

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1413

In the Matter of	)	
	)	
NORTHWEST NATURAL GAS COMPANY,	)	ORDER
dba NW NATURAL	)	
	)	
Application for Authorization to Defer	)	
Expenses Related to the Installation of	)	
Automated Meter Reading.	)	

**DISPOSITION: APPLICATION APPROVED**

On January 14, 2009, Northwest Natural Gas Company, dba NW Natural (NW Natural), filed a request with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.259, to defer the revenue requirement related to the installation of NW Natural's Automated Meter Reading beginning January 9, 2009, for a 12-month period. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on March 24, 2009, the Commission adopted Staff's recommendation.

**ORDER**

IT IS ORDERED that:

1. NW Natural's Application to defer costs related to the Automated Meter Reading installation beginning January 14, 2009, is approved.

2. Ratemaking treatment for these costs shall be reserved for a separate request for amortization.

Made, entered, and effective MAR 30 2009.

BY THE COMMISSION:



*Becky L. Beier*  
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**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 24, 2009

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 14, 2009

DATE: March 11, 2009

TO: Public Utility Commission

FROM: Carla Owings *CO*

THROUGH: *LS* Lee Sparling, *EB* Ed Busch and *JJ* Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1413) Requests deferred accounting of the Automated Meter Reading costs.

**STAFF RECOMMENDATION:**

Staff recommends Northwest Natural's (NW Natural) request to defer revenue requirement related to the Automated Meter Reading installation be approved for the 12-month period beginning January 14, 2009, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

**DISCUSSION:**

On January 14, 2009, NW Natural submitted an application pursuant to ORS 757.259 requesting authority to defer the revenue requirement related to the installation of Automated Meter Reading (AMR) for the 12-month period beginning January 9, 2009. Due to the date stamp of NW Natural's application, no costs prior to January 14, 2009, could be considered pursuant to ORS 757.259(4) which states that the Commission may authorize deferrals beginning with the date of application.

In May of 2000, NW Natural and Portland General Electric (PGE) Company entered into a Joint Meter Reading (JMR) agreement to divide the meter reading routes in overlapping service territories in the Portland and Salem areas. The purpose was to use one person to read each other's meters on their assigned routes, reducing the need for two meter readers in one area, which created efficiencies and cost savings for both companies.

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In 2005, PGE informed NW Natural of its intention to convert to Automated Meters which would no longer need personnel to manually read the meters and would therefore no longer participate in the JMR agreement. In response, NW Natural began investigating its alternatives, one of which was AMR. AMR would allow NW Natural to significantly reduce the number of meter readers, provide more accurate readings to NW Natural customers and would be less intrusive to a customer's property.

NW Natural selected an automated metering system manufactured by Itron that reads meters in a "drive-by" fashion by specially-equipped vehicles. The Company projects that full deployment of AMR will result in a net benefit of approximately \$5.2 million over the cost to manually read all of its own meters.

The Company began deploying Phase I of AMR in December 2004 in Vancouver, Eugene, Albany, The Dalles, PGE's Salem territory, PacifiCorp's Portland territory, Astoria, Coos Bay and Lincoln City. Deployment of Phase I was completed in June 2007. The Phase 1 project costs totaled approximately \$14 million to complete and reduced the need for approximately thirty-four meter reading positions.

Phase II began deployment in August 2008, and is estimated to total approximately \$30 million upon completion. NW Natural projects a completion date of December 2009, including all system testing. NW Natural is currently working with PGE to develop and finalize a transition agreement to ensure an orderly move from JMR and to minimize meter reading costs during the conversion period.

NW Natural proposes to request amortization of these costs in a separate proceeding currently forecasted for September 2009. Staff has agreed to audit the capital costs upon completion of the project, or early in the year 2010.

**Description of expenses:**

NW Natural seeks to defer the revenue requirement of costs related to installing AMR devices, minus the avoided capital expenditures related to current meter reading, plus the difference between Operation and Maintenance Expense (O&M) related to JMR, and O&M related to the cost of reading meters using AMR (projected to save approximately \$7.8 million per year).

**Authorization to Defer:**

NW Natural requests this deferral pursuant to ORS 757.259(2)(d)... "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 costs borne by and benefits received by ratepayers."

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**Accounting:**

NW Natural proposes to record the net cost of service associated with the AMR project into FERC sub-account 186. Absent approval of deferring these costs NW Natural would record the costs in FERC account 902 (Meter Reading Expenses).

**Estimate of Amount:**

The Company proposes to defer, with interest, under the terms described above, the net amounts associated with the AMR projects of approximately \$4.0 million in revenue requirement. Pursuant to Commission Order 08-263, the Company will apply interest at its current authorized cost of capital (8.62%) during the deferral period.

**Staff Analysis:**

In late summer and early fall of 2008, Staff, the Citizens' Utility Board, Northwest Industrial Gas Users and NW Natural (the Parties) met to discuss the Company's proposal to discontinue its agreements related to JMR with PGE, and the potential financial impact of doing so. In addition, the Parties discussed the potential for NW Natural to request authorization to defer costs related to Phase II of its AMR implementation.

Commission Order No. 07-426<sup>1</sup> specifically references AMR as a reason to allow NW Natural to file for a general rate revision prior to the expiration of an agreed-upon rate moratorium. The Order reads in part: "If the Parties do not support a request by NW Natural for the opportunity to recover the capital costs for its AMR project on an annual basis...NW Natural may file a general rate case." In the discussions referenced above, no Party objected to the proposal for NW Natural to request the deferral of these costs.

Prior to amortization of deferred AMR costs into rates, NW Natural will be subject to an earnings review pursuant to ORS 757.259. NW Natural has agreed that the period of January 1, 2008 through December 31, 2008 shall be an appropriate time period to measure the effect on earnings related to the amounts NW Natural will defer between January 14, 2009, and September 30, 2009.

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<sup>1</sup> Appendix A, Page 2 of 9, Item No. 9.

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**PROPOSED COMMISSION MOTION:**

Northwest Natural's request to defer costs related to the Automated Meter Reading installation be approved for the 12-month period beginning January 14, 2009, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

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