

Attachments

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1327

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY,)	ORDER
dba NW NATURAL)	
)	
Application for Deferred Accounting for)	
Certain Smart Energy Program Startup Costs.)	

DISPOSITION: APPLICATION APPROVED

On June 29, 2007, in conjunction with the filing of Advice No. 07-4, the Smart Energy Program Tariff, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), filed an application with the Public Utility Commission of Oregon (Commission), for an accounting order regarding Smart Energy Program expenditures. The application was withdrawn and replaced with an amended application on July 30, 2007. On August 28, 2007, the Company filed a supplemental deferral application that modified and clarified the deferral request. The amended deferral application requests deferral of startup costs for the 12-month period starting January 1, 2008, which the company estimated as \$622,000.

NW Natural sent a clarifying letter to the Commission dated August 28, 2007. In the letter, the Company calculates the pilot program startup costs are going to be approximately \$1.2 million dollars, spread over a three-year period.

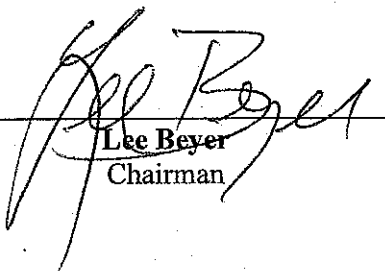
The Company's application is not seeking ratemaking treatment of these startup costs at this time; however, the tariff is being proposed with the expectation that the 2008 startup costs being deferred will be amortized to all customer classes whether they participate in the Smart Energy Program or not. The Company will absorb the 2007 startup costs. A complete description of the filing, its procedural history, and Staff's analysis are contained in the Staff Report, attached as Appendix A and incorporated by reference.

Staff feels that there is a sufficient showing of utility related benefit, and appropriate sharing of necessary costs, to recommend that the Commission approve the Smart Energy Program tariff filing and associated deferral application for the 12 months beginning January 1, 2008, for an amount not to exceed \$622,000.

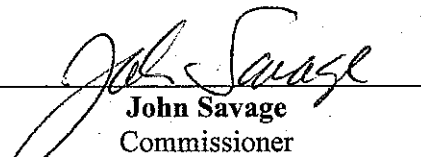
ORDER

IT IS ORDERED that the amended deferred accounting request, dated August 28, 2007, is approved for the 12 months beginning January 1, 2008, for an amount not to exceed \$622,000.

Made, entered, and effective AUG 31 2007 .



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum *RB*
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT

PUBLIC MEETING DATE: August 29, 2007

REGULAR X CONSENT _____ EFFECTIVE DATE September 1, 2007

DATE: August 28, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: ^u Lee Sparling, ^{ED} Ed Busch, and ^{JJ} Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Advice No. 07-4) Introduces Schedule 400, Smart Energy Pilot Program.

NORTHWEST NATURAL: (Docket No. UM 1327) Request for Deferred Accounting Regarding Smart Energy Program Expenditures.

STAFF RECOMMENDATION:

I recommend that the Commission allow Northwest Natural's (NW Natural or Company) Advice No. 07-4, Schedule 400, Smart Energy Pilot Program to go into effect and approve the amended application for UM 1327, the Company's request for deferred accounting for certain program expenditures for the calendar year of 2008.

DISCUSSION:

On June 29, 2007, NW Natural submitted a request to incorporate Schedule 400 into the Company's Tariff PUC. Or. 24. This Schedule describes the Smart Energy Program as a pilot program whereby residential and commercial gas customers could voluntarily offset the greenhouse gas (GHG) emissions that result from their use of natural gas. In conjunction with the tariff filing the Company filed a request for authorization to defer certain program expenditures for later amortization to all customers eligible for the Smart Energy Program. The Company's filing states that approval of the deferred accounting application request is a condition to their implementation of the Smart Energy Pilot Program.

Background

The Smart Energy Program is a voluntary pilot program proposed by NW Natural where participants elect to pay a premium each month with their gas bill which would be used

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to invest in projects that permanently offset GHG emissions. Residential customers would be offered either a fixed monthly rate option of \$6 per month or a volumetric rate option of \$0.10486 per therm to purchase the emission offsets. Commercial customers would only be offered a fixed monthly rate option with a minimum of \$10/ month. For residential customers, the premium has been calculated to be sufficient to fully offset the emissions associated with the average residential gas use based on offset costs and ongoing administrative costs as of June 29, 2007. For commercial customers, GHG offsets would be calculated as a percent of gas use based on the customers' chosen monthly premium, their historical gas use and current offset costs.

The Smart Energy premiums would be used to develop regional project based emission reductions emphasizing biogas capture. The program would accomplish this through a partnership between NW Natural and The Climate Trust, an Oregon based non-profit specializing in the purchase or development of high quality project based emission reductions.

The Company's filing states a number of benefits to the Smart Energy program. Some of those benefits include: Everyone benefits from improved air quality and lower emissions that would result from projects funded through the program. All customers would benefit from receiving educational material about GHG emissions and ways to reduce them. The program will lead to the development of a Company carbon policy and carbon reduction strategies. Both the Company's management and their customers gain knowledge and experience in carbon reduction strategies which may prove beneficial should a regional or national GHG reduction policy become law. And the Company's customer surveys indicate that some customers are interested in the Company providing this service.

In conjunction with the Smart Energy Program Tariff filing in Advice No. 07-4, the Company is requesting, in UM 1327, a deferred account to record certain Smart Energy Program startup costs that have not been included in the Smart Energy Program Tariffs. The Company filing states that startup costs will be approximately \$1.2 million spread over a three year period. A breakdown of the anticipated costs by year is as follows:

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Smart Energy Startup Cost Breakdown
Estimated Cost by Year

ITEM	2007	2008	2009
Climate Trust Startup	\$78,000	\$100,000	
Bill Inserts	\$45,000	\$47,000	\$50,000
Television	\$85,000	\$370,000	\$125,000
Print	\$10,000	\$25,000	\$23,000
Online Ads	\$40,000	\$60,000	\$60,000
Consumer Testing	\$10,000		
Website Section	\$10,000		
Media Relations	\$5,000	\$10,000	\$5,000
Promotional Items	\$5,000	\$10,000	\$5,000
Total	\$288,000	\$622,000	\$268,000

The amended deferral application requests deferral of startup costs for the twelve month period starting January 1, 2008, an amount up to \$622,000. The Company's application is not seeking ratemaking treatment of these startup costs at this time; however, the tariff is being proposed with the expectation that the 2008 startup costs being deferred will be amortized to all customer classes whether they participate in the Smart Energy Program or not. The Company will absorb the 2007 startup costs.

Staff Analysis:

NW Natural has developed an attractive product in its Smart Energy program. The partnership with The Climate Trust and the focus on regional GHG offset projects for biogas is innovative and unique to local gas distribution companies in the Northwest.

This filing was taken to the Commission's regular public meeting on August 21, 2007. At that time Staff indicated that the Company had not sufficiently demonstrated that there were utility-related benefits which would allow for startup costs to be included in general rates. Staff further recommended that these program costs be borne by the voluntary participants and backstopped if necessary, by company shareholders. No decision was reached at the public meeting and the issue was remanded back to the parties for further discussion. Since that time Staff and the Company have met once and shared information on this issue in an attempt to reach a consensus resolution to this matter.

The Company filed a supplemental deferral application dated August 28, 2007, that modified and clarified the deferral request. Additionally, NW Natural sent a clarifying letter to the Commission dated August 28, 2007. The Company persuasively argued

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that this pilot program provides knowledge and experience with carbon regulation that would reduce future compliance costs and allows the Company to search now for low cost mitigation opportunities that may no longer be available in a more fully developed compliance market. Staff agrees that these actions are likely to lower the Company's compliance costs that would be passed on to customers in the future. In addition, the Company agreed to assume a larger share of the program development costs and modified its deferred account request accordingly.

Staff now feels that there is a sufficient showing of utility related benefit and appropriate sharing of costs necessary to recommend that the Commission approve the Smart Energy Program tariff filing and associated deferral application for the 12 months beginning January 1, 2008, for an amount not to exceed \$622,000.

PROPOSED COMMISSION MOTION:

NW Natural's Advice No. 07-4, Smart Energy pilot program, be approved effective September 1, 2007, and that the amended deferred accounting request in Docket No. UM 1327, dated August 28, 2007, be approved for the twelve months beginning January 1, 2008, for an amount not to exceed \$622,000.

NWN Advice 07-4/ UM 1327

ITEM NO. 1 & 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 21, 2007

REGULAR CONSENT EFFECTIVE DATE September 1, 2007

DATE: August 15, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch, Bonnie Tatom and Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Advice No. 07-4) Introduces Schedule 400, Smart Energy Pilot Program.

NORTHWEST NATURAL: (Docket No. UM 1327) Request for Deferred Accounting Regarding Smart Energy Program Expenditures.

STAFF RECOMMENDATION:

I recommend that the Commission suspend Northwest Natural's (NW Natural or Company) Advice No. 07-4, Schedule 400, Smart Energy Pilot Program for investigation and take no action on UM 1327, the Company's request for deferred accounting for program expenditures, pending the outcome of the investigation.

DISCUSSION:

On June 29, 2007, NW Natural submitted a request to incorporate Schedule 400 into the Company's Tariff PUC. Or. 24. This Schedule describes the Smart Energy Program as a pilot program whereby residential and commercial gas customers could voluntarily offset the greenhouse gas (GHG) emissions that result from their use of natural gas.

Under the Smart Energy Program, participants elect to pay a premium each month which would be used to pay for the cost of developing projects that permanently offset GHG emissions. Residential customers could choose either a fixed monthly rate option of \$6 per month or a volumetric rate option of \$0.10486 per therm to purchase the emission offsets. In either case, the premium specified in the tariff has been calculated to be sufficient to fully offset the emissions associated with the average residential gas use based on offset costs and ongoing administrative costs as of June 29, 2007. Commercial customers would only be offered a fixed monthly rate option with a

minimum of \$10/ month. In this case, NW Natural would calculate the amount of GHG reductions a commercial customer makes based on the customer's historical gas use, the current cost of emission reductions and the amount per month they elected to pay into the program.

The company states that the GHG reductions would be through regional projects that would emphasize bringing biogas capture, either agricultural methane or landfill methane, to the region and would be accomplished through a partnership with The Climate Trust. The Climate Trust is an Oregon non-profit organization whose objective is to purchase or develop high quality project-based emission reductions. The Climate Trust would use the Smart Energy premiums, collected from the program participants, to either develop or purchase GHG offsets.

The Company's filing states that the Smart Energy program provides a number of benefits to NW Natural customers whether or not they enroll in the voluntary program. These benefits include: 1) environmental benefits from eliminating GHG emissions that accrue to all; 2) an understanding on the part of its customers, of carbon impacts and ways to reduce them; 3) development of carbon policy and company carbon strategies; and 4) access to a greater array of programs.

In conjunction with Advice No. 07-4, the Smart Energy Program Tariff, the company is requesting, in UM 1327, a deferred account to record Smart Energy Program startup costs. The company calculates the pilot program startup costs are going to be approximately \$1.2 million dollars spent over the first three years of the program. Although NW Natural has committed to paying 10% or \$130,000 of the startup costs, the application requests to defer the additional \$1.048 million spread over the first three years of the five-year pilot. The company states that it is holding the startup costs out of the general program costs because including them would raise the price of the offsets and reduce participation. The company's application is not seeking ratemaking treatment of these startup costs at this time; however, the tariff is being proposed contingent on startup costs being deferred for future amortization to all customer classes whether they participate in the Smart Energy Program or not, with the justification being that all customers benefit in some way as discussed above.

Staff Analysis:

NW Natural has developed an attractive product in its Smart Energy program. It is offering this program through a partnership with the Climate Trust and is focusing on development of GHG offset projects that help bring biogas to the region. Staff supports the concept of the Smart Energy Program. However, the company has thus far failed to demonstrate that their startup costs should be spread to all customers, including those who do not want to participate in the voluntary program.

Staff'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. Although the legislature has granted the Commission specific authority for similar programs through a few specific statutes--such as tree planting and portfolio options (under SB 1149)--that specific authority has not been granted for the type of program the company is proposing in Advice No. 07-4. Alternatively, the Commission has general authority under ORS 756.040 to authorize cost recovery for the purpose of establishing adequate service at just and reasonable rates.

By letter dated August 9, 2007, in response to Staff Data Request 6, NW Natural stated that "the Commission is authorized to impose on utility customers costs that are designed to avoid—or mitigate—internalization of external environmental costs." Accordingly, the company asserts that the startup costs of the Smart Energy program should be recoverable from all customers for two reasons: first, because all customers benefit from the education about climate change and the need to reduce GHG emissions; and second, because the program will contribute to its management's and Staff's education and preparedness for future CO₂ emissions reductions mandates, thus reducing future compliance costs that would otherwise be spread to all NWN customers.

Staff agrees the Commission can authorize a resource that appears to be more expensive on the basis that it will avoid environmental costs if they are internalized in the future—for example, renewable resources in lieu of fossil fueled resources. In this instance, Staff does not believe the company has demonstrated how the effects of the Smart Energy program will reduce NW Natural's CO₂ costs in the future that would otherwise be passed on to customers. Customer education regarding carbon impacts, though useful from a societal perspective, will not create a benefit related to utility service or rates. Staff also finds the company's general claim, that the program will improve its internal education and preparedness and eventually result in lower compliance costs, to be highly speculative, at best. While the company has estimated that each customer would only have to pay a total of \$1.30 to cover startup costs for the pilot program, it is not possible to determine the level of GHG reduction this would produce nor the relationship of this known cost to future unknown costs related to the reduction of GHGs, should that become mandatory.

In short, 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. Because the company has made implementation of the Smart Energy Program tariff contingent on approving a deferred account for the startup costs and requiring that those costs be spread to all customers, Staff has no alternative but to

request the Commission suspend the tariff filing for up to six months for investigation, or until such time as parties can resolve the matter of program startup cost allocation.

However, if the Commission finds that there is some benefit to non-participating customers, Staff recommends a limit on authorized deferrals under the company's deferred accounting application. This application requests deferral of virtually all startup costs, estimated at \$1.048 million over three years, with approximately \$445,000 during the first 12 months. Staff's review of similar programs (such as electric portfolio options under ORS 757.603) indicates that "education" costs typically have been spread to all eligible customers, but "marketing" expense has been borne by program participants. If the Commission approves NW Natural's application, Staff recommends the Commission treat the first year of the startup costs as education costs that can be spread to all eligible customers and therefore limit the amount of the authorized deferral to \$445,000.

PROPOSED COMMISSION MOTION:

NW Natural's Advice No. 07-4, Smart Energy pilot program, be suspended effective September 1, 2007, and that no action be taken on the deferred accounting request in Docket No. UM 1327, until such time as the issues surrounding the allocation of startup costs are resolved.