

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1413(1)

In the Matter of

NORTHWEST NATURAL GAS, dba NW
NATURAL

Application for Reauthorization to Defer
Certain Expenses or Revenues.

ORDER

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 for a 12-month period the revenue requirement related to the installation of NW Natural's Automated Meter Reading (AMR). On March 30, 2009, the Commission approved NW Natural's request in Order No. 09-105.

On January 13, 2010, NW Natural filed a request for reauthorization to defer revenue requirement related to Phase II of its AMR project costs, beginning January 14, 2010, for a 12-month period, effective January 14, 2010. The details of the filing and Staff's recommendation are described in Staff's Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on February 23, 2010, the Commission adopted Staff's recommendation.

ORDER

IT IS ORDERED that:

1. NW Natural's request to defer revenue requirement related to the Automated Meter Reading installation for the 12-month period beginning January 14, 2010, is approved.

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

Made, entered, and effective MAR 02 2010.

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. CA13

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 23, 2010

REGULAR _____ CONSENT X EFFECTIVE DATE January 14, 2010

DATE: February 9, 2010

TO: Public Utility Commission

FROM: Carla Owings *CO*

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

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1413(1)) Requests reauthorization to defer revenue requirement related to the Automated Meter Reading costs.

STAFF RECOMMENDATION:

Staff recommends Northwest Natural's request to defer revenue requirement related to the Automated Meter Reading installation be approved for the 12-month period beginning January 14, 2010, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

DISCUSSION:

On January 13, 2010, Northwest Natural (NW Natural, NWN or the Company) filed an application requesting reauthorization to defer revenue requirement related to Phase II of its AMR project, effective January 14, 2010.

BACKGROUND:

After learning in May of 2005 that Portland General Electric intended to dissolve a Joint-Meter Reading (JMR) partnership with NWN, the Company began investigating cost effective alternatives to JMR.

AMR presented the most cost-effective plan for NWN including allowing the Company to significantly reduce the number of meter readers it employed. In December 2005, NWN began deploying Phase I of AMR 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

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approximately \$14 million to complete and reduced the need for approximately thirty-four meter reading positions.

On March 30, 2009, the Commission approved NW Natural's request to defer the revenue requirement related to Phase II of the installation of AMR for the 12-month period beginning January 14, 2009, in Commission Order 09-105.

Phase II covered the remaining areas of NWN's service territory and began deployment in August 2008. Phase II was originally estimated to total approximately \$30 million upon completion and was slated to be final by December 2009, including all system testing.

As of December 30, 2009, all JMR routes have been returned to PGE completing full deployment of AMR. NWN projects an **additional \$500,000 annual savings** in O&M due to high performance of equipment and successful full deployment. In addition, final costs related to Phase II of AMR total approximately **\$24 million** rather than the \$30 million originally forecast. This reduces the amount deferred for 2009 from approximately \$2.8 million down to \$2.4 million and further reduces the projected deferral for 2010 down to approximately \$1.4 million.

REASON FOR DEFERRAL:

NWN files this application pursuant to ORS 757.259 to match appropriately the costs borne by and benefits received by ratepayers.

ESTIMATE OF AMOUNT TO BE DEFERRED:

For 2009, the Company deferred approximately \$2.4 million in revenue requirement related to AMR. Accrued interest for the 2009 period is approximately \$84,000. Interest accrues during the deferral period at NWN's authorized cost of capital, or 8.618%, pursuant to UM 1147. The Company estimates a deferral of approximately \$1.4 million related to the 2010 AMR deferral.

PROPOSED ACCOUNTING:

NWN proposes to defer the net cost of service (current revenue requirement associated with the capital costs less depreciation and O&M savings) into a sub-account of FERC Account, 186 (Miscellaneous Deferred Debits) until the net AMR costs can be reflected in permanent rates through a general rate proceeding.

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STAFF ANALYSIS:

In NWN's previous application, Staff recommended approval of this deferral. Staff acknowledges NWN for its efforts to bring this project in both in a timely manner and below forecast costs. Staff recommends NWN be allowed to defer the costs related to this program.

As a note for future proceedings, Staff had outlined in the March 24, 2009 Public Meeting Memo what was believed to be the appropriate time period for the earnings review that would relate to a future amortization request. This recommendation was adopted in Commission Order 09-105.

On October 9, 2009, NW Natural, Citizens' Utility Board (CUB), Northwest Industrial Gas Users (NWIGU) and Staff (Parties) filed a Supplemental Stipulation agreeing to specific terms related to the deferral and amortization of Phase II of NWN's AMR project. This Stipulation was filed as a supplemental filing to NWN's last general rate proceeding, UG 153, in part because AMR was specified in UG 153 under terms regarding NWN's rate moratorium.

The terms in this Stipulation modified the earnings review period previously outlined in Staff's recommendation last year and adopted by the Commission in Order 09-105. In addition, terms regarding how any shareholder earnings would apply for the earnings test were specifically carved out in this Supplemental Stipulation. The Commission adopted the Supplemental Stipulation on February 1, 2010, in Commission Order No. 10-028. Staff believes the terms of the Stipulation over-ride Staff's earlier recommendation of an earnings period and believes the Parties should adhere to the terms in the Stipulation. Staff believes it is important to note these changes since the Stipulation was not filed under the same docket number as this deferral.

PROPOSED COMMISSION MOTION:

Northwest Natural's request to defer revenue requirement related to the Automated Meter Reading installation be approved for the 12-month period beginning January 14, 2010, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

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