

On August 16, 2004, the Commission modified WARM in Order No. 04-463. Specifically, in that Order the Commission made changes to the program that would control or cap the amount by which the WARM could increase customer bills in both absolute and percentage terms and that would minimize the effect of a customer's usage on the WARM adjustment for others. WARM was further modified to address problems with cross-subsidization and cross-customer impacts.

On September 12, 2002, the Commission entered Order No. 02-634 in Docket No. UG 143, adopting a stipulation that authorized NW Natural to implement DMN. Under the terms of the stipulation, the partial decoupling mechanism would terminate on September 30, 2005, unless extended by the Commission. The Stipulation further provided that by March 31, 2005, NWN would submit the results of an independent study regarding the partial decoupling mechanism's effectiveness and would ask the Commission to open an investigation to consider whether the partial decoupling mechanism should be continued.

On August 25, 2005, the Commission extended the DMN tariff for four years, so that it could be evaluated alongside WARM. Further, the parties stated that having the DMN tariff in effect one year longer than WARM will "ensure that any delay in analyzing and potentially extending WARM will not affect DMN. DMN is currently scheduled to expire on September 30, 2009.

Despite the staggered expiration dates, the Parties now believe it is efficient to consider WARM and DMN concurrently. Because the mechanisms interact, and the issues that may be discussed with regard to each are likely to overlap, concurrent examination of the two mechanisms would be a more efficient use of the Parties' time. In addition, the Parties agree that it would be helpful to have several years of data on the functioning of WARM, so it can be more fully considered in the future.

Beginning May 31, 2007, NW Natural, the Staff of the Public Utility Commission of Oregon, the Citizens' Utility Board of Oregon, the Northwest Industrial Gas Users, the Northwest Energy Coalition, the Community Action Partnership of Oregon, the Oregon Energy Coordinators Association, and the Oregon Department of Energy (collectively, the "Parties") held discussions and ultimately agreed on a stipulation that extends both DMN and WARM until October 31, 2012. No operational changes were made to either DMN or WARM. NWN filed this stipulation on August 28, 2007.

On September 12, 2007, NWN filed an explanatory brief and requested the Commission consider adoption of the Stipulation at the Commission's September 20, 2007, Public Meeting. NWN notes that adoption of the Stipulation would ensure continuous authorization for WARM.

The Stipulation

The Stipulation reached among the Parties contains several provisions including a rate case moratorium, a force majeure clause, off ramps related to NW Natural's Integrity Management Program and Advanced Meter Reading program, an agreement to provide information and respond to discovery requests, and finally, an extension to both WARM and DMN.

The Stipulation will allow parties to create their own recommendations regarding both DMN and WARM because of a reporting requirement that requires that NW Natural provide the Parties with a factual report on the functioning of WARM. The report will include the following data for the prior WARM year (*i.e.*, for the November 30, 2007 report, data from December 1, 2006, to May 15, 2007): actual Heating Degree Day differences experienced; charges or credits actually charged by month and total across heating seasons or years in which the mechanism was in place; what percent of bills they were and actual amounts outside the limits that were deferred; and other factors related to WARM, such as number of opt-outs, customer calls, at-fault complaints, and billing issues by heating season or year; total charge or credit recorded by month for each heating season and year of the program; and financial impact, for example in earnings per share or return on equity.

The Stipulation (absent the signatory page) is attached as Appendix A to this memo.

PROPOSED COMMISSION MOTION:

Northwest Natural Gas' application to extend the term of the weather-adjusted rate mechanism and distribution margin normalization mechanism, and establish an annual reporting requirement on WARM, be approved.

Appendix A

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 163/UG 152

In the Matter of

NORTHWEST NATURAL

Extending the Term of Weather-Adjusted Rate Mechanism (WARM) and Distribution Margin Normalization (DMN).

STIPULATION

This Stipulation is entered into for the purpose of extending the terms of Northwest Natural Gas Company's ("NW Natural") weather-adjusted rate mechanism ("WARM") and distribution margin normalization ("DMN") mechanism, and establishing an annual reporting requirement on WARM.

PARTIES

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon, the Citizens' Utility Board of Oregon, the Northwest Industrial Gas Users, the Northwest Energy Coalition, the Community Action Directors of Oregon, the Oregon Energy Coordinators Association, and the Oregon Department of Energy (collectively, the "Parties").

BACKGROUND

2. Per the WARM Stipulation adopted in Order 03-507, NW Natural's WARM program will expire September 30, 2008.

3. Per the DMN Stipulation adopted in Order No. 05-934, the DMN tariff will expire on September 30, 2009.

4. According to Order 05-934, the Parties' intent in staggering the expiration dates of these two programs was to ensure that "any delay in analyzing and potentially extending WARM [did] not impact DMN." Order 03-934 at 2.

5. Despite the staggered expiration dates, the Parties now believe it is efficient to consider WARM and DMN concurrently. Because the mechanisms interact, and the issues that may be discussed with regard to each are likely to overlap, concurrent examination of the two mechanisms would be a more efficient use of the Parties' time.

6. In addition, the Parties agree that it would be helpful to have several years of annual data on the functioning of WARM, so it can be more fully considered in the future.

AGREEMENT

7. WARM

a. The Parties agree that NW Natural will continue to implement WARM as currently described in Schedule 195 and further described in the WARM Stipulation, except as provided in this Stipulation.

b. **Extension of Term:** The Parties agree to extend the term of WARM through October 31, 2012.

c. **Reports:** Beginning November 30, 2007, and annually thereafter until November 2011, NW Natural will provide the Parties with a factual report on the functioning of WARM. The report will include the following data for the prior WARM year (*i.e.*, for the November 30, 2007 report, data from December 1, 2006 to May 15, 2007): actual Heating Degree Day differences experienced; charges or credits actually charged by month and total across heating seasons or years in which the mechanism was in place; what percent of bills they were and actual amounts outside the limits that were deferred; and other factors related to WARM, such as number of opt-outs, customer calls, at-fault complaints, and billing issues by heating season or year; total charge or credit recorded by month for each heating season and year of the program; and financial impact, for example in earnings per share or return on equity. NW Natural agrees to respond to Parties' data requests regarding the report and underlying data within a reasonable time.

8. DMN

a. The Parties agree that NW Natural will continue to implement DMN as currently described in Schedule 190 and further described in the DMN Stipulation, except as provided in this Stipulation.

b. **Extension of Term:** The Parties agree to extend the term of DMN through October 31, 2012.

9. **Rate Case Moratorium**

NW Natural agrees not to file a general rate case prior to September 1, 2011, subject to the following exceptions:

a. **Integrity Management Program (IMP):** NW Natural intends to request that IMP costs continue to be treated as capital expenditures to be recovered on an annual basis after the program expires in 2009. If the Parties do not support NW Natural's request and the Parties cannot agree on an alternative form of recovery, or the Commission does not approve recovery of prudent costs pursuant to NW Natural's request, NW Natural may file a general rate case.

b. **Advanced Meter Reading:** If Portland General Electric (PGE) receives Commission approval of its automated metering infrastructure tariff (Docket UE 189) or otherwise notifies NW Natural that it is terminating the agreement governing the PGE & NW Natural joint meter reading territory (JMR), NW Natural intends to implement automated meter reading ("AMR") in the territory currently covered by the JMR agreement. If the Parties do not support a request by NW Natural for the opportunity to recover the capital costs for its AMR project on an annual basis and the Parties cannot agree on an alternative form of recovery, or the Commission does not approve recovery of prudent costs pursuant to NW Natural's request, NW Natural may file a general rate case.

c. **Extraordinary Events:** The Parties and NW Natural understand and agree that there may be an extraordinary event or series of events that would lead NW Natural and the Parties to determine that a general rate case may be filed prior to September 1, 2011. Extraordinary events in this stipulation are items that do not lend themselves to other regulatory mechanisms, such as a deferral, and are expected to have significant negative impact on NW Natural's on-going, normalized regulated earnings.

In the case of such an event, NW Natural will work in good faith with the Parties before taking any action before the Commission. If NW Natural and the other Parties agree that the event constitutes an extraordinary event as defined in this stipulation, NW Natural may file a general rate case. If consensus cannot be reached, NW Natural may request that the Commission make a determination as to whether the event constitutes an extraordinary event as defined in this Stipulation. In such filing, NW Natural will have the burden of showing that it faces an extraordinary event as defined in this stipulation.

10. The parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

11. By entering into this Stipulation, no party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

12. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each party on the date entered below such party's signature.