

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 21, 2004**

REGULAR **CONSENT** **EFFECTIVE DATE** January 1, 2005

DATE: December 15, 2004

TO: Lee Sparling

FROM: Jack Breen through Ed Busch

SUBJECT: NORTHWEST NATURAL: (Advice No. 04-17) Adds a rider to Schedules 31, 32, and 60 that recognizes load factor improvements for service to customers that use natural gas to fuel combined heat and power equipment.

STAFF RECOMMENDATION:

I recommend that the Commission allow the tariff sheets filed in Advice No. 04-17 to go into effect with service on or after January 1, 2005, with less than statutory notice.

DISCUSSION:

On November 3, 2004, NW Natural (NWN or company) filed Advice No. 04-17 to add riders to Schedules 31, 32, and 60 that recognize load factor improvements for service to customers that use natural gas to fuel combined heat and power (CHP) equipment. These riders are designated as Schedules 31-CHP, 32-CHP, and 60-CHP (riders). On November 19, 2004, the company extended the effective date to January 1, 2005. On December 6, December 14, and December 15, 2004, the company filed replacement sheets with a request to allow the sheets to go into effect with less than statutory notice. On December 14, 2004, the company also withdrew Sheet 60-CHP due to uncertainties regarding the relationship between the rider and special contracts. The riders are designed to encourage development of CHP systems, which the company defines as "the simultaneous production of power and the useful integration of waste heat recovery from that production of power at a customer's site."

To be eligible for these riders, customers must be taking service from the underlying schedule and install natural gas-fired CHP equipment up to 25 MW between January 1, 2005, and December 31, 2009. Systems must meet or exceed the efficiency requirements for the state Business Energy Tax Credit.

For firm service customers, the riders provide a credit of 2.7 cents per therm to qualifying customers for gas purchased to fuel the CHP equipment. The riders would not provide a credit for interruptible service customers because low rates limit the opportunity to offer such an incentive. Instead, interruptible customers would receive billing services that facilitate third party participation in the project. Projects at hospitals and universities, for example, may be unable to take advantage of depreciation and tax credit benefits without third party involvement. NW Natural would allow volumes to be billed to the third party as though they were added loads on the customer's primary rate schedule. Therefore, the CHP loads billed to the third party would be eligible for the lower, tail block rate.

The customer would receive the credits or billing services for five years. The credits for firm service customers are designed so that the marginal costs and revenues are approximately equal over the five-year period. In essence, the company and other customers are neutral toward the riders. After five years, participating customers will pay margins on these gas purchases. The company's additional billing costs for the interruptible customers are offset by the company's receipt of margins associated with the purchase of additional gas to fuel the CHP system.

In its filing, the company points out some of the benefits:

Delivered efficiencies ... for remote Combined Cycle Combustion Turbines (CCCT's) are in the neighborhood of 45% while overall efficiencies of CHP plants on site can be as high as 85%. The increase in overall efficiency is due to the utilization of the waste heat on site

If located where the electrical grid is constrained, CHP systems can cut electric utility costs by delaying, reducing or eliminating the need for investments in distribution and transmission facilities. CHP systems also can improve the reliability of the utility system by adding generating capacity; freeing up the utility's own generating resources or contracted supplies; freeing up distribution system capacity; reducing congestion on the transmission system, thus improving the reliability of supply into the service area; and providing backup power to support utility maintenance and restoration operations. Electric power system benefits have not been recognized in the development of this proposed tariff rider.

Among the activities the Commission is undertaking, in support of its objective to establish regulatory incentives and policies to promote least-cost energy resource development, is removing barriers to the use of distributed generation. NW Natural's proposed tariff supports this objective.

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Staff has reviewed the tariff language and rates, and finds them acceptable. The tariff defines the class of customers that are eligible for the tariff and the riders are available to all similarly situated customers.

PROPOSED COMMISSION MOTION:

Tariff sheets filed in Advice No. 04-17 be allowed to go into effect with service on or after January 1, 2005, with less than statutory notice.