

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1327(1)

In the Matter of)	
)	
NW NATURAL GAS CORPORATION, dba)	ORDER
NW NATURAL)	
)	
Application for Reauthorization to Defer Smart)	
Energy Program Communication Costs.)	

DISPOSITION: APPLICATION APPROVED

On June 29, 2007, in conjunction with the filing of Advice No. 07-4, the Smart Energy Program Tariff, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), filed an application with the Public Utility Commission of Oregon (Commission), for an accounting order regarding Smart Energy Program expenditures. The application was withdrawn and replaced with an amended application on July 30, 2007. On August 28, 2007, the Company filed a supplemental deferral application that modified and clarified the deferral request. The amended deferral application requested deferral of startup costs for the 12-month period starting January 1, 2008, which the company estimated as \$622,000. The Commission approved NW Natural's request in Order No. 07-383.

On December 3, 2008, NW Natural filed an application requesting reauthorization to defer costs associated with this program pursuant to ORS 757.259 and OAR 860-027-0300, effective January 1, 2009, through December 31, 2009. The Company estimates it will defer approximately \$475,000 for the 2009 deferral period. At its Public Meeting on March 10, 2009, the Commission adopted Staff's recommendation to approve the application. A complete description of the filing, its procedural history, and Staff's analysis are contained in the Staff Report, attached as Appendix A and incorporated by reference.

Staff concludes that NW Natural has demonstrated that it has been successful in achieving, and exceeding its initial goals in its Smart Energy Program. NW Natural has presented its achievement to the Portfolio Options Committee which is in support of allowing NW Natural to defer a second year of startup costs.

ORDER

IT IS ORDERED that:

1. NW Natural Gas Corporation's request for authorization to defer expenditures related to its Smart Energy Program, not to exceed \$475,000, effective January 1, 2009 through December 31, 2009, is approved.
2. Amortization of these costs shall be reserved for a ratemaking proceeding.

Made, entered, and effective MAR 16 2009.



BY THE COMMISSION:

Becky L. Beier

Becky L. Beier
Commission Secretary

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.


ITEM NO. CA4




PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 10, 2009

REGULAR _____ CONSENT X EFFECTIVE DATE January 1, 2009

DATE: February 12, 2009

TO: Public Utility Commission

FROM: Carla Owings 

THROUGH:  Lee Sparling,  Ed Busch and  Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1327 (1)) Request to Reauthorize Deferred Accounting regarding Smart Energy Program Expenditures.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's request for reauthorization to defer expenditures related to its Smart Energy Program, effective January 1, 2009, through December 31, 2009. Amortization of these costs should be reserved for a ratemaking proceeding.

DISCUSSION:

On June 29, 2007, Northwest Natural (NW Natural or Company) submitted a request to launch its pilot program known as Smart Energy through Schedule 400. The program allows residential and commercial gas customers to voluntarily offset the greenhouse gas (GHG) emissions that result from their use of natural gas.

After the initial application, the Company modified its application on two separate occasions, which ultimately resulted in a final request filed in August of 2007, requesting the deferral of startup costs of approximately \$622,000 for the 12-month period starting January 1, 2008. The Commission approved this request on August 31, 2007, in Commission Order No. 07-383.

On December 3, 2008, NW Natural filed an application requesting reauthorization to defer costs associated with this program pursuant to ORS 757.259 and OAR 860-027-0300 effective January 1, 2009, through December 31, 2009. The Company estimates it will defer approximately \$475,000 for the 2009 deferral period.

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Under the Smart Energy Program, participants elect to pay a premium each month which is used to pay for the cost of developing projects that permanently offset GHG emissions. Residential customers can choose either a fixed monthly rate option of \$6 per month or a volumetric rate option of \$0.10486 per therm to purchase the emission offsets. Commercial participants may select a flat amount of their choosing, however, not less than \$10 per month.

The premium is designed to fully offset the emissions associated with the average residential gas use based on offset costs and ongoing administrative costs. The premium was not designed to cover the 2007 start-up costs nor the expected communications costs for 2008 and 2009. NW Natural states that the market research suggests that the program's rates are near the top end of the price customers will pay or a product of this kind.

In 2007, the Company agreed to absorb \$270,000 in start-up costs associated with this program, and in Commission Order No. 07-383, the Commission allowed NW Natural to defer up to \$622,000 of additional costs associated with communication and start-up of the new program. Following is a table demonstrating the cost categories and amounts associated with the first year of NW Natural's Smart Energy Program as well as what the Company proposes for 2009:

Communication Expenses Smart Energy Deferral Account		
	2008	2009
The Climate Trust	\$ 100,000	\$ -
One time costs for program start-up		
Education	\$ 355,604	\$ 350,000
Customer Communications, advertising and kids programs		
Bill inserts and return envelopes	\$ 57,389	\$ 85,000
Advertising - Print	\$ 108,127	\$ 75,000
Advertising - Radio	\$ 67,740	\$ 80,000
Advertising - Web	\$ 23,903	\$ 45,000
Advertising - Outdoor	\$ 62,112	\$ 65,000
Kids Programs	\$ 36,333	\$ -
Interaction	\$ 111,679	\$ 105,000
Direct mail/Email	\$ 10,189	\$ 45,000
Community Outreach/ PR	\$ 42,173	\$ 15,000
Events / Sponsorships	\$ 59,317	\$ 45,000
Professional Services	\$ 13,495	\$ 10,000

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Creative production, fees		
Promotional	\$ 35,970	\$ 5,000
Give-aways, incentives, promotional activities		
Miscellaneous	\$ 3,810	\$ 5,000
Postage, materials, etc.		
Annual Total:	\$ 620,558	\$ 475,000

The Company forecasts a deferral of approximately \$475,000 for 2009. Although the Company intends to employ a similar communication strategy in the upcoming year, a large reduction of costs is represented by the one-time \$100,000 cost to start-up the pilot program with the Climate Trust.

NW Natural reports that as of August of 2008¹, approximately \$170,000 was provided to the Climate Trust for the purchase of approximately 13,700 tons of carbon offsets. Approximately \$95,000 of those funds were provided by Smart Energy participants to offset 7,573 tons of carbon emissions while the additional \$75,000 of the funds to offset 6,160 tons of carbon emission were provided by NW Natural shareholders.

As of August 31, 2008, NW Natural has exceeded its first-year enrollment goal for both residential and commercial customers. In late 2006, the Company projected an enrollment goal of 0.75% of residential customers and 0.05% of commercial customers. A total of 5,853 customers have enrolled in Smart Energy. NW Natural reports a total of 5,783 residential customers (0.98% of total residential customers) and 70 commercial customers (0.11% of total commercial customers) enrolled in the Smart Energy Program.

The Company's application is not currently seeking ratemaking treatment.

Staff Analysis:

In Commission Order No. 07-383, Staff raised the issue as to whether or not it is appropriate to spread the startup costs to all customers, including those who do not want to participate in the voluntary program. Through much negotiation, Staff recommended that NW Natural had demonstrated that due to an absorption of some of the initial start-up costs by NW Natural's shareholders and because the Smart Energy Program provides education and awareness to the public in general, that the spreading of the startup costs to all customers was acceptable for the first year, not to exceed \$622,000.

¹ The deferral period for this docket runs from January 1 through December 31st, so August of 2008 was approximately eight months into the deferral period.

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In this application, NW Natural has demonstrated that it has been successful in achieving, and exceeding its initial goals. In addition, NW Natural has presented its achievement to the Portfolio Options Committee which is in support of allowing NW Natural to defer a second-year of startup costs.

Staff recommended in its discussions with the Company that it accurately reflect all employee costs that are attributable to this program. Staff notes that 1 FTE (including overheads) is allocated to this program; however, several employees attend the conferences to discuss the filing and are necessary for tracking costs and projecting goals.

In addition, Staff reminded the Company that a second-year projection of \$475,000 creates a total deferral amount over the two years of approximately \$1.0 million. In its original forecast of start-up costs, NW Natural projected a three-year total of \$1.2 million. Staff encourages the Company, in light of its successful first year, to review its threshold of what it believes is the top end of what customers will pay for this project in order to minimize future deferral requests deferrals for “startup costs” that are to be spread amongst all customers. Staff believes that the costs NW Natural forecasts for 2009 are more representative of “on-going” costs rather than “start-up” costs, however, in keeping with the original agreement to allow a maximum \$1.2 million of “start-up” costs in the first three years and in light of the support given by the Portfolio Options Committee, Staff recommends that the Commission allow NW Natural to defer a maximum of \$475,000 for 2009.

PROPOSED COMMISSION MOTION:

The Commission approve Northwest Natural’s request for authorization to defer expenditures related to its Smart Energy Program not to exceed \$475,000, effective January 1, 2009, through December 31, 2009. Amortization of these costs should be reserved for a ratemaking proceeding.

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