

EXHIBIT G

to

**AFFIDAVIT OF WILLIAM R. EDMONDS
IN SUPPORT OF MOTION FOR SUMMARY DETERMINATION**



Citizens' Utility Board of Oregon

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August 17, 2007

Chairman Beyer
Commissioners Baum & Savage
Oregon Public Utility Commission
PO Box 2148
Salem OR 97308-2148

Re: NW Natural's Smart Energy Option, Advice 07-04, Schedule 400

Dear Commissioners,

NW Natural is proposing to offer a Smart Energy option to customers, who, if they choose, pay a small monthly premium to help pay for projects that offset greenhouse gas emissions. There is no doubt that this option is timely and valuable both to the customer who has elected the option and to society generally. Staff's memo, however, states that NW Natural's condition; that all eligible customers help defray, for a limited time period, the program's start-up costs; is a condition that the Commission has no authority to approve. We disagree with Staff's opinion for the reasons set out below, and we support the program as NW Natural has designed it.

Staff's memo says that "[s]taff's counsel has advised that the Commission generally does not have statutory authority to impose the costs of a voluntary program on all customers, unless the utility can demonstrate that there are utility-related benefits for non-participating customers." Staff Memo, August 15, 2007, page 3. Later staff defines "utility-related benefits" in a more limited fashion, when it says "Staff does not believe the company has met the burden of showing that there will be utility-related economic benefits, either now or in the future, to non-participating customers." *Ibid.*

We do believe that there are significant utility-related benefits to the program, albeit not directly related to economic rate benefits. We do not think that the Commission's authority is limited to economic rate benefits, and as such, we think the Commission has the authority to approve the program.

We fully recognize that the fundamental purpose of, and history behind, monopoly utility regulation supports a basic premise that the Commission's job is to primarily represent ratepayers' economic interests, and to promote health and safety related to utility operations. However, we do not think that the Commission's authority ends with

these interests. We do not think that the statutory framework creating the Commission's authority is so strictly limited as to encompass only beneficial economic rate effects and immediate health and safety concerns. We think that the statutory framework and common sense supports a Commission authority that extends to non-rate issues that furthers the best interest of ratepayers and encompasses utility services that provide non-rate-based and non-safety-based value to the captive utility customer.

The statute that describes the Commission's powers states "the commission shall represent the customers of any public utility or telecommunications utility and the public generally in all controversies respecting rates, valuations, service and all matters of which the commission has jurisdiction. In respect thereof the commission shall make use of the jurisdiction and powers of the office to protect such customers, and the public generally, from unjust and unreasonable exactions and practices and to obtain for them adequate service at fair and reasonable rates." Adequate service must be provided at fair and reasonable rates, but that service is not defined by the reasonableness of the cost. The utility can attempt to charge too much for a service, but this is not the only aspect of a service that makes one "adequate". We absolutely believe that an adequate service is one that provides a benefit ultimately to the consumer, however, we believe that by limiting the definition of a utility benefit to one that is solely an economic rate benefit both limits the Commission's existing authority and does damage to the utility consumer.

There are numerous examples of the Commission allowing recovery in rates for costs that provide a value to customers that are not specifically related to economic rate benefits or safety improvements. In fact, we believe that if all utility costs were subject to this interpretation, as a practical matter, utility revenue requirements would look much different than they do. This is because the participants know that not every cost can be judged solely on its economic rate benefit. Additionally, the Commission allows costs of services that are used primarily by a subset of customers to be spread to all the customers who are eligible to use the service.

Below, we identify a few generic examples of this kind of non-rate value whose costs are allowed in rates, and then we explore a relatively recent specific example. It is typical and traditional to allow recovery of numerous membership fees that utilities pay in order to become members of national or regional utility industry groups. Utility membership in these groups is a cost to the customer and it is impossible to say that membership creates an "economic rate benefit" to the customer or necessarily advances the interests of health and safety. The value to the customer is that the utility employees are kept up to date in the latest technologies and regulatory trends. At CUB, we are not thrilled at the prospect of paying too many of these membership costs, but we also know that a utility that is out of touch with the latest technologies and trends is a utility that will provide inferior service. There is never an expectation that membership must result in lower rates. Instead, the value lies outside the realm of immediate economic rate impacts.

A related generic example is the utility call center. It is reasonable to assume that most customers use the utility's phone service at least twice, once to start service and again to terminate service. However, some customers will use the call center over and over for

various reasons (bill inquiries, report outages, complain about service, seek information) and others will never use it other than to start or end service. The value of the call center is not related to an economic benefit or simply to health and safety, otherwise the call center would be designed in the most minimalist manner. In addition, the non-rate value is spread across customer classes despite the fact that only a subset of customers takes advantage of the service. Repeat this argument for the internet services offered by the utility. There is no economic rate benefit of the utility's web site, and customers know better than to report immediate safety issues by email, and some customers don't have internet access. While some cost of the internet service is booked to unregulated activity, the remainder of the cost of the service is spread to all, because there is a value related to convenience and access to information.

A specific example of non-economic rate/non-safety services included in rates can be seen in UE 115. There, PGE asked for recovery of costs associated with certain customer service options in its "belief that its customers want new services, more options, and better communication channels. To address these perceived needs, PGE is adding payment options, expanding communication choices, adding new customer services, and increasing the frequency of customer surveys. PGE admits that these changes cost more, but explains that they provide more value to PGE's customers." UE 115, Order No. 01-777, page 11, August 31, 2001. One of these changes was to allow customers to pay by credit card. The logic of Staff in its August 15, 2007, memo would suggest that the costs associated with the credit card program be allocated only to those customers who pay by credit card, because other customers receive no economic benefit from it. In UE 115, the Commission did not take that position; instead it largely approved the costs for recovery in rates. CUB opposed recovery of many of these costs, because the timing of UE 115 coincided with the 2000-2001 Western Energy Crisis and the revenue requirement in the rate case threatened to expand rates significantly simply as a result of market purchases in a high-cost market. We opposed the timing of the discretionary service investments during a time of high non-discretionary costs. Although the Commission acknowledged CUB's basic arguments and reduced PGE's requested revenue requirement increase accordingly, the Commission rejected several of CUB's specific arguments and chose instead to allow many of these costs to go into rates. The Commission said "PGE is correct that we should judge these services and the costs associated with them on the basis of the value they provide and the demand they meet." *Ibid.* The Commission acknowledged that the customer service investments provided no net savings, however, it found that the customer service investments provided a value in the form of easier bill payments and the investments satisfied a customer demand. Clearly, not all customers would take advantage of the services, but all customers who could use the services paid for them.

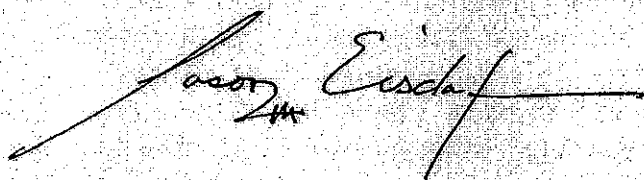
Northwest Natural's Smart Energy option serves a demand and provides a value. First, the public's concerns about global warming are growing at a quick pace. This fuels a desire by some to explore ways of reducing their carbon footprint caused, in part, by their use of natural gas. The Smart Energy option provides that opportunity for those who seek it. Second, the Smart Energy option and the advertising campaign that supports it will serve as an educational tool for those who are curious about global warming, but

who do not know how to independently explore the issues. Third, the Smart Energy option allows NW Natural to learn about global warming issues, the potential regulatory mechanisms, and most importantly, the various mechanisms that this gas company might explore to reduce carbon emissions and comply with future regulatory regimes. The load-based cap and trade proposal that emerged from the Governor's Carbon Allocation Task Force applied to electric service providers, but the strong assumption was that it was only a matter of time before it applied to natural gas providers. In addition, regional and national cap and trade proposals being discussed would apply economy-wide, yet the implications for individual natural gas utilities are still uncertain. Finally, the Smart Energy, as designed, could potentially result in a new local source of pipeline quality natural gas, which could, in time, be delivered to customers for direct use while producing carbon offsets at the same time.

Therefore, there are legal and policy matters to contemplate before assuming an authority that is rigidly limited to "economic rate benefits". Such an interpretation assumes that the Commission has no role in overseeing the overall service that a regulated utility provides to its customers. Such an interpretation is neither welcome, nor legally justified. CUB respectfully asks that, at a minimum, before the Commission defaults to the informal position of staff's counsel, the Commission entertains further discussion on its regulatory authority.

Perhaps the Commission, based on the law and past precedent, already views its authority as encompassing more than the barest net rate benefit test and most direct health and safety concerns to include aspects of utility service that serves a customer demand, provides a value to customers, and furnishes the company with information and ideas relating to the major regulatory driver of energy services over the next several decades. If this is the case, then we offer our belief that NW Natural's Smart Energy option fits the bill and that it is completely appropriate for all customers who can take advantage of the option to help support its launch by paying the discrete, time-limited advertising costs as set out in NW Natural's filing.

Respectfully submitted,

A handwritten signature in black ink that reads "Jason Eisdorfer". The signature is written in a cursive style with a long horizontal line extending to the right.

Jason Eisdorfer Attorney #92292

necessary. (3) The program benefits all customers, whether or not they sign up. All customers share the reduction in greenhouse gases. (4) The existence of the program offers all customers the *opportunity to participate*. This opportunity benefits all customers, much as conservation programs do. Conservation programs are paid for by all customers, even though not all participate. The rationale for this precedent is two-fold: that conservation in itself benefits all customers (through reduced environmental impact and perhaps the avoidance of future infrastructure costs); and, that the *existence* of the programs provide an *opportunity* for all customers to participate. This opportunity is not free, and because it benefits all, it should be paid for by all.

For these reasons the NW Energy Coalition urges the Commission to approve the pilot and the Company's application for accounting treatment of the start-up costs.

Thank you,

Steven Weiss
Sr. Policy Associate
NW Energy Coalition



Oregon

Theodore R. Kulongoski, Governor



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July 3, 2007

Lee Byer, Chairman
Ray Baum, Commissioner
John Savage, Commissioner
Oregon Public Commission
550 Capitol St.
Salem, OR 98308

Dear Commissioners:

The Oregon Department of Energy supports adoption of Northwest Natural's proposed Smart Energy tariff and cost recovery proposal filed on June 29. The proposal is well designed, technically sound and provides for a fair recovery of costs.

The Smart Energy provides an opportunity for Northwest Natural's residential and commercial customers to easily reduce the greenhouse gas impacts of using natural gas by purchasing reliable offsets. This parallels the successful renewable portfolio choice programs of Portland General Electric and PacifiCorp. ODOE has extensive experience with the Climate Trust and believes they are the right partner for this initiative.

The Smart Energy proposal appropriately shares cost recovery and risks among participating customers, non-participating customers and the shareholders of Northwest Natural. To have non-participating residential customers make a one-time payment of just over one dollar is fair and reasonable.

Participants gain no personal advantage from their purchase of offsets through this program. Non-participating customers benefit from reduced climate impacts both directly from the offsets purchased and from raising the visibility of the issue. This program will help Oregon and Northwest Natural meet the greenhouse gas goals the Legislature adopted in HB 3543.

Non-participants in the start-up period gain an option that should continue long after the initial three-years. They also learn how much it would cost to offset their greenhouse gas emissions. Northwest customers who are also customers of PGE and PacifiCorp already can see how much it would cost to eliminate their electric CO₂ emissions.

Finally, this program would help foster a local bio-gas industry that could provide a small but helpful alternative gas supply for all Northwest Natural customers. Thank you for your consideration of this matter.

Sincerely



Michael W. Grainey
Director

cc. Bill Edmonds, NW Natural (wre@nwnatural.com)
Lee Sparling, OPUC

ECUMENICAL MINISTRIES *of* OREGON

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July 6, 2007

Lee Byer, Chairman
Ray Baum, Commissioner
John Savage
Commissioner, Oregon Public Utility Commissioner
550 Capitol St.
Salem, OR 98308

RE: Schedule 400, NW Natural SMART Energy Pilot

Dear Commissioners:

The Oregon Interfaith Global Warming Campaign (OIGWC), coordinated by the Ecumenical Ministries of Oregon, supports NW Natural's SMART proposal and believes the Commission should approve the Pilot. NW Natural is taking an important leadership role in the gas industry nationally by offering a voluntary greenhouse gas (GHG) offset option – Oregon, and NW Natural's customers, will be well-served if this comes to fruition.

As a continuing participant in many of Oregon's and Congress' efforts to limit global warming pollution, OIGWC has found that the development of an effective strategy at any jurisdictional or sectoral level to control GHG pollution requires many steps to implement. As for the natural gas industry, it will likely require several steps also. As in the electric industry, there will likely be voluntary measures, mid-stage regulatory measures, and then eventually an overarching, or economy-wide, regulatory regime. For instance, Governor Kulongoski's Carbon Allocation Task Force recommended in December, 2006 that Oregon's gas customers pay a GHG reduction fee in the first stage of regulation, anticipating that the gas industry regulation would eventually evolve to an upstream cap-and-trade regime, or to another mechanism to limit overall GHG emissions from statewide emissions.

At each step of this process, gas customers, gas company employees, and the gas industry itself learns about the nature of the problem, the types of ways to reduce emissions, and how to cope with the growing regulatory certainty. We strongly believe that the SMART program is ideally suited at this moment of time to serve a critical role for all of these purposes.

As to costs, we believe that NW Natural has established more than a fair basis for dividing up the costs among pilot participants and general ratepayers. The value gained by all customers, all employees, and the entire NW Natural management team by becoming an early actor in the GHG natural gas arena is quite substantial. By assigning a great majority of the costs to voluntary participants, including all ongoing operating expenses, we believe that the participants are in a sense subsidizing the non-participants, who will all gain from the experience NW Natural will develop as a leader with this pilot. Without the costs being fairly spread between participants and non-participants, the effectiveness, timing, and value of the pilot likely will be diminished.

If you don't allow this effort to move forward, you will limit choices available to NW Natural customers, and by holding back NW Natural's team from developing this critical expertise, Oregon would miss a key substantive opportunity to confront the global warming challenge now faced at nearly every cog in Oregon's economy. As a faith-based organization, we are very concerned about the ethical implications of global warming, especially the impact on the poor and vulnerable of our world. The time to act is now. Please approve this application.

Sincerely,

Pastor Gary Langenwalter
OIGWC Chair

Jenny Holmes
EMO Environmental Ministries Director

MEMBER DENOMINATIONS

African Methodist Episcopal Church □ African Methodist Episcopal Zion Church □ American Baptist Churches □ Christian Church (Disciples of Christ)
Christian Methodist Episcopal Church □ Church of the Brethren □ Community of Christ □ Episcopal Diocese of Eastern Oregon □ Episcopal Diocese of
Oregon Evangelical Lutheran Church in America □ Greek Orthodox Church □ Presbyterian Church (USA) □ Religious Society of Friends (Quakers)
Roman Catholic Archdiocese of Portland □ United Church of Christ □ United Methodist Church □ Universal Fellowship of Metropolitan Community
Churches