

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	DOCKET UG-080519
TRANSPORTATION)	
COMMISSION,)	
)	
Complainant,)	
)	
v.)	
)	
NORTHWEST NATURAL GAS)	
COMPANY,)	
)	
Respondent.)	
.....)	
In the Matter of the Petition of:)	DOCKET NO. UG-080530
)	(consolidated)
NORTHWEST NATURAL GAS)	
COMPANY)	
)	
For an accounting order authorizing)	AFFIDAVIT OF
deferred accounting treatment of certain)	WILLIAM R. EDMONDS
costs associated with the Company's)	IN SUPPORT OF MOTION FOR
Smart Energy Program)	SUMMARY DETERMINATION
.....)	

I, William R. Edmonds, state as follows:

1. I am the Manager of Environmental Policy & Sustainability at Northwest Natural Gas Company ("NW Natural" or the "Company"). I have worked for NW Natural in this capacity since May 2006. From 1990 to 2006, I worked at PacifiCorp in various positions including the Director of Environmental Policy. Prior to PacifiCorp, I worked as an analyst at the California Public Utilities Commission and at ICF, Inc., a consulting firm. I received my undergraduate degree in Political Science and Environmental Studies from Williams College and a Masters in Public Policy from the University of California at Berkeley.

2. I am responsible for the development and implantation of the Smart Energy Program within NW Natural. I have personal knowledge of the facts set forth in this Affidavit, and if called to testify thereto I could and would do so.

3. Smart Energy is a pilot program that allows NW Natural customers to offset the greenhouse gas emissions associated (“GHG”) with their natural gas use. A detailed description of the Smart Energy Program is attached hereto as Exhibit A.

4. NW Natural has partnered with The Climate Trust to offer the program. NW Natural has engaged The Climate Trust to develop GHG offset projects on behalf of Smart Energy participants, with an emphasis on bringing biogas to the region. The contract between NW Natural and The Climate Trust is attached hereto as Exhibit B. The document is considered Confidential in its entirety and is filed pursuant to the Protective Order in this docket.

5. The Climate Trust is a nonprofit organization that has been promoting climate change solutions by developing high-quality GHG offsets since 1997. A description of The Climate Trust’s history from The Climate Trust’s website is attached hereto as Exhibit C. Clean Air–Cool Planet issued the report *A Consumer’s Guide to Retail Carbon Offset Providers* in 2006 in which it evaluated and ranked 30 carbon offset organizations on a range of criteria in an attempt to determine the quality and environmental quality of the offsets sold by the organizations. Of the 30 organizations that were ranked on a scale of one to 10, The Climate Trust was one of eight receiving a score greater than five. Only two of those eight companies are based in the United States. The Climate Trust has been in existence longer than virtually all carbon offset providers analyzed in the report. The report is attached hereto as Exhibit D.

6. The Company works closely with The Climate Trust to identify high quality offset projects and to learn about carbon offset markets. The carbon offset market has grown in

complexity over the past several years. Quality offset projects involve complicated contracts that require knowledge and experience to negotiate successfully. NW Natural's relationship with The Climate Trust allows it to increase its knowledge of carbon offset projects and offset markets.

7. As part of the Smart Energy Program, NW Natural will track current and forecasted prices for GHG offsets. The Company will compile price information for high quality offsets through this process, allowing the Company to compare the costs of internal and external compliance options.

8. NW Natural's implementation of the Smart Energy Program will educate Company management on the carbon offset market.

9. NW Natural plans to use the funds from the Smart Energy Program to purchase carbon offsets and to administer the program. The \$79,000 requested deferral reflects \$52,000 in 2008 start-up costs and \$27,000 in 2009 start-up costs. Washington customers comprise approximately 10 percent of NW Natural's customers, and costs associated with start-up outreach efforts and education directed to Washington customers are expected to be approximately 10 percent of the total costs. In 2008, the Company expects to incur approximately \$622,000 in program costs—\$100,000 for initial work performed by The Climate Trust and \$522,000 for ongoing customer outreach and education expenses. NW Natural also expects the 2009 start-up costs in 2009 to be approximately \$268,000. After the start-up period, all on-going costs of the program will be borne solely by Smart Energy participants. The Company expects the administrative costs including customer education to comprise about 30 percent of the program rates during the pilot program. The revenue/cost assessment of the Smart Energy Program is attached hereto as Exhibit E.

10. NW Natural's shareholders absorbed \$343,000 in start-up costs in 2007. The Company spent these funds to develop the Smart Energy product and to produce communications materials that the Company used in Oregon and plans to use in Washington.

11. Support for the program from non-participants will be modest. The Company estimates that the effect on an average residential customer bill will be approximately 6 cents per month for one year—about a .1 percent change over current rates.

12. NW Natural based the amount of the residential flat rate of \$6 per month in part on market research indicating that this price is near the top of a range of prices customers would pay for a product like Smart Energy, as described in the Affidavit of Kimberly A. Heiting. NW Natural chose the \$6 rate to reflect the cost of offsetting emissions from the average residential customer that uses natural gas for space heating and hot water, based on the price of high quality carbon offsets as of June 29, 2007. NW Natural believes that raising the price of the program beyond the \$6 flat rate would likely result in substantially fewer participants and could jeopardize the viability of the program. Therefore, the Company did not include administrative start-up costs in the price of the program.

13. The Smart Energy Program is identical to the Smart Energy program that was approved for Oregon customers by the Public Utility Commission of Oregon ("Oregon Commission") on August 31, 2007. The Oregon Commission approved deferred accounting of the 2008 startup costs in an amount not to exceed \$622,000. The Oregon Commission based its approval on the Oregon Commission Staff's finding that Smart Energy provides the Company with knowledge and experience with carbon regulation that will reduce carbon regulation compliance costs in the future. The Oregon Commission's order is attached hereto as Exhibit F.

14. Oregon Commission Staff and intervenors in the Oregon proceeding supported implementation of the Smart Energy Program. Oregon Commission Staff's recommendations regarding the Smart Energy Program were incorporated in the Oregon Commission's order, Exhibit F. The letters filed in support of the Smart Energy Program in the Oregon proceeding by the Citizens' Utility Board of Oregon, NW Energy Coalition, the Oregon Department of Energy, and the Ecumenical Ministries of Oregon are attached hereto as Exhibit G.

15. NW Natural believes that there will be a federal program to limit GHGs in the near future. The national movement towards GHG regulations has been reported in many places. While the specific timing of legislation is uncertain, the World Resources Institute ("WRI") catalogues the trend towards federal legislation. The WRI article "Prospects for Federal GHG Legislation" is attached hereto as Exhibit H. There is some debate over the form federal GHG legislation will take, but most observers conclude that cap and trade is the most likely form of US legislation. The *Public Utilities Fortnightly* article "Politics of Carbon" is attached hereto as Exhibit I. Important variables in driving the speed with which a national law is passed are the results of the next Congressional elections and leadership on this issue from the White House. Both presidential candidates are taking a strong stand in favor of federal cap and trade regulation. Attached hereto as Exhibit J is the *New York Times* article "Greenhouse Gas must be Capped, McCain Asserts."

16. The version of federal legislation that has received the most attention is the Lieberman/Warner climate change bill (S. 2191). The most recent version of the bill would include emissions from residential and small commercial customers within the cap. There continues to be debate about whether or not these small customers should be within the cap, whether they should be capped in a subsequent compliance period, and, if they are capped, which

entity (i.e., wellhead, gas processor or local distribution company) should be the point of regulation. The American Gas Association ("AGA") is taking the position that residential and commercial natural gas customers should not be subject to the cap, at least at the beginning of the program, however the final determination of that issue is not clear. The AGA article "Recommendation on the Lieberman/Warner Climate Change Bill" is attached hereto as Exhibit K.

17. Gas customers may also be impacted first by a regional regulatory system. The current proposal from the Western Climate Initiative ("WCI") suggests that the regional program will include small gas customers within the cap and that the local distribution company should be the point of regulation for these customers. WCI's "Draft Recommendations on Elements of the Cap and Trade Program" are attached hereto as Exhibit L. The WCI proposal will be completed in August or September of this year and could lead to state cap and trade rules being passed as early as this coming legislative session (i.e., Fall, 2008). Federal, regional and state cap and trade rules likely will have different provisions for the use of offsets to achieve compliance goals. It appears most likely that rules will allow some compliance using verifiable offsets, but will cap the amount of offsets that can be used by an entity. The current version of the WCI recommendations for a regional program calls for limiting the use of offsets for compliance but has not yet set a specific cap on the use of offsets.

I declare under penalty of perjury under the laws of the state of Washington that the foregoing is true and correct based on my information and belief.

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SIGNED this 18th day of July, 2008, at Portland, Oregon.

Signed: *William R. Edmonds*

SUBSCRIBED AND SWORN to before me this 18th day of July, 2008.

Pamela L. Villalobos

Notary Public - Oregon

