

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

|                                          |   |                        |
|------------------------------------------|---|------------------------|
| In the Matter of the Petition of:        | ) |                        |
|                                          | ) | DOCKET NO. UG-08-_____ |
|                                          | ) |                        |
| NORTHWEST NATURAL GAS                    | ) |                        |
| COMPANY                                  | ) |                        |
|                                          | ) | PETITION               |
| For an accounting order authorizing      | ) |                        |
| deferred accounting treatment of certain | ) |                        |
| costs associated with the Company's      | ) |                        |
| Smart Energy™ Program                    | ) |                        |
| .....                                    |   |                        |

1. Pursuant to WAC 480-07-370(1)(b), Northwest Natural Gas Company ("NW Natural" or "the Company") petitions the Washington Utilities and Transportation Commission (the "Commission") to grant NW Natural an order authorizing the deferred accounting treatment of certain start-up costs associated with NW Natural's Smart Energy™ program up to a total of \$79,000. In support of this Petition, NW Natural states as follows:

**I. Name of Applicant**

2. NW Natural is in the business of furnishing natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission as to its rates, service, facilities, and practices. Its full name and mailing address for the purposes of this proceeding are:

Northwest Natural Gas Company  
 c/o Inara K. Scott  
 Manager of Rates and Regulatory Affairs  
 220 NW Second Ave.  
 Portland, OR 97209

## II. Support for Petition

### A. Introduction to NW Natural's Smart Energy™ Program

3. Smart Energy™ is a pilot program that enables NW Natural's residential and commercial customers to offset the greenhouse gas ("GHG") emissions associated with their natural gas use—their "carbon footprint"—by supporting innovative environmental projects developed by The Climate Trust. The Climate Trust is a nonprofit organization that has been promoting climate change solutions by developing high-quality GHG offsets and advancing sound offset policy since 1997. The Climate Trust is one of the nation's most experienced offset developers and has been recognized by a third party reviewer as one of the two top offset providers in the US in terms of delivering top quality offsets.<sup>1</sup> Additional information on The Climate Trust is attached as Exhibit A.
4. Residential customers who volunteer for Smart Energy™ will pay either a flat rate of \$6 per month or a per-therm rate of \$.10486. Commercial customers who choose to participate in Smart Energy™ will pay not less than \$10 per month. In exchange for these payments, customers will receive "carbon offsets" assuring them that through their support of The Climate Trust programs, they have "offset" their natural gas carbon footprint.
5. The monthly and per-therm program rates paid by participating customers will be used to purchase the offsets and to support the ongoing administrative costs of the Smart Energy™ program. However, NW Natural did not include program start-up costs in the product price, because the Company's market research suggested a price "tipping point" beyond which customers would be much less likely to participate.
6. Northwest Natural initiated the Smart Energy™ program for its Oregon customers in August of 2007. At that time, the Company agreed that its shareholders would fully absorb \$266,000 in

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<sup>1</sup> Clean Air-Cool Planet. *A Consumer's Guide to Retail Carbon Offset Providers*. December 2006. <http://www.cleanair-coolplanet.org/ConsumersGuidetoCarbonOffsets.pdf>

start-up costs incurred by the Company in 2007.<sup>2</sup> However, the Company did seek and receive approval from the Public Utility Commission of Oregon to defer start-up costs incurred in 2008 up to \$622,000 for later inclusion in customer rates.<sup>3</sup>

7. NW Natural anticipates that the Washington start-up costs for the Smart Energy™ program will total approximately \$79,000 for 2008 and 2009 combined. This amount is based upon the Company's estimated start-up costs associated with its Oregon customers. In 2008, the Company expects to incur \$100,000 for initial work performed by The Climate Trust and \$522,000 for ongoing outreach and customer education expenses on behalf of its Oregon customers.<sup>4</sup> In addition, the Company expects the 2009 start-up costs on behalf of its Oregon customers will be approximately \$268,000.
8. Washington customers represent approximately 10 percent of NW Natural's total customer count, and costs associated with outreach to Washington customers are expected to be approximately 10 percent of the outreach costs expected in Oregon. For this reason the Company requests authorization for an accounting order allowing it to defer Smart Energy™ start-up costs for its Washington operations up to an amount that represents 10 percent of the costs it has calculated for Oregon. The start-up costs for Washington operations proposed for deferral are estimated as follows: (a) 2008 Smart Energy™ start-up costs at an amount not to exceed \$52,000, and (b) 2009 Smart Energy™ start-up costs at an amount not to exceed \$27,000.
9. Because, as explained below, Smart Energy™ will benefit all NW Natural customers—not only those who directly participate in the program—such deferral is appropriate.

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<sup>2</sup> In addition, NW Natural shareholders will purchase \$77,000 of Smart Energy™ to offset the natural gas used to heat its offices, service centers and shops for the entire five-year period of the pilot program. If the pilot is discontinued for any reason, this payment will not be altered.

<sup>3</sup> See Order No. 07-383 issued in UM 1327. (Aug. 31, 2007). NW Natural plans to seek deferral of 2009 start-up costs in Oregon in a separate petition, pursuant to Oregon law.

<sup>4</sup> These estimates served as the basis of the Oregon Public Utility Commission's order granting the Company to defer costs up to \$622,000.

**B. Benefits to Customers of the Smart Energy™ Program**

10. Smart Energy™ will provide NW Natural customers with significant and demonstrable benefits—both economic and non-economic.

**1. Smart Energy™ will educate NW Natural's customers about critical issues relevant to their natural gas use.**

11. If Smart Energy™ is to succeed, customers will need to become familiar with a number of complex issues connected to CO<sub>2</sub> offsets. Accordingly, in order to boost participation, NW Natural is planning a comprehensive communications campaign to educate its customers on the following topics:

- The connection between customer use of natural gas and GHG emissions
- The connection between GHG emissions and climate change
- How CO<sub>2</sub> offsets work to help mitigate a customer's use of natural gas
- How the development of clean energy programs such as biogas can help reduce GHGs and climate change.

12. The Company plans to communicate these topics to its customers through all available channels, and has developed and deployed website content, direct mail, bill inserts, and print advertisements to deliver its messages. A copy of a sample brochure and website content are attached as Exhibit B. Thus, as a result of Smart Energy™, all NW Natural's customers—both those that choose to participate in the program and those that do not—will receive important educational benefits on these vital and timely issues.

**2. Smart Energy™ will provide NW Natural with in-depth knowledge regarding carbon offset markets and strategies, thus reducing the costs the Company will incur to comply with anticipated carbon regulation.**

13. There is little doubt that CO<sub>2</sub> regulation is coming. In 2007, the Legislature set GHG reduction goals, finding that climate change is disrupting Washington's economy, environment, and communities. RCW 80.80.005(1). In addition, the Governor recently declared Washington's

commitment to reducing GHGs in the State. Executive Order 07-02 (Feb. 7, 2007). And while there are varying estimates of the costs that will be imposed on utilities to comply with the expected regulation, there is little doubt that compliance will be costly.<sup>5</sup> Thus, Smart Energy™ will benefit NW Natural's customers by reducing the Company's costs to comply with carbon regulation by granting the Company advance experience and in-depth knowledge of carbon reduction strategies and offset markets.

- a. Smart Energy™ will provide NW Natural with the superior knowledge and experience necessary to take better advantage of offset markets and outperform other market participants.***

14. Over the past several years, the CO<sub>2</sub> offset market has grown in complexity and sophistication. Quality offsets projects are governed by detailed contracts that reduce risks of non-performance, allocate risks of underperformance, and provide for long-term monitoring and verification requirements to ensure clear measurement of offset benefits. To comply with expected CO<sub>2</sub> regulation, NW Natural will need to gain expertise with all aspects of the offset market. Smart Energy™ will give the Company the opportunity to do so.
15. In implementing Smart Energy™, NW Natural will work shoulder-to-shoulder with The Climate Trust, one of the most experienced offset developers in the country. This close collaboration will allow the Company to better identify quality projects and, if desired, procure these benefits for customers in the future. The Company will gain valuable knowledge in making wise offset purchasing decisions, including the ability to avoid risks associated with less reliable offset investments.
16. Moreover, NW Natural expects that its experience will allow the Company to get ahead of the game. As the offset market continues to emerge the Company may well find opportunities to

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<sup>5</sup> The Commission already requires gas utilities to take the cost of risks associated with emissions of CO<sub>2</sub> into account in determining the lowest reasonable cost for purposes of Integrated Resource Plans. WAC 480-90-238(2)(b).

lock in low cost offset opportunities that will not be available after the compliance market becomes fully developed. Such opportunities would reduce the costs to comply with future CO<sub>2</sub> regulation.

***b. Smart Energy™ will help the Company identify the relative risks and benefits of internal and external compliance efforts.***

17. NW Natural's experience with Smart Energy™ will help it judge the relative merits of internal and external emissions reductions, helping the Company choose the most economical and effective ways to comply with CO<sub>2</sub> regulation.
18. "Internal emissions reductions" refers to methods of reducing the Company's carbon footprint internally, such as reducing emissions associated with fleet operations, reducing Company energy use, and modifying other field procedures to cut emissions. "External emissions reductions"--or "offsets,"--refers to actions taken to displace, avoid, or sequester emissions through specific projects outside the utility. The Company believes that the regulatory framework that is ultimately adopted will allow for some mix of internal and external actions to meet emissions targets.
19. As part of Smart Energy™, NW Natural will carefully track current and forecasted prices for future GHG offsets. Through this process the Company will acquire and compile price information for high quality offsets, allowing the Company to better compare the costs of internal and external compliance options. This knowledge and experience will allow the Company to develop the most efficient and economical compliance program to meet coming CO<sub>2</sub> regulation.

***c. Smart Energy™ will result in an educated and informed Company management better prepared to respond nimbly and effectively to future carbon regulation.***

20. If Smart Energy™ is approved and implemented, NW Natural's directors, officers, and management team will be kept informed regarding the offset market and its movement, and the relative benefits of that market compared to internal reduction opportunities. Because NW

Natural will be better informed at its highest levels, the Company will be better able to craft a climate strategy and a specific compliance program to meet future requirements. This process will in turn allow the Company to act more quickly than those LDC's new to the offset market.

**III. Relief Requested**

21. For all of the above reasons, NW Natural requests that the Commission issue an accounting order authorizing the Company to defer start-up costs associated with the Smart Energy™ program in an amount not to exceed \$79,000, on a Washington allocated basis.

Dated this 21st day of March, 2008.

MCDOWELL & RACKNER PC



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