

Agenda Date: April 30, 2008
Item Number: A2

Docket: UG-080530

Company Name: Northwest Natural Gas Company

Staff: Joanna Huang, Regulatory Analyst
Deborah Reynolds, Regulatory Analyst
Mike Parvinen, Acting Assistant Director, Energy

Recommendation:

Set for hearing the petition requesting an accounting order authorizing deferred accounting treatment of certain costs associated with Northwest Natural Gas Company's Smart Energy Program.

Discussion:

On March 21, 2008, Northwest Natural Gas Company (NW Natural or company) filed a petition seeking an Accounting Order regarding the deferred treatment of certain costs associated with the Company's Smart Energy Program of up to \$79,000 for 2008 and 2009 combined. The costs are described as startup costs which consist mostly of educational materials describing the program to all customers as well as the benefits of the program.

Smart Energy Program

The Smart Energy Program is a voluntary pilot program for three years from 2007 to 2009. Residential customers may either choose a fixed monthly flat rate of \$6 or a volumetric rate of \$0.10486 per therm to purchase the emission offsets. Commercial customers may elect a fixed rate of their choice (not less than \$10 per month). The details of this Smart Energy Program are further discussed in the staff memorandum for Docket UG-080519 which is filed in conjunction with this filing.

In this filing the company proposes to defer the Smart Energy Program startup costs that have not been included in the Smart Energy Program Tariffs. The startup costs, on a system basis, are estimated to be \$288,000, \$622,000, and \$268,000 for 2007, 2008, and 2009, respectively. The company indicates that shareholders have absorbed the first year's estimated startup costs in 2007 in the amount of \$288,000. In 2008, the company expects to incur \$100,000 for initial work performed by The Climate Trust, a nonprofit organization that the company has contracted with to develop high-quality greenhouse gas emission offsets, for which it is not requesting deferral treatment. Washington customers will only share 10 percent of the estimated deferred expenses of \$522,000 for 2008 and \$268,000 for 2009 for ongoing outreach and customer education, or \$79,000.

The program, filed in Docket UG-080519, and the accounting petition as proposed in this docket, mirror filings already in place in Oregon.

NW Natural requests deferral of startup costs of \$79,000 for 2008 and 2009 combined. The company proposes to collect the deferred amount from all customer classes whether they participate in the Smart Energy Program or not. The company claims that all customers benefit from improved air quality and lower emissions that result from projects developed by The Climate Trust. Therefore, all customers benefit from the ongoing outreach and customer education programs. Further, the company gains knowledge and experience in reducing greenhouse gas emissions which help to establish strategies and policies to improve the environment in the future.

Staff has two primary concerns with the company's proposal. First, Staff is concerned with the policy implication of applying costs associated with a voluntary public benefit program to all customers. This item is very much like the electric Green Tag programs in which customers voluntarily purchase Renewable Energy Credits to offset the carbon produced by power production. In the Green Tag programs, all costs of the program are recovered from the revenues received from the program as required by RCW 19.29A.090. Staff's opinion is that the company has two options regarding collecting the costs from program participants. The first option is to increase the monthly fee. The company has indicated that a \$7.50 per month fee would be necessary. Raising the fee is problematic in that Oregon has a \$6.00 per month fee and education materials are designed for the contiguous service area. The second option would be to include the startup costs as part of the company's administrative costs which are removed from the fees collected prior to passing the revenues to the Climate Trust. The second option is Staff's preferred approach.

Second, the \$79,000 maximum deferral has negligible effects on the company's results of operation. In prior decisions concerning accounting petitions, the Commission has determined that deferred amounts must be of a magnitude such that recording the costs pursuant to the FERC uniform system of accounts has a material impact on Company earnings. The \$79,000 (an accumulation of two years of costs) would only change the Company's Washington rate of return by less than 0.05 percent.

Conclusion:

Set for hearing the petition requesting an accounting order authorizing deferred accounting treatment of certain costs associated with Northwest Natural Gas Company's Smart Energy Program in Docket UG-080530.