

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 166(1)/UG 152/UM 1216(1)

In the Matters of)	
)	
NORTHWEST NATURAL GAS)	
COMPANY, dba NW NATURAL)	
)	
Revisions to its Tariff, P.U.C. Or. 24, stated)	ORDER
to become effective with service on and)	
after October 1, 2006, (UG 166(1)))	
)	
Amend Orders No. 03-507 and 03-655,)	
(UG 152))	
)	
Requests reauthorization of the PGA)	
deferral mechanism for the month of)	
October 2006. (UM 1216(1)))	

**DISPOSITION: TARIFF REVISIONS EFFECTIVE; ORDERS
AMENDED; REQUEST FOR DEFERRED
ACCOUNTING GRANTED**

On August 15, 2006, Northwest Natural Gas Company, dba NW Natural (NW Natural or company) filed a revised stipulation in Docket No. UG 152, with the Public Utility Commission of Oregon (Commission), for the purpose of proposing changes to Schedules 190 and 195, consistent with the changes made to Schedule P to permanently revise the effective date of the purchased gas adjustment (PGA) mechanism. In order to facilitate the change of effective date of the PGA, NW Natural also filed a motion to amend Orders No. 03-507, 03-655 and 04-463.

To effectuate the changes proposed in the stipulation, NW Natural, on September 5, 2006, filed tariff revisions in Advice No. 06-15 along with a request for less than statutory notice (LSN) to allow proposed tariff sheets to become effective with service on and after October 1, 2006. The purpose of the filing is four-fold: (1) to update purchased gas adjustment tariff language in its Schedule P; (2) to modify the timing of the annual PGA filing; (3) to temporarily revise the PGA mechanism; and (4) to indicate the weighted average cost of gas (WACOG) to be used in calculating customers' bills for the month of October 2006.

Related to its proposed tariff modifications, NW Natural also filed a request for a one-month reauthorization of its PGA deferral accounts. With a move of the proposed

effective date for the annual purchased gas adjustment from October 1 to November 1, starting with this year's filing, there is a one-month gap in the PGA account deferral reauthorization for October 2006 only, which this application seeks to cover.

A description of the three filings is found in Staff's Report, attached as Appendix A and incorporated by reference.

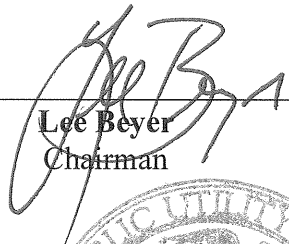
At its Public Meeting on September 19, 2006, the Commission adopted Staff's recommendation to approve all three filings.

ORDER


IT IS ORDERED that:

- (1) The revised stipulation in Docket UG 152 is approved;
- (2) The motion to amend Orders No. 03-507, 03-655 and 04-463 is granted;
- (3) Advice No. 06-15 is allowed to go into effect on October 1, 2006 with less than statutory notice; and
- (4) Northwest Natural Gas Company's request for reauthorization to use deferred accounting pursuant to its Schedule P, for the month of October 2006, is approved.

Made, entered, and effective OCT 02 2006



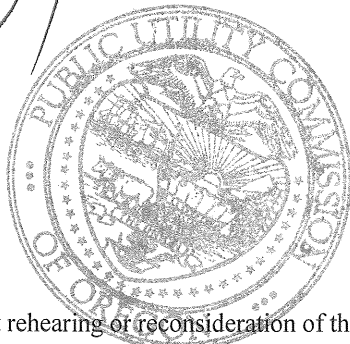
Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 19, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE October 1, 2006

DATE: September 12, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger and Bonnie Tatom

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UG 166(1) and Docket No. UG 152/Advice No. 06-15) Implements the company's proposed Purchased Gas Adjustment (PGA) Provision tariff, Schedule P, for the month of October 2006 and amends Order Nos. 03-507 and 03-655 in Docket UG 152 and modifies the company's Partial Decoupling Mechanism consistent with revisions to the effective date of the PGA adjustments.
(Docket No. UM 1216(1)) Requests reauthorization of the PGA deferral mechanism for the month of October 2006.

STAFF RECOMMENDATION:

We recommend the Commission approve Northwest Natural Gas Company's (NW Natural or company) request for less than statutory notice (LSN) and allow proposed tariff sheets in Advice No. 06-15 to become effective with service on and after October 1, 2006. This filing does not change customers' rates.

We recommend the Commission approve the revised stipulation in Docket UG 152 and grant the company's motion to amend Order Nos. 03-507, 03-655 and 04-463.

We also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its tariff Schedule P, Purchased Gas Cost Adjustments, for the month of October 2006.

NW Natural PGA Filing (UG 166(1)/UG 152/UM 1216(1))
September 12, 2006
Page 2

DISCUSSION:

UG 166(1)

On September 5, 2006, NW Natural filed tariff revisions in Advice No. 06-15, along with an LSN. The purpose of the filing is four-fold: (1) to update purchased gas adjustment tariff language in its Schedule P, (2) to modify the timing of the annual PGA filing, (3) to temporarily revise the PGA mechanism and (4) to indicate the weighted average cost of gas (WACOG) to be used in calculating customers' bills for the month of October 2006.

Updated PGA tariff language. The company's filing is consistent with recommendations Staff made as a result of several workshops and numerous discussions with the three local distribution companies (LDCs) over the last twelve months. Staff has been concerned that the LDCs did not consistently define elements of commodity and non-commodity costs, leading to disparities in comparisons between LDCs. Specifically, the tariff revisions mean that all three LDCs will use not only the same words, but, for the most part, the same calculations, to define the various components of their natural gas costs.

Modified timing of the PGA. NW Natural's filing permanently changes the date of future PGA filings to no later than August 31, with an effective date of November 1 of each year. This revision was also made at Staff's request to accommodate a longer timeframe to review the ever-increasing complexity of the filings. The currently-effective tariffs and procedures only allowed about four weeks to review all three LDCs' filings, prepare and respond to data requests, and write and present public meeting memos. The LDCs, Northwest Industrial Gas Users (NWIUGU) and Citizens' Utility Board (CUB) agreed that more time between the filing and effective dates would be helpful.

Temporary revision to the PGA mechanism. Although the three LDCs agreed to permanently revise the effective date of the PGA filings to November 1 of each year, this left the month of October 2006 as a transition month from a PGA year of October through September to the proposed November through October year. After numerous discussions and correspondence with all three LDCs, NWIGU and CUB, Staff agreed that it would be appropriate to allow the LDCs to defer 100 percent of the difference between the average annual embedded commodity costs (unchanged from the previously-approved level) and the actual commodity costs experienced in October 2006, rather than the percentage currently approved in their tariffs. For NW Natural, the current sharing percentage is 67/33. However, the LDCs also agreed that the commodity and non-commodity cost differences in the deferral accounts would not accrue interest until amortization begins November 1, 2007.

Another key component of this transition is that Staff agreed with the LDCs that the PGA mechanism should compare actual costs of gas for a month to the average annual cost of

NW Natural PGA Filing (UG 166(1)/UG 152/UM 1216(1))
September 12, 2006
Page 3

gas embedded in the rates recovered from customers for that month. Currently, the PGA mechanism compares actual costs of gas for a month to a monthly WACOG calculated for that month. This monthly WACOG differs from the annual WACOG included in the embedded costs recovered from customers, but in the absence of interest accruals and with perfect forecasts, the calculation of gas cost differences would result in the same amount of deferred gas costs for the year. Commission Order No. 89-1046, entered August 4, 1989, is silent on the calculation of gas cost differences that should be deferred for later collection or refund to customers. Staff believes the proposed method is acceptable at this time. The deferral treatment of the commodity cost differences recommended by Staff is not proposed to be permanent, nor does it imply that Staff would continue to support that treatment in the future.

October 2006 effective rates. As indicated above, this filing does not change the rates charged to customers in October 2006. Customers will continue to be billed at the rates approved at the September 22, 2005, public meeting, and in effect since October 1, 2005. However, the temporary revision to the PGA mechanism, discussed above, may result in higher or lower amortizations of gas cost differences beginning November 1, 2007.

UG 152

On August 15, 2006, NW Natural filed a revised stipulation in Docket No. UG 152 for the purpose of proposing changes to Schedules 190 and 195, consistent with the changes made to Schedule P to permanently revise the effective date of the PGA. The parties to the stipulation are Staff, NW Natural, CUB and NWIGU. In order to facilitate the change of effective date of the PGA, on September 11, 2006, the company filed a motion to amend Order Nos. 03-507, 03-655 and 04-463, requesting expedited consideration by the Commission.

As the company indicated in its filing, changing the effective date of the PGA means that the heating season definition for its WARM program in Commission Order No. 03-507, and amended by Order Nos. 03-655 and 04-463, should again be redefined: from Billing Cycle Ending Dates from November 15th through May 15th to Billing Cycle Ending Dates from December 1st through May 15th. This change will allow the company to bill customers without multiple prorating of October usage at old rates and old WARM margins and November new rates and new WARM margin. NW Natural has proposed revisions to Schedule 195 consistent with the PGA effective date change to November 1 of each year in its Advice No. 06-13, docketed as UG 174, which will be before the Commission at its October 25, 2006, public meeting.

In addition, the stipulation states that the company will propose changes to Schedule 190 (Partial Decoupling Mechanism) so that the heating season months are defined as

NW Natural PGA Filing (UG 166(1)/UG 152/UM 1216(1))
September 12, 2006
Page 4

December through May. Those changes are also included in the company's Advice No. 06-13.

These changes are acceptable to all parties of the original stipulation. The revised stipulation and motion were also served on the UG 152 Service List.

UM 1216(1)

Related to its tariff modifications, on August 10, 2006, NW Natural filed a request with the Commission to approve a one-month reauthorization of its PGA deferral accounts. The information contained in the application is consistent with the requirements of Oregon Revised Statutes (ORS) 757.259, 757.210 and Oregon Administrative Rule (OAR) 860-027-0300. With a move of the proposed effective date for the annual purchased gas adjustment from October 1 to November 1, starting with this year's filing, there is a one-month gap in the PGA account deferral reauthorization for October 2006 only, which this application seeks to cover. A separate application, which will be considered at the PGA public meeting on October 25, 2006, has been filed for deferral reauthorization for the one-year period beginning November 1, 2006.

The company requests deferral for all of the gas cost differences associated with purchases of gas supplies for system requirements that differ from gas costs embedded in rates, consistent with the procedures outlined in its Schedule P.

Adoption of this deferred account is authorized by ORS 757.259(2)(d), as the program's costs are utility "...expenses or revenues, the recovery or refund of which the Commission finds should be deferred in order to minimize the frequency of rate changes... or to match appropriately the cost borne by and benefits received by ratepayers." NW Natural has met the requirements of OAR 860-027-0300 in its filing.

PROPOSED COMMISSION MOTION:

NW Natural's (1) LSN be approved and tariff sheets in Advice No. 06-15 be allowed to go into effect October 1, 2006, (2) revised stipulation in Docket UG 152 be approved and the motion to amend Order Nos. 03-507, 03-655 and 04-463 be granted and (3) request for reauthorization to use deferred accounting pursuant to its Schedule P, for the month of October 2006, be approved.

NW Natural (Dockets UG 166(1), UG 152 and UM 1216(1))