

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 51

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

2011 Integrated Resource Plan.

ORDER

DISPOSITION: 2011 INTEGRATED RESOURCE PLAN WITH REVISED
ACTION PLAN ACKNOWLEDGED WITH EXCEPTIONS
AND GUIDANCE FOR NEXT IRP

I. OVERVIEW

Northwest Natural Gas Company, dba NW Natural, seeks acknowledgment of its 2011 Integrated Resource Plan (IRP). NW Natural submitted the plan to meet the requirement that Oregon regulated energy utilities engage in integrated resource planning.¹

We acknowledge the company's 2011 IRP, as revised, with respect to only two action items. We also direct NW Natural to engage in workshops with Staff and other parties to address certain planning and model improvements for NW Natural's next planning cycle.

A. Requirements for Integrated Resource Planning

We require regulated energy utilities to prepare and file integrated resource plans within two years after acknowledgment of a utility's last IRP. Substantively, we require that energy utilities: (1) evaluate resources on a consistent and comparable basis; (2) consider risk and uncertainty; (3) make the primary goal of the process selecting a portfolio of resources with the best combination of expected costs and associated risks and uncertainties for the utility and its customers; and (4) create an action plan that is consistent with the long-run public interest as expressed in Oregon and federal energy policies.²

¹ See Order Nos. 89-507, 07-002, and 07-047.

² See Order No. 07-002.

We acknowledge a utility's IRP to the extent the IRP satisfies the procedural and substantive requirements of the guidelines set forth in Order No. 07-002, and the IRP is deemed reasonable at the time of acknowledgement. Acknowledgement does not constitute a determination on the rate-making treatment of any resource acquisitions or other expenditures undertaken by the utility. As a legal matter, we must reserve judgment on all rate-making issues.³ Nonetheless, we consider the integrated resource planning process to complement the rate-making process. In rate-making proceedings in which the reasonableness of resource acquisitions is considered, the Commission will give considerable weight to utility actions which are consistent with acknowledged IRP action plans. Utilities will also be expected to explain actions they take which may be inconsistent with Commission-acknowledged IRPs.

B. Jurisdiction and Procedural History

As a public utility in Oregon that provides natural gas service to the public, NW Natural is subject to the jurisdiction of the Commission and the Commission's integrated resource planning requirements.

NW Natural filed its original IRP on January 12, 2011, and replaced the filing with a modified IRP on September 1, 2011. NW Natural followed the procedural requirements according to the IRP guidelines. Staff's filed its initial recommendations and proposed draft order on December 8, 2011. Staff initially did not support acknowledgment of the modified IRP, asserting that it did not meet the substantive requirements of the Commission's IRP guidelines.

In its comments filed November 14, 2011, November 28, 2011, and December 23, 2011, the Citizens' Utility Board of Oregon (CUB) requested that the Company perform additional analysis to consider the impact of exporting Liquefied Natural Gas (LNG) and the Straight Fixed Variable (SFV) rate structure in the IRP modeling. CUB did not support acknowledgment unless the Company agreed to perform the analysis recommended by Staff and CUB.

In its December 22, 2011 reply comments, the Company rejected Staff's and CUB's positions that the modified IRP did not satisfy the Commission's substantive requirements. The Company requested that its modified IRP be acknowledged without the requested additional analysis or modeling. The Company proposed, however, specific revisions to its Action Plan that were intended to address a part of Staff's concerns.

On February 10, 2012, Staff filed its final recommendations and a proposed final order supporting a limited acknowledgment of the Company's modified IRP. Staff's proposed revisions and final recommendations are attached as Appendix A and incorporated by reference.

³ See Order No. 07-002 at 24.

Staff's final recommendations reflected the outcome of the discussions between the Company, CUB, and Staff, and agreements between the parties to resolve their differences and conclude this proceeding. Specifically, the parties agreed to support a limited acknowledgment that apply to specific incremental resources in the Company's Base Case Portfolio and explicitly clarify that the Company's scope of analysis does not support a finding by the Commission that the East Palomar/Blue Bridge pipeline (E. Palomar) is a least-cost resource. The parties agreed that the Company may reassess E. Palomar or another proposal for a cross-Cascades pipeline in a future IRP. The parties also agreed to certain conditions included in Staff's final recommendations, as well as to other specific conditions that the Company will follow in future IRPs.⁴

II. DISCUSSION

A. Overview of NW Natural's 2011 Modified IRP

NW Natural's 2011 IRP describes the components of the planning process. The IRP includes forecasts of future customer demand and identification of resource needs over the 20-year planning period; assessments of demand-side and supply-side resource options and distribution system enhancements; construction of a set of portfolio resources to test various operating characteristics and resource types; and identification of actions to be accomplished over the next several years to carry out NW Natural's resource strategy. A brief summary of the IRP is provided below:

Demand Forecast: NW Natural projects the average core market demand will grow at an annual average rate of 0.61 percent over the 20-year planning horizon (net of estimated energy efficiency savings). Peak-day core market demand for the Base Case is projected to grow at an annual rate of 0.74 percent over the 20-year period. The Base Case includes an average customer growth of 1.84 percent annually.

Demand-Side Resources: NW Natural worked with the Energy Trust of Oregon (ETO) to forecast the 20-year demand side management (DSM) potential for the Company's service territory. The achievable savings forecast is 98 million therms. For the Base Case, the Company updated its avoided costs calculation to determine the effect of the substantial change in the gas price forecast since the last IRP on the cost effectiveness of DSM measures. The effect on the measures' cost effectiveness is a decrease of 2.5 million therms in DSM savings or 2.6 percent reduction in the original DSM savings forecast.

Supply-Side Resources: The Company has a diversified gas supply portfolio that consists of different types of contracts, e.g. fixed price (physical and financial hedging), spot market purchases, and the Encana Gas Reserves. About 75 percent of the Company's gas supply is purchased using hedging instruments both financial and physical. The remaining 25 percent is purchased from the spot market.

⁴ See Staff's Final Recommendations (Feb 10, 2012).

NW Natural contracts with Northwest Pipeline Corporation (NWPL) for interstate pipeline transportation into the Company's service areas in Oregon and Washington. NW Natural's storage resources include the Mist underground storage facility, and the Newport and Portland, Oregon LNG facilities, in addition to leased underground storage at Jackson Prairie and LNG storage at Plymouth, Washington. NW Natural has four recallable agreements with third parties that allow the Company to redirect their gas deliveries to the Company's service territory for a limited number of days during the heating season (November through March).

In addition to the current resources, the Company selected a mix of supply-side and demand-side incremental resources to construct several resource portfolios.

B. NW Natural's Proposed Multi-Year Action Plan

Most items in the Company's Action Plan⁵ describe activities that are simply required to comply with the IRP guidelines. Consequently, we neither address nor acknowledge them.

We address only Item nos. 2.3 and 4.2, which describe actions by NW Natural that are specific to the Company's selected portfolio and are subject to consideration for acknowledgment.

The parties propose revisions to these items that are described and discussed below:

- 1) Action Item 2.3 is revised to:

Continue to perform further analysis on the costs, benefits and risks associated with the development of a Cross-Cascades pipeline.

Commission acknowledgement of the Company's 2011 Modified IRP is not an acknowledgement that the East Palomar/Blue Bridge Pipeline (Modified Palomar) is a least-cost resource for meeting the future demand of NW Natural customers. While the Company's 2011 Modified IRP did not justify the Palomar/Blue Bridge Pipeline as a future resource upon which NW Natural should rely, the Company may reassess and request acknowledgement of this or other similar pipelines in future IRPs.

- 2) Action Item 4.2 is revised to:

Over the next three planning years, NW Natural will acquire resources in a manner that is consistent with the analysis conducted in the 2011 Modified IRP. Under the Base Case scenario, the Company will target to acquire Demand Side

⁵ NW Natural's 2011 Modified Integrated Resource Plan at 1.12-1.14.

Management as depicted below, and Recall from Mist amounts that will not exceed those listed below:

Calendar Year	Incremental DSM Savings in Oregon, Therms/Year
2012	4,200,048
2013	4,564,178
2014	5,468,808

Gas Year ⁶	Recall from Mist Storage, Therms/Day
2012-2013	320,457
2013-2014	320,457
2014-2015	387,342

C. Recommendations for Future IRPs

In its final recommendations, Staff included a list of measures NW Natural had agreed to undertake in future IRPs. These measures include the following:

1. Performance of a stochastic analysis on candidate portfolios in selecting the preferred portfolio for Commission acknowledgement.
2. Performance of various cost analyses on any proposed cross-Cascades pipeline.
3. Performance of risk-benefit analysis of all resource portfolios.
4. Update of assumptions on recall from Mist Storage.
5. Provision of a supporting analysis of its assumptions on load growth, price forecasts and demand side management savings targets.
6. Encouraging participation of parties when analyzing design-year weather pattern analysis.
7. Providing analysis on implications of rate design changes and impact on demand side management.
8. Monitoring of economic indicators and market conditions to address implications on demand factors.

⁶ The "Gas Year" captures the heating season, which is usually from November through March.

III. COMMISSION DISPOSITION

At an April 10, 2012 public meeting, Staff presented its final recommendations addressing NW Natural's modified IRP. CUB and NW Natural supported Staff's final recommendations.

Upon review of the Company's modified IRP, the parties' respective comments and agreements on disputed issues, we adopt Staff's final recommendations. We find that a limited acknowledgment of the specific revised Action Plan items provided in Staff's final recommendations, as well as the list of measures to be performed by NW Natural in future IRPs, to be reasonable and in the public interest.

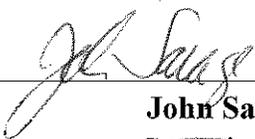
In reaching this decision, we reiterate that "[a]cknowledgment of a plan means only that the plan seems reasonable to the Commission at the time the acknowledgment is given * * *, [f]avorable rate-making treatment is not guaranteed by acknowledgment of a plan."⁷

IV. ORDER

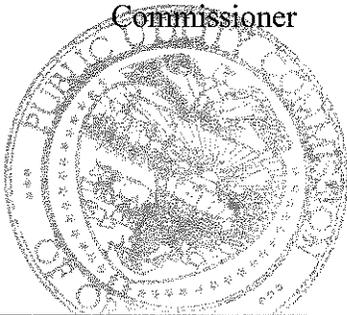
IT IS ORDERED that

1. The 2011 Integrated Resource Plan filed by Northwest Natural Gas Company, dba NW Natural, as modified on September 1, 2011, and further revised by this order, is acknowledged.
2. This order memorializes the decision of the Public Utility Commission of Oregon made and effective at a public meeting held on April 10, 2012.

Made, entered, and effective MAY 09 2012.



John Savage
 Commissioner





Susan K. Ackerman
 Commissioner



Stephen M. Bloom
 Commissioner

⁷ See Order No. 89-507 at 11. The Commission affirmed these principles in Order Nos. 07-002 and 07-047.

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In the Matter of

NORTHWEST NATURAL GAS
COMPANY, d/b/a NWNATURAL
2011 INTEGRATED RESOURCE PLAN

STAFF'S FINAL RECOMMENDATIONS

In accordance to the modified procedural schedule granted by the Administrative Law Judge on January 10, 2012, Staff submits its final recommendations in this docket. Staff's final recommendations reflect a proposal to resolve the outstanding issues between NW Natural, the Citizens' Utility Board (CUB) and Staff regarding NW Natural's 2011 Integrated Resource Plan (IRP or Plan). Staff concluded that the Plan as filed by the Company on September 1, 2011 did not meet the substantive requirements of the IRP guidelines.¹ Staff also determined that the scope of the revisions and analyses that should be conducted to address the parties concerns about the IRP would essentially result in a complete revision of the IRP, which would be equivalent to restarting the IRP process.² This process usually takes about six to eight weeks to complete and might extend longer if the Plan included contested issues. Staff determined that the pursued outcome from a complete revision of the current IRP would be better served through a new IRP.

Following the ALJ's decision granting the Company's motion to modify the procedural schedule, NW Natural, CUB and Staff engaged in discussions to conclude this proceeding while substantially and adequately addressing all the issues raised regarding the Plan. The result of these discussions is an agreement between the parties for an acknowledgment of specific and limited components of the IRP based on the proposed revisions to the Action Plan and the Company's agreement to satisfy Staff's and CUB's recommendations in the next IRP.

A. REVISED ACTION PLAN ITEMS:

In order to address the concerns raised by Staff and CUB in their respective comments, Staff proposes that the Commission limit the acknowledgment of this Plan to specific revised items and subject to adopting Staff's final recommendations in addition to other requirements deemed appropriate by the Commission:

¹ See Staff draft recommendations filed on December 8, 2011.

² The IRP process includes soliciting input from interested parties and the public through the Technical Work Advisory Group, developing a draft plan, seeking parties' comments on the draft plan, filing a proposed plan with the Commission, parties filing comments on the Plan and providing recommendations to the Commission prior to issuing a decision on the Plan.

1) Action Item 2.3 is revised from:

~~Support development of the Palomar East Pipeline, primarily for risk management purposes in diversifying the Company's supply path options.~~

To:

Continue to perform further analysis on the costs, benefits and risks associated with the development of a Cross-Cascades pipeline.

Commission acknowledgement of the Company's 2011 Modified IRP is not to be interpreted as an acknowledgement that the Palomar/Blue Bridge Pipeline (Modified Palomar) is a least cost resource for meeting the future demand of NW Natural customers. While the Company's 2011 Modified IRP is not sufficient to justify the Palomar/Blue Bridge Pipeline as a future resource upon which NW Natural should rely, the Company may reassess and request acknowledgement of this or other similar pipelines in future IRPs.

2) Action Item 4.2 is revised from:

~~Acquire resources consistent with the Preferred Portfolio.~~

To:

Over the next three planning years, NW Natural will acquire resources in a manner that is consistent with the analysis conducted in the 2011 Modified IRP. Under the Base Case scenario, the Company will target to acquire Demand Side Management as depicted below, and Recall from Mist amounts that will not exceed those listed below:

Calendar Year	Incremental DSM Savings in Oregon, Therms/Year
2012	4,200,048
2013	4,564,178
2014	5,468,808

Gas Year ³	Recall from Mist Storage, Therms/Day
2012-2013	320,457
2013-2014	320,457
2014-2015	387,342

B) RECOMMENDATIONS FOR FUTURE IRPs

NW Natural agreed to the following actions in future IRPs:

1) Stochastic Analysis - While NW Natural did perform Monte Carlo simulations for its Base Case and Preferred Portfolio in its 2011 IRP filed with the Commission on January 31, 2011, the Company did not do the same stochastic analysis on its modified Base-Case Portfolio or the modified Preferred Portfolio that was included in its 2011 Modified IRP that was filed September 1, 2011. Staff advises the Company to perform stochastic analysis on the candidate portfolios evaluated by the Company in selecting the preferred portfolio for which it seeks Commission acknowledgment.⁴ This analysis is essential to test and evaluate the selected portfolio's performance from a probabilistic perspective in order to consider it for acknowledgment.

2) Palomar/Blue Bridge Pipeline - In the event the Company decides to include either Palomar/Blue Bridge Pipeline or another proposal for a cross-Cascade pipeline in future IRPs, NW Natural agrees to provide: i) the assumed cost for the necessary capacity subscription on the pipeline; ii) an explanation of how the assumed cost for capacity was derived; and iii) high and low cost sensitivities for the new future resource, representing the range of costs that could be borne by its customers under a range of reasonable assumptions.

NW Natural will prepare or participate in a separate "regional analysis" of a cross-Cascade pipeline, including the regional demand and benefits associated with this future resource. NW Natural will present and include the regional analysis in its IRP should it decide to use such analysis in supporting its preferred portfolio selection.

3) Risk and Benefit Analysis - Provide a matrix comparing the risks and benefits (not strictly limited to PVRR) to NW Natural and its ratepayers of all resource portfolios. The Company will identify and explain the key assumptions, limitations, and other tools, e.g. cost, rates, availability, capacity, and deliverability it uses in setting the SENDOUT[®] runs. The analysis will specify and rank the benefit/risk tradeoffs from the ratepayers' perspective. For the Preferred Portfolio, the Company will explain how cost and risks are balanced.

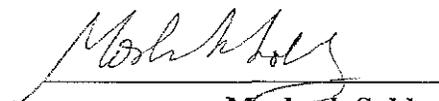
³ The Gas Year captures the heating season, which is usually from November through March.

⁴ Candidate portfolios are those portfolios that are reasonable for consideration on a least-cost and risk-mitigation basis in the evaluation and selection of the preferred portfolio.

- 4) Mist Recall - NW Natural will update its assumptions with regard to recall from Mist Storage and demonstrate through modeling that the resource is appropriately sized and operated in ratepayer interest from a least-cost and risk mitigation perspective.
- 5) Supporting Analysis - NW Natural will update, provide supporting analysis, and demonstrate the reasonableness of its assumptions that feed its customer growth, load growth and gas price forecasts, its avoided cost calculation, and DSM savings targets. NW Natural will run stochastic analyses under a variety of weather patterns and gas prices with necessary updates for each resource portfolio it analyzes.
- 6) Parties' Participation - NW Natural will seek agreement with parties on the design-year weather pattern (or patterns) that will be used in its analysis. If parties cannot reach consensus on the design-year weather pattern, NW Natural will evaluate all proposals, and explain why it believes the method used was appropriate.
- 7) Rate Design Modeling - If the Company is considering changes in rate design that will significantly affect demand, the Company will analyze the impact of the rate design changes on demand and the implications for DSM.⁵
- 8) The Company will closely monitor the economic indicators and development in market conditions to adequately address, in a reasonable timely fashion, the implications of significant changes in indicators such as employment, business investments, financial and other relevant indicators, on its resource acquisition planning and decisions. The persistently slower-than-predicted and less-than-expected economic recovery had a decelerating impact on the businesses, industries and the overall growth and demand. Whether in the near term or in the more distant future, these conditions will likely change, and depending on the direction of the change and its magnitude, growth and demand could change significantly. The Company's resource acquisition strategy should be reasonably flexible to adequately respond to foreseen changes in growth and demand.

This concludes Staff's draft recommendations on NW Natural's Modified 2011 Integrated Resource Plan.

Dated at Salem, Oregon, this 10th day of February, 2012.


 Moshrek Sobhy
 Sr. Utility and Energy Analyst
 Natural Gas Rates & Planning

⁵ This would ultimately have an impact on the demand-side resource and in turn on the Company's resource acquisition decision and planning.