

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 169

In the Matter of)	
)	
NORTHWEST NATURAL)	ORDER
)	
Revisions to Rate Schedule 32: Large Volume)	
Non-Residential Sales and Transportation)	
Service.)	

DISPOSITION: REVISED AGREEMENT APPROVED

On November 4, 2005, Northwest Natural Gas Company (NW Natural) filed Advice No. 05-14 proposed to become effective on Less Than Statutory Notice effective as of November 8, 2005. The tariff consisted of a template agreement between NW Natural and certain customers relating to gas supply costs for sales service during October 1, 2005 through March 31, 2006. The template agreement represents an interim billing rate solution between NW Natural and those customers formerly taking only transportation service who are now taking sales service under Rate Schedule 32, and did not choose to withdraw their service election form as provided for in Schedule T.

The Commission Staff recommended the Commission grant NW Natural's Application for Less than Statutory Notice and allow the tariff to go into effect on November 8, 2005 as Schedule 32A. Copies of the agreement and Staff's recommendation are set forth in Appendices A and B, respectively, both of which are incorporated by reference.

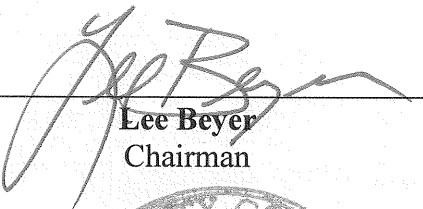
At its public meeting on November 7, 2005, the Commission agreed with Staff's recommendation with one exception. Based on concerns raised at the meeting, the Commission concluded that the agreement should be modified to allow customers additional time to determine whether to adopt the agreement. Accordingly, the Commission suspended NW Natural's filing pursuant to ORS 757.215; concluded that the customers should have until close of business on November 10, 2005, to determine whether to adopt the agreement or withdraw their prior Rate Schedule 32 Sales Service election; and, directed NW Natural to file revised tariffs reflecting that change by November 7, 2005.

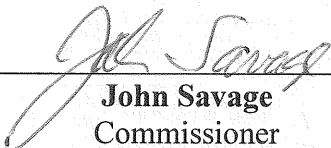
ORDER


IT IS ORDERED that:

1. Northwest Natural Gas Company's application for Less Than Statutory Notice is granted.
2. Northwest Natural Gas Company's Advice No. 05-14 is permanently suspended.
3. Northwest Natural Gas Company will file revised tariffs consistent with the Commission's conclusions, to be effective November 7, 2005.
4. Northwest Natural Gas Company will work with Staff to design the necessary accounting processes and spreadsheets to fulfill the recordkeeping requirement included in Section 7.d. of the agreement to facilitate any necessary future audit of the costs associated with the agreement.

Made, entered and effective NOV 07 2005.


Lee Beyer
Chairman


John Savage
Commissioner


Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561.
A party may appeal this order to a court pursuant to ORS 756.580.

AGREEMENT

between

NORTHWEST NATURAL GAS COMPANY

and

_____ [Customer]

Regarding Gas Supply Costs for Sales Service During Interim Period

This Agreement is entered into effective as of October 1, 2005, between Northwest Natural Gas Company (“NW Natural” or the “Company”) and _____ (“Customer”). NW Natural and Customer may be referred to individually as a “Party” and collectively as “Parties.”

RECITALS

A. Customer receives Transportation Service from NW Natural under the Company’s Schedule 32, “Large Volume Non-Residential Sales and Transportation Service” or a special contract [INSERT CONTRACT NAME]. Between August 1, 2005 and October 31, 2005, Customer exercised its “Service Election” option under the Company’s Schedule T provisions to receive Sales Service from NW Natural, effective with first deliveries of sales service on or after October 1, 2005.

B. A dispute exists between NW Natural and Customer regarding the commodity rate to be charged for natural gas supplies (the “Commodity Rate”) provided by NW Natural to Customer for Sales Service, pursuant to such Service Election.

C. NW Natural and Customer have reached agreement on proposed terms for determining billing rates for natural gas supplies provided by NW Natural to Customer for Sales Service during the period beginning October 1, 2005, and ending March 31, 2006 (“Interim Period”), pursuant to such Service Election.

D. NW Natural and Customer wish to submit this Agreement to the Public Utility Commission of Oregon (“the Commission”) for approval as the basis for determining, inter alia, billing rates for natural gas supplies provided by NW Natural to Customer for Sales Service during the Interim Period.

AGREEMENT

1. Incremental Cost Determination.
 - a. Petition for Declaratory Order. NW Natural intends to, and Customer acknowledges that NW Natural will, file a petition for declaratory order with the Commission pursuant to ORS 756.450 seeking a determination (“Incremental Cost Determination”) regarding the meaning of “incremental gas supply cost” as that term is used in the Service Election provisions of NW Natural’s Schedule T. Customer’s acknowledgment and this Agreement do not constitute agreement, understanding, waiver or stipulation by any of the Parties that such proceeding is relevant, necessary, applicable, or appropriate to the resolution of the dispute.
 - b. Schedule. NW Natural will request that the Commission adopt a schedule in the Incremental Cost Determination proceeding which provides for a final order by the Commission to be issued no later than March 31, 2006.
 - c. Participation by Customer. This Agreement does not bind Customer to participate in any proceeding filed by NW Natural, or to take any particular position in such

proceeding. Customer reserves its right to argue that such proceeding is neither relevant, necessary, applicable or appropriate as the means of resolving the dispute.

2. Sales Service During Interim Period.

a. Subject to Section 2(d) below and the other applicable provisions of the Company's General Rules and Regulations with respect to terms of service, NW Natural will provide Sales Service to Customer during the Interim Period, provided such Customer does not de-select sales service on or before 5:00 p.m. November 8, 2005.

b. Customer will continue to take Sales Service from NW Natural through the end of the Interim Period (March 31, 2006), unless such customer has either: (a) de-selected sales service effective November 1, 2005, or (b) de-selected sales service effective either November 15, 2005 or December 1, 2005.

c. On or before November 30, 2005, NW Natural will file proposed revisions to the Company's Schedule T with the Commission. Such proposed revisions will permit customers taking Sales Service to withdraw their Sales Service election effective after March 31, 2006 upon fifteen (15) days' written notice, notwithstanding any other provisions of NW Natural's Schedule T or its General Rules and Regulations. Upon approval of such tariff revision, Customer may cease taking Sales Service from NW Natural effective after March 31, 2006, in accordance with the notice requirements of such revised tariffs. It is a condition of this Agreement that the Commission approve that proposed revision.

d. Customer Creditworthiness. In accordance with the Company's General Rules and Regulations, Customer may be required to establish or re-establish credit in light of the change in (1) conditions of service and (2) the basis upon which credit was originally

established. Any additional deposit or other security required of Customer shall be in accordance with the Company's General Rules and Regulations.

3. Interim Billing Rate. During the Interim Period, NW Natural shall bill Customer for natural gas supplies provided to Customer for Sales Service at the rate of \$10.00 per decatherm as the "Commodity Rate" component for delivery at Citygate ("Interim Billing Rate"). Provided, that for deliveries during the month of November, 2005, the Interim Billing Rate, shall be \$9.00 per decatherm. (NW Natural's standard terms and conditions shall apply for delivery from Citygate to Customer's delivery point.) Customer shall pay such bills during the Interim Period, notwithstanding any Related Claims (as defined in Section 8) that Customer may have with respect to the amounts due under such bills.

4. Incurred Gas Cost.

a. Calculation of "Incurred Gas Cost". NW Natural shall calculate the actual costs it incurs on a monthly basis in accordance with the provisions of this Section 4 in providing natural gas supplies to Customer for Sales Service from October 1, 2005, through March 31, 2006 ("Incurred Gas Cost").

b. This Agreement is silent with regard to Incurred or actual Gas Costs for October 1 through October 31, 2005. For information purposes only, NW Natural will calculate the Incurred Gas Cost for October 2005 as set forth in Section 4(a) above, notwithstanding that the Parties other than NW Natural do not agree with this calculation.

c. November 1, 2005 – March 31, 2006. For the period after October 31 2005, NW Natural will use its reasonable best efforts to acquire natural gas supplies for Customer at the lowest reasonable cost (taking into account normal business exigencies and practices, and competing constraints of reliability and cost). In calculating the Incurred Gas Cost

for this period on a monthly basis, the Company shall include the impact of the actions taken by NW Natural set forth in the following paragraphs to reduce the Incurred Gas Cost (“Cost Reduction Measures”):

(i) To meet Customer’s expected demand for natural gas supplies and the aggregate demand of other customers similarly situated, NW Natural has acquired 5,000 decatherms per day of commodity gas at a price equal to: (a) for gas deliveries during November 2005 - \$8.95/decatherm; (b) for gas deliveries for December through March 2006 – \$10.02/decatherm. The cost of these new gas supplies are not reflected in retail rates and have not been otherwise charged to the company’s core customers.

(ii) NW Natural has available to it approximately five thousand (5,000) decatherms per day of interstate gas storage capacity. The cost of this gas storage capacity is not reflected in retail rates or otherwise charged to the Company’s core customers.

(iii) During the Interim Period, NW Natural will in good faith deploy these new gas supplies and this additional gas storage capacity at no charge for the service on behalf of Customer to assist in securing natural gas supplies for Customer, at the lowest monthly reasonable cost.

5. Balancing Account. Each month during the Interim Period, the difference between the Interim Billing Rate and Incurred Gas Cost for natural gas supplied provided to Customer for Sales Service shall be recorded in an account (“Balancing Account”). Amounts in the Balancing Account shall bear a carrying charge at an annual rate of five percent (5%). NW Natural shall advise Customer no less often than once per month of the amount in Customer’s Balancing Account.

6. Interim Bills.

a. April 30, 2006. If the Commission has not issued an Incremental Cost Determination on or before April 30, 2006, NW Natural shall issue an invoice or refund to Customer one-third (1/3) of the amount in the Balancing Account as of March 31, 2006. Such invoice or refund notice shall be issued on or about April 30, 2006.

b. May 31, 2006. If the Commission has not issued an Incremental Cost Determination on or before May 31, 2006, NW Natural shall issue an invoice or refund notice to Customer for the remaining amount in the Balancing Account as of March 31, 2006. Such invoice or refund notice shall be issued on or about May 31, 2006.

c. Payment of Invoiced Amounts. Customer shall pay and NW Natural shall refund such amounts within ninety (90) days of the invoice or refund date, notwithstanding any Related Claims or appeals of the Incremental Cost Determination that Customer may have with respect to the amounts due under such invoices. Amounts not paid by either Party within thirty (30) days of the due date shall bear a carrying charge at an interest rate of one point seven percent (1.7%) per payment period.

7. True-Up Rate.

a. Within ten (10) days of the Commission's issuance of a final order in the Incremental Cost Determination proceeding (without regard to whether judicial review is sought with respect to such order), NW Natural shall calculate the commodity rate as the "Commodity Rate" component for delivery at Citygate ("True-Up Rate") to be charged to Customer for natural gas supplies provided to Customer for Sales Service during the Interim Period. In calculating the True-Up Rate, the following shall apply:

(i) The True-Up Rate shall reflect the Commission's findings in such final order in the Incremental Cost Determination proceeding. Unless inconsistent with such findings, the True-Up Rate shall reflect the impact of Cost Reduction Measures.

(ii) The True-Up Rate for any service in any month shall not exceed the Maximum Rate as the "Commodity Rate" component for delivery at Citygate as set forth below:

October 2005 - \$11.80

November 2005 - \$9.95

December 2005 through March 2006 - \$11.02

b. If the True-Up Rate is determined after the Customer has paid Interim Bills under Section 6 of this Agreement, NW Natural shall calculate a reconciliation of any amounts paid by Customer pursuant to Interim Bills issued under Section 6 of this Agreement with the amounts that should have been billed to Customer using the True-Up Rate.

c. In the event the Interim Billing Rate exceeds the True-Up Rate or the reconciliation under Section 7(b) shows an over-collection by NW Natural, the Company shall immediately credit Customer's current bill in the amount of any over-collection, and shall reimburse Customer for any over-collected amount not used after ninety (90) days. In the event the True-Up Rate exceeds the Interim Billing Rate or the reconciliation under Section 7(b) shows an under-collection by NW Natural, the Company shall issue an invoice to Customer in the amount of any under-collection. Customer shall pay such invoiced amount within ninety (90) days, notwithstanding any Related Claims that Customer may have with respect to such invoiced amounts. Amounts not paid by either Party within thirty (30) days of the due date shall bear a carrying charge at an interest rate of one point seven percent (1.7%) per payment period.

d. Record-Keeping. NW Natural will maintain all records necessary for supporting the calculations of the Incurred Gas Costs and True-Up Rate by Customer regardless of whether NW Natural or Customer prevails in the Parties' disputes.

8. Related Claims.

a. Customer may have related claims ("Related Claims") against NW Natural regarding the charges for natural gas supplied by NW Natural to Customer for Sales Service during the Interim Period. Nothing in this Agreement affects Customer's rights to pursue such Related Claims and to seek refunds, whether by an administrative or judicial recourse.

b. "Related Claims" shall not include claims related to the prudence of the Company's actions in securing natural gas supplies for Customer during the Interim Period. Customer waives the right to make any claim with respect to the prudence of the Company's actions in incurring Incurred Gas Costs, excluding the period from October 1, 2005 through and including October 31, 2005, in accordance with Section 4 of this Agreement, so long as the Company has acted in good faith and reasonably.

9. The Parties agree that this Agreement is in the public interest and results in a billing rate for a natural gas supply costs for Sales Service to Customer during the Interim Period that is reasonable.

10. The Parties agree that this Agreement represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Agreement shall not be admissible as evidence in this or any other proceeding.

11. The Parties agree to support this Agreement in any proceeding before the Commission with respect to such Agreement and any appeal therefrom, provide witnesses to

sponsor this Agreement at any hearing convened by the Commission with respect to such Agreement, and recommend that the Commission issue an order or approve a tariff adopting the terms of this Agreement.

12. If this Agreement is challenged by any other party in a proceeding before the Commission with respect to such Agreement, each Party reserves the right to cross-examine witnesses and put on such case as it deems appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Agreement. Notwithstanding this reservation of rights, the Parties agree that they will support the Commission's adoption of the terms of this Agreement in an order or tariff.

13. The Parties have negotiated this Agreement as an integrated document. If the Commission rejects all or any material portion of this Agreement or imposes additional material conditions in approving this Agreement, either Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

14. By entering into this Agreement, neither Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by the other Party in arriving at the terms of this Agreement. Neither Party shall be deemed to have agreed that any provision of this Agreement is appropriate for resolving issues in any other proceeding.

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

16. This Agreement shall be governed by Oregon law without regard to principals of conflicts of laws.

[SIGNATURES ON NEXT PAGE]

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

NORTHWEST NATURAL GAS
COMPANY

[Customer]

By _____

By _____

Its _____

Its _____

Date _____

Date _____

ITEM NO. 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: November 7, 2005**

REGULAR CONSENT EFFECTIVE DATE November 8, 2005

DATE: November 4, 2005

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

THROUGH: *W. J. B. E. B.* Lee Sparling, Ed Busch, & *JJ* Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 169/Advice No. 05-14)
Revisions to Rate Schedule 32: Large Volume Non-Residential Sales and
Transportation Service

STAFF RECOMMENDATION:

I recommend the following:

1. Approve Northwest Natural's Application for Less than Statutory Notice;
2. Allow the "Agreement between Northwest Natural Gas Company and [Customer] Regarding Gas Supply Costs for Sales Service During Interim Period," submitted in Advice No. 05-14 and docketed as UG 169, to go into effect as Schedule 32A, on November 8, 2005; and
3. Direct Northwest Natural to work with Staff to design the necessary accounting processes and spreadsheets, to fulfill the recordkeeping requirement included in Section 7.d. of the agreement to facilitate any necessary future audit, by PUC Staff or a customer, of the costs associated with the agreement.

DISCUSSION:Background

Under the provisions of Northwest Natural's (NWN or Company) Schedule T, a customer taking Transportation Service under Schedules 3, 31, 32 and 33 or a special contract may elect to take sales service under Rate Schedule 32: Large Volume Non-Residential Sales and Transportation Service ("Rate Schedule 32"). As described by NWN in prior filings, a large number of transportation service customers whose gas usage represents a significant load gave notice to the Company to take Sales Service under Rate Schedule 32 commencing either October 1, 2005 or November 1, 2005. The requirements in Schedule T "Service Election" state that (1) NWN must be assured that

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adequate supply and capacity exist to accommodate a transfer request, and (2) the customer must pay NWN for any incremental gas supply costs incurred to accommodate the customer's change in service.

On October 25, 2005, the Commission authorized NWN to amend the "Service Election" section of Schedule T to permit a limited exception to the Schedule T requirement that an election to Sales Service requires a one year commitment. By submitting a Withdrawal of Election form by either October 27, 2005 or November 8, 2005, a customer would be allowed to withdraw its election and return to Transportation Service. The exception only applied to Transportation Service customers that submitted a Sales Service Election form between August 1, 2005 and October 26, 2005.

This Filing

There is a controversy between the Company and the former transportation service customers who elected Sales Service during the above period and who have not yet withdrawn their election regarding the meaning of "incremental gas supply cost" as that term is used in the "Service Election" provisions of NWN Schedule T. NWN expects to file a petition under ORS 756.450 to seek a declaratory order to determine the meaning of "incremental gas supply cost." The Company will request that the Commission adopt a schedule in that proceeding which allows for a final order to be issued by the Commission no later than March 31, 2006.

NWN is seeking approval of the template included in this filing entitled, "Agreement between Northwest Natural Gas Company and [Customer] Regarding Gas Supply Costs for Sales Service During Interim Period" (Agreement or Rate Schedule 32A) as an interim billing rate solution for the customers described above (Schedule 32A Customers). The terms of the proposed Schedule 32A tariff are set forth in the attached Agreement and reflect a negotiated settlement between the Company, the Staff, Northwest Industrial Gas Users (NWIUGU) and the Rate Schedule 32A Customers that participated in the negotiations.

Generally the Schedule 32A terms include the following:

1. The Schedule will not be in effect beyond March 31, 2006. The Schedule could be discontinued earlier if the Commission issues an order in response to the above-mentioned petition for a declaratory ruling, or if the issue is resolved in another proceeding;
2. Customers must be creditworthy and execute the agreement to participate;
3. On or before November 30, 2005, NWN will file proposed revisions to its

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Schedule T which would permit a customer to withdraw their Sales Service election and return to transportation service effective March 31, 2006 upon 15 days written notice;

4. During the period these interim rates will be in effect the Company will bill for natural gas supplies provided to the Schedule 32A Customer at the rates set forth in the Agreement;

5. NWN will calculate the actual gas supply costs it incurs, up to the cap set forth in the agreement, to provide service to the Schedule 32A customer during this interim period. NWN will create a customer-specific balancing account which tracks the difference between the Interim Billing Rate and the actual gas cost for each customer; and

6. NWN will calculate a final rate once the Commission issues an order regarding the incremental cost determination.

After confirming with NWN and NWIGU, it is Staff's understanding that the prices for the 5,000 decatherms per day of gas that NWN acquired for the Schedule 32A Customers that are quoted in Section 4.c.i. of the Agreement, are delivered prices. As such, the prices include the transportation charges to the city gate.

PROPOSED COMMISSION MOTION:

NWN's Application for Less than Statutory Notice be granted; the Agreement submitted in Advice No. 05-14 and docketed as UG 169 be allowed to go into effect on November 8, 2005 as Schedule 32A; and NWN is directed to work with Staff to design the necessary accounting processes and spreadsheets to fulfill the recordkeeping requirement included in Section 7.d. of the Agreement.

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