

ORDER NO. 11 109

ENTERED APR 07 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1420(2)

In the Matter of

NORTHWEST NATURAL GAS, dba
NW Natural

Application for Reauthorization of Deferred
Accounting of Industrial DSM Program
Costs.

ORDER

DISPOSITION: APPLICATION APPROVED

On February 13, 2009, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), filed a request with the Public Utility Commission of Oregon (Commission), under ORS 757.259, for deferred accounting of NW Natural's Industrial Demand Side Management (DSM) Program costs beginning March 1, 2009, for a 12-month period. Order No. 09-092 approved this request.

On February 3, 2010, NW Natural filed an application requesting reauthorization to continue to defer the DSM Program costs beginning March 1, 2010, for a 12-month period. Order No. 10-131 approved this request.

On February 25, 2011, the Company filed an application for reauthorization of deferred accounting for its Industrial DSM costs for the 12 months beginning March 1, 2011, and to continue offering cost effective DSM to eligible firm and interruptible sales customers without restrictions on the annual costs. The details of the filing and Staff's recommendation are described in the Staff's Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on April 5, 2011, the Commission adopted Staff's recommendation.

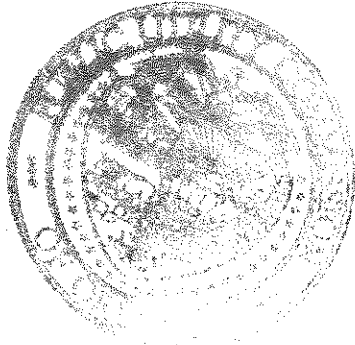
ORDER

IT IS ORDERED that:

1. NW Natural's Application requesting to reauthorize deferred accounting of Industrial Demand Side Management Program costs beginning March 1, 2011, for a 12-month period, is approved.
2. Ratemaking treatment shall be reserved for a ratemaking proceeding.

Made, entered, and effective APR 07 2011.

BY THE COMMISSION:



Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

ITEM NO. CA4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 5, 2011**

REGULAR _____ CONSENT X EFFECTIVE DATE March 1, 2011

DATE: March 25, 2011

TO: Public Utility Commission

FROM: Moshrek Sobhy *MS*

THROUGH: *lis* Lee Sparling, *MG* Maury Galbraith, and *KRZ* Ken Zimmerman

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1420(2)) Requests reauthorization to defer costs associated with the Industrial Demand Side Management Program.

STAFF RECOMMENDATION:

Staff recommends the request by Northwest Natural (the Company or NWN) to defer costs associated with the Industrial Demand Side Management Program effective March 1, 2011, for a 12-month period, be approved for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

Background

In Order 09-092, the Commission authorized the Company's request to record and defer with interest all costs associated with studying, planning, administering, and delivering Demand-Side Management (DSM) programs to Industrial Firm Sales Customers (Schedules 3, 31, and 32), Industrial Interruptible Sales Customers (Schedules 31 and 32), and Commercial Sales Customers (Schedule 32).¹ The Company's Industrial DSM program was established by the Memorandum of Understanding (MOU) between the Company, Citizens' Utility Board (CUB), Northwest Industrial Gas Users (Nwigu), and Commission Staff (collectively the "Parties"). The MOU provided that the Energy Trust of Oregon (ETO) will develop, administer, and deliver NW Natural's Industrial DSM Program. Pursuant to the MOU, the ETO provides cost-effective DSM programs to eligible firm sales customers. However, the MOU

¹ Customers classified as Industrial customers are not served under the residential and small commercial DSM program approved by the Commission in Order No. 02-634.

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conditioned that the program be offered to eligible interruptible sales customers for a pilot period of 2 years, at an annual cost not to exceed \$500,000.² Upon expiration of the initial period, the Parties agreed to review the success of the program, the inclusion of interruptible sales customers, and future program budgets.

On February 25, 2011, the Company filed an application for reauthorization of deferred accounting of its Industrial DSM costs for the twelve months beginning March 1, 2011, and to continue offering cost-effective DSM to eligible firm and interruptible sales customers without restrictions on the annual costs.³ Prior to the filing of this application, the Parties engaged in discussions to review the results of the program during the pilot period. Following is a summary of the preliminary results for all Industrial DSM projects through the end of 2010 indicate:

	Program Cost	Annual Therm Savings	\$/Therm	Utility Benefit to Cost Ratio	Societal BCR
Firm	\$943,879	425,598	2.22	3.5	1.3
Interruptible	\$582,646	187,979	3.10	3.0	1.4

The Parties agreed that the program should continue offering cost-effective DSM programs without differentiation between eligible firm sales customers and eligible interruptible sales customers based on the results of the program during the pilot period. The information provided by the Company in this application is consistent with the information in its pending 2011 IRP.

Reason for Deferral

NWN seeks approval of this deferral pursuant to ORS 757.259(2)(e). This deferral would minimize the frequency of rate changes and match appropriately the costs borne and benefits received by ratepayers.

Proposed Accounting

NWN proposes to account for the deferred expenses related to the Industrial DSM Program by recording the deferral in a sub-account of Account 186 (Miscellaneous Deferred Debits). In accordance with ORS 757.259(4) and Order No. 05-1070, NWN proposes to accrue interest on the unamortized balance at the rate equal to its weighted

² The Pilot Program expired on February 28, 2011.

³ This agreement does not restrict Staff from requesting additional information to support the Company's current or future applications to reauthorize deferral of program costs and the prudence of the program expenses.

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average cost of capital most recently approved by the Commission. Ratemaking treatment of the deferred amounts would be addressed in a future rate proceeding.

Estimate of Amounts

NWN estimated the amount to be recorded in the deferred account for the 12-month period beginning March 1, 2011 would be approximately \$1,900,000.

Reason for Continued Deferral

The Company continues to offer its Industrial DSM Program. The acquisition of cost-effective DSM is in compliance with the Commission's IRP Guidelines, which encourages utilities to acquire the resources as identified in its most recently acknowledged IRP.

Compliance with PGA guidelines

The Company provided the information required by Commission Order No. 09-263 issued in Docket UM 1286.

The Company estimates that it will seek to amortize \$1.8 million for industrial DSM-related costs in its 2011 PGA filing.

The Company's estimated deferrals in the last program year were \$1,798,220, including \$75,139 in interest.

Based on the information submitted by the Company, Staff recommends approving this application.

PROPOSED COMMISSION MOTION:

NWN's request to reauthorize the deferral of costs associated with the Industrial DSM Program be approved, effective March 1, 2011, for a 12-month period, for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

UM 1420(2)