

ORDER NO. 11 151

ENTERED MAY 10 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1413(2)

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Requests reauthorization to defer revenue
requirement related to the Automated
Meter Reading costs.

ORDER

DISPOSITION: APPLICATION APPROVED

On February 3, 2011, Northwest Natural (NW Natural, NWN or the Company) filed an application requesting reauthorization to defer revenue requirement related to Phase II of its Automated Meter Reading (AMR) project, effective January 14, 2011. Commission Order No. 10-076 previously authorized NWN to defer AMR costs for the 12-month period beginning January 14, 2010 through January 13, 2011.

NWN's request for reauthorization related to the 2011 calendar year was not submitted to the Commission until February 3, 2011, creating a gap of approximately 23 days without authorization from the Commission to defer. Therefore, Staff proposes NWN should remove the equivalent of 23 days of the 31 days attributable to NWN's accrual for January of 2011 from its deferral account.

On April 12, 2011, NWN filed a supplemental filing agreeing to the effective date of February 3, 2011. In addition, the Company provided an estimate of the adjustment for the January 2011 accrual of approximately \$60,000.

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 May 3, 2011, the Commission adopted Staff's recommendation.

ORDER

IT IS ORDERED that:

1. Northwest Natural's request to defer revenue requirement related to the Automated Meter Reading installation be approved for the 12-month period beginning February 3, 2011, for accounting purposes only.
2. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

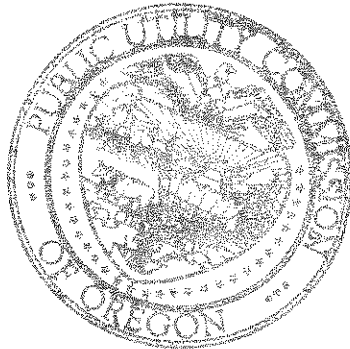
Made, entered, and effective MAY 10 2011



John Savage
Commissioner



Susan K. Ackerman
Commissioner



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. CA3

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 3, 2011**

REGULAR _____ CONSENT X EFFECTIVE DATE February 3, 2011

DATE: April 7, 2011

TO: Public Utility Commission

FROM: Carla Bird *[Signature]*

THROUGH: Lee Sparling, Maury Galbraith *MG* and Judy Johnson *[Signature]*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1413(2)) 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 February 3, 2011, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

DISCUSSION:

On February 3, 2011, Northwest Natural (NW Natural, NWN or the Company) filed an application requesting reauthorization to defer revenue requirement related to Phase II of its Automated Meter Reading (AMR) project, effective January 14, 2011. Commission Order No. 10-076 previously authorized NWN to defer AMR costs for the 12-month period beginning January 14, 2010 through January 13, 2011.

However, NWN's request for reauthorization related to the 2011 calendar year was not submitted to the Commission until February 3, 2011, creating a gap of approximately 23 days without authorization from the Commission to defer. Therefore, Staff proposes NWN should remove the equivalent of 23 days of the 31 days attributable to NWN's accrual for January of 2011 from its deferral account.

On April 12, 2011, NWN filed a supplemental filing agreeing to the effective date of February 3, 2011. In addition, the Company provided an estimate of the adjustment for the January 2011 accrual of approximately \$60,000.

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

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 were returned to PGE completing full deployment of AMR. NWN realized an additional \$500,000 annual savings in O&M due to high performance of equipment and successful full deployment.

The Commission first approved NW Natural's request to defer the revenue requirement related to Phase II of the installation of AMR in Commission Order 09-105.

In addition, final costs related to Phase II of AMR totaled approximately \$24 million rather than the \$30 million originally forecast. This reduced the amount deferred for 2009 from the original estimate of approximately \$2.8 million down to \$2.5 million. For the 2010 calendar year NWN deferred approximately \$1.6 million plus the accrual of approximately \$300,000 for a total 2010 balance of approximately \$1.9 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.

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ESTIMATE OF AMOUNT TO BE DEFERRED:

For the 2010 calendar year NWN deferred approximately \$1.6 million plus the accrual of approximately \$300,000 for a total 2010 balance of approximately \$1.9 million. NWN estimates an accrual of approximately \$1.4 million for the 2011 calendar year.

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.

STAFF ANALYSIS:

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 override 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.

Staff has reviewed NWN's calculation of interest and accruals and recommends the Commission adopt NWN's request to reauthorize deferral of AMR costs.

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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 February 3, 2011, for accounting purposes only. Ratemaking treatment for these costs should be reserved for a separate request for amortization.

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