BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW Natural, Revision to Schedule P to include acknowledging the recovery of the cost of gas acquired through Gas Reserves.	**DOCKET UG-111233** **JOINT MOTION OF NW NATURAL AND COMMISSION STAFF TO ALLOW WITHDRAWAL OF TARIFF FILING**

1 Pursuant to WAC 480-07-375, Northwest Natural Gas Company ("NW Natural" or "Company") and Commission Staff hereby move the Washington Utilities and Transportation Commission ("Commission") to issue an order approving the withdrawal of NW Natural's proposed revisions to Tariff WN U-6 (the "Tariff Filing").[1] In its Tariff Filing the Company requested that the Commission find prudent NW Natural's purchase of gas reserves through a joint venture with Encana Oil & Gas (USA) Inc. ("Encana") (the "Transaction"), and approve the Company's proposal to recover the costs of the Transaction through Schedule P. The Company wishes to withdraw the Tariff Filing with the understanding that, under circumstances specified below, the Commission will not require the Company at any time in the future to include the costs or benefits of the Transaction in Washington rates.

I. BACKGROUND

2 NW Natural has for several years been attempting to obtain a long-term fixed price supply of gas to include as a portion of its overall gas supply portfolio. To that end, the

[1] The Northwest Industrial Gas Users ("NWIGU") and Public Counsel are not joining in this motion, but neither NWIGU or Public Counsel oppose it.

Company entered into the Transaction, which calls for the Company to participate with Encana in a joint venture to develop gas at the Jonah Field in Wyoming.

3 Under the terms of the Transaction, NW Natural will partially fund the drilling of wells in the Jonah Field, and in exchange will earn a working interest in the reserves in the field. Over 5 years, NW Natural will invest about $251 million and expects that it will receive about 93.1 BCF of gas from the Transaction over the life of the wells from which it will receive gas. NW Natural expects to acquire about 26 percent of the volumes in the first five years, 63 percent in the first 10 years, 83 percent in the first 15 years, and 94 percent by the end of year 20. The remaining volumes will be received until the wells are finally capped at the end of their useful life—estimated to be approximately 30 years from signing.

4 Because of the unique nature of the Transaction, the size of the investment required, and the fact that approximately 90 percent of NW Natural's gas sales are to Oregon customers, the Company was not willing to enter into the Transaction without the approval of the Public Utility Commission of Oregon ("OPUC"). For this reason, the Company conditioned the close of the Transaction upon receiving approval from the OPUC, including: (1) a finding that its investment was prudent; and (2) adoption of NW Natural's proposed rate recovery proposal.

5 On April 28, 2011, the OPUC issued Order No. 11-040, which provided the necessary regulatory approval for the Transaction, and on May 1, 2011 the Transaction became effective.[2] NW Natural intends to include all of the costs and benefits of the Transaction

[2] *Re Northwest Natural Gas Company*, Dockets UM 1520 and UG 204, Order No. 11-040 (Apr. 28, 2011). That order was subsequently corrected by Order No. 11-044 issued on May 2, 2011. On May 25, 2011, the OPUC issued Order No. 11-176 that set forth in greater detail the OPUC's analysis of the Transaction and its reasons for approval.

in the Company's Oregon Purchased Gas Adjustment ("PGA") filings, beginning with the 2011 PGA.

6 The OPUC's approval authorized NW Natural to include the entirety of the costs and benefits associated with the Transaction in Oregon customers' rates. However, because the Company believed that the Transaction will provide substantial benefits overall, it made the Tariff Filing to include the costs and benefits of the Transaction in the gas costs that are assigned to its Washington customers as well. Specifically, on July 6, 2011, the Company filed proposed revisions to Tariff WN U-6 along with supporting testimony. The filing requested: (1) that the Commission issue a finding that the Company's decision to enter into the Transaction is a prudent one; and (2) that the Commission approve its proposed ratemaking treatment of the costs and benefits of the Transaction. On July 28, 2011, the Commission issued Order 01 suspending the operation of the Tariff Filing and setting the matter for hearing.

7 The Company requested that the Commission issue an order by October 1, 2011, so that both the Oregon and Washington 2011 PGAs could include the costs and benefits of the Transaction. This timing was essential to the Company given the structure of the Transaction, the costs of which are more heavily weighted in the first few years while the more significant benefits are realized thereafter. Indeed, the Transaction's all-in cost of gas is currently above market, but is expected to compare favorably over the coming years. For this reason, to produce an equitable result for Oregon and Washington customers, the Company proposed that Washington customers begin paying for the Transaction at the same time as Oregon customers.[3] Thus, according to the Company, if the costs and benefits of the Transaction are not included in the Company's 2011

[3] *See* Exhibit No. CAM-1T 5:17 – 6:13.

Washington PGA, then it is highly unlikely they could ever be included in Washington rates without placing an unfair burden on the Company's Oregon customers, unless circumstances so warrant.[4]

8 Commission Staff have indicated to NW Natural that they question the proposed ratemaking treatment of the Transaction, and the prudence of having the Transaction in the Company's Washington portfolio, and intended to oppose the Tariff Filing.

II. DISCUSSION

9 In light of Staff's expected opposition to the Transaction and the tight timelines required for approval of the Transaction by the Commission, the Company is willing to withdraw its filing. However, because, as discussed above, the costs of the Transaction are more heavily weighted in the early years, in order to withdraw the filing, the Company requires a clear statement that the Commission will not at some later date seek to include in Washington rates, directly or indirectly, either the costs or the benefits of the Transaction, so long as all of the costs and benefits continue to be reflected in rates approved by the OPUC.

10 The parties nevertheless agree that the Company's withdrawal of this Tariff Filing should not be construed as precedent with respect to the approval of or ratemaking treatment for future transactions that are similar in nature to this Transaction.

III. CONCLUSION

11 NW Natural requests that the Commission issue an order lifting its suspension of the Tariff Filing and authorizing the Company to withdraw its Tariff Filing in this docket with the clear understanding that the costs and benefits of the Transaction will not be included in the Company's Washington rates. However, this commitment will no longer

[4] *Id.*; *see* Exhibit No. CAM-1T 5:12 – 16.

be effective in the event that all of the costs and benefits of the Transaction are no longer included in rates approved by the OPUC and the Company re-files to recover, in Washington, the costs and benefits of the Transaction.

DATED: September 23, 2011.

Respectfully Submitted,

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