

Rates and Regulatory Affairs
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July 14, 2010

VIA ELECTRONIC FILING

Dave Danner, Executive Director & Secretary
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Post Office Box 47250
Olympia, Washington 98504-7250

**Re: U-100522, Conservation Incentive Inquiry
NW Natural's Comments**

Dear Mr. Danner:

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), hereby submits the following response to The Washington Transportation and Utility Commission's ("Commission") Notice of Opportunity to File Written Comments ("Notice"), dated July 2, 2010.

Below are the policy statements to which the Commission's Notice requested that parties respond. After each statement, NW Natural provides a statement declaring the Company's support, opposition or neutrality.

Statement No. 1

Full decoupling, including all declines and all increases in sales from any source.

Response

NW Natural supports full decoupling, including all declines and all increases in sales from any source. Full decoupling, which the Company has in Oregon, removes the disincentive to invest in conservation. As stated in the Company's June 4, 2010 comments, rates are set to allow a utility to recover fixed costs and earn an allowed rate of return based on forecasted volumes. Without full decoupling, a utility does not recover its costs when customers consume less gas than forecasted.

Statement No. 2

Lost Margin adjustment for declines in sales due only to company sponsored conservation efforts.

Response

In the absence of full decoupling the Company supports a conservation-specific lost margin adjustment because it is a means to recover a utility's fixed costs. However, such

an adjustment does not fully address the incentive inherent in ratemaking, which makes utilities more profitable when customers consume more. Full decoupling is a better means for removing this disincentive because it breaks the link between volumetric sales and fixed cost recovery.

Statement No. 3

Attrition adjustment based on the results of an attrition study.

Response

In the absence of full decoupling NW Natural supports an attrition adjustment based on the results of an attrition study. As with Statement No. 2, the Company supports an attrition adjustment because it is better than no lost margin recovery, but by itself it is not sufficient to remove the disincentive to investing in conservation. It is difficult to attribute reduced usage to any one cause.

Statement No. 4

An independent conservation provider (i.e. similar to the Energy Trust of Oregon).

Response

NW Natural is neutral to having an independent conservation provider in Washington. While the Energy Trust of Oregon successfully provides conservation in Oregon and in NW Natural's Washington service territory, numerous considerations would have to be thoughtfully dealt with before that model could be successfully adopted in Washington. Examples of such considerations may include fuel switching, responsibility for achieving target conservation levels, how monies are collected and distributed to fund conservation, providing conservation in areas served by public utility districts, and consumer education, among others. In addition, having a third-party conservation provider does not eliminate the need for full decoupling, without which a utility will fail to recover its costs.

NW Natural appreciates the Commission's consideration of the Company's comments. Please contact me at (503) 226-4211, extension 3590 if you have questions.

Sincerely,

NW NATURAL

/s/ Jennifer Gross

Jennifer Gross
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