

**Rates and Regulatory Affairs
Integrated Resource Planning
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July 21, 2005

Public Utility Commission of Oregon
550 Capitol Street N.E., Suite 215
Post Office Box 4128
Salem, Oregon 97308-2148

Attention: Vikie Bailey-Goggins, Administrator
Regulatory Operations Division

Re: LC 37/NW NATURAL LETTER OF ACCEPTANCE ON
PROPOSED ORDER ACKNOWLEDGING PLAN

Northwest Natural Gas Company, dba NW Natural (NW Natural or company), received OPUC Staff's draft recommendations and proposed order acknowledging, with modifications and recommendations, the company's 2004 Integrated Resource (Least Cost) Plan. The company accepts Staff's proposed conditions of acknowledgement set forth in the proposed order.

While the procedural schedule only calls for the submission of comments on the proposed order at this time, the company feels comfortable with going one step further and accepting the proposed recommendations now. If other parties have comments leading to modification of the proposed order and draft staff memo, NW Natural will reconsider its acceptance.

Staff's recommendations identify areas of effort and solidify a common understanding of expectations for the company's next Integrated Resource Plan.

This, the company's fifth Plan, continues to identify the development of underground storage as the least cost means of serving growing loads in a reliable manner. Over the past 16 years, the IRP process has become an integral part of NW Natural's planning, assuring consistency between strategic, operational, and financial planning.

The following recitation of Staff's recommendations and one response by the company on Staff's first recommendation is intended to reiterate our mutual understanding of the Commission's acknowledgment conditions.

Commission Staff Comments and Recommendations

1. "NW Natural must add an action plan item to its Multi-Year Action Plan which states, 'By October 1, 2005, NW Natural will submit a schedule for meeting with Staff over the next 18 months to discuss its critical decision/action points on gas commodity purchasing, including its financial hedging guidelines and strategies; transportation; storage; and distribution system planning.' "

Company Response to Staff's First Recommendation:

The company regards this recommendation as somewhat misplaced insofar as it deals with concerns typically addressed in annual Purchased Gas Cost Adjustment filings that are submitted in August of each year. In the annual PGA cycle, yearly changes in gas procurement strategies can be discussed with a possible annual procurement strategy presentation submitted at or near year-end, prior to the commencement of gas purchasing activity during the first two quarters of each year. The company will probably say more about this in its UM 1056 comments on September 9, 2005. Nevertheless the company will plan on following Staff's recommendation for an 18 month period of meetings and consultations during its next IRP planning cycle.

"We also recommend the Commission direct NW Natural to take the following steps, as detailed below, in performing its various resource planning activities in the next two years leading up to the filing of its next IRP:

2. For its next IRP, NW Natural must prepare a more detailed analysis and description of all the available supply options (facilities and commodity) to provide natural gas service to all segments of system needs.
3. NW Natural must expand the discussion of how its facilities planning (for the movement and delivery of natural gas) and commodity acquisition planning (the purchase of natural gas supply) are integrated in its next IRP.
4. NW Natural must augment the discussion of its competitive bidding practices (particularly for commodity) in its next IRP.
5. NW Natural's next IRP must include a full assessment of cost-effective DSM potential in its service territory over the 20-year planning period. The plan should also evaluate whether the public purpose charges for energy efficiency and low-income energy efficiency programs are set at reasonable levels or should be modified."

Publish Erratum to 2004 Plan

Within 30 days of Plan acknowledgment, NW Natural will publish an erratum to its 2004 Integrated Resource Plan that incorporates the changes discussed above and any other corrections identified in the Final Plan review process.

We will be happy to answer any questions the Commission might have at the acknowledgment meeting scheduled for August 16, 2005. In the meantime, please direct questions to me at 503.226.4211, extension 3581 (or, john.hanson@nwnatural.com).

Sincerely,

NW Natural

/s/ John A. Hanson

John A. Hanson, Director
Integrated Resource Planning

JAH/kcm

cc: Bonnie Tatom, OPUC
Lynn Kittilson, OPUC
Ken Zimmerman, OPUC
Philip Carver, OOE
Yohannes Mariam, WUTC
LC 37 Service List