Regulations contained in this Tariff, any other schedules that by their terms or by the terms of this Rate Schedule apply to service under this Rate Schedule, and by all rules and regulations prescribed by regulatory authorities, as amended from time to time.

(M)

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