

Rates and Regulatory Affairs
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September 9, 2008

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street, N.E., Suite 215
P.O. Box 2148
Salem, Oregon 97308-2148

Attn: Filing Center

Re: **LC 45 – NW Natural’s Reply Comments**

Attached are NW Natural’s Reply Comments in Docket LC 45.

Please call Jennifer Gross at (503) 226-4211, ext. 3590, if you have any questions.

Sincerely,

/s/ Inara K. Scott

Inara K. Scott
Manager, Rates and Regulatory Affairs

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 45

In the Matter of

NORTHWEST NATURAL GAS
COMPANY DBA NW NATURAL

2008 Integrated Resource Plan

**NORTHWEST NATURAL'S REPLY
COMMENTS**

INTRODUCTION

On September 4, 2008, Northwest Pipeline (Northwest) submitted its second set of Comments in this docket.¹ In response, NW Natural provides the following Reply Comments.

COMMENTS

In its Comments, Northwest stated, "Because Northwest will have the opportunity in the future to comment on changes to the Palomar Precedent Agreements and on the annual update or changes to the 2008 IRP, Northwest does not at this juncture object to acknowledgement of NW Natural's plan." Comments at 3. However, Northwest Pipeline suggested that the Palomar East project as proposed was "questionable" and therefore, NW Natural's selection of the Preferred Portfolio may be "unrealistic," and therefore may not meet Commission requirements. Comments at 3, 2.

¹ Northwest Pipeline submitted a series of data requests, which it titled "Comments," on July 7, 2008. NW Natural responded to those previously filed Comments in a Reply, which it filed on July 17, 2008.

1 – NW NATURAL'S REPLY COMMENTS

NW Natural believes the Palomar project has a reasonable chance of being built, or it would not have committed to the Precedent Agreement. However, by selecting the Preferred Portfolio, NW Natural has not committed the Company to an uncertain outcome. If Palomar East is not constructed, the Company will simply not turn back the capacity it currently holds on Northwest's system, and will likely maintain a portfolio of resources as called for in the "No Palomar" scenario.² Because the "No Palomar" scenario calls for the same near-term resource additions called for in the Preferred Portfolio – i.e., Mist Recall, the Willamette Valley Feeder, Newport LNG Enhancement, and the possibility of satellite LNG in Eugene – the Company can pursue the Preferred Portfolio at this time without additional risk to the utility or its customers. Alternatively, to choose the "No Palomar" scenario over the Preferred Portfolio would be to forgo the opportunity to provide a benefit to customers (in the form of increased reliability and lower costs on a NPVRR basis) for no objective reason other than a generalized fear that the project may not be built. This would clearly not meet Commission guidelines and would not be in the best interest of NW Natural or its customers.

² If NW Natural learns that the Palomar East project will not go forward, it will update this Plan as required under applicable Commission rule or guideline. Such update will incorporate the latest demand projections, and any new resource options (such as a new pipeline from the Rockies) available to the Company. The preferred portfolio of resources that emerges ultimately may or may not be identical to the "No Palomar" option presented in this 2008 IRP.

2 – NW NATURAL'S REPLY COMMENTS

CONCLUSION

While NW Natural appreciates Northwest's interest in this docket, it believes Northwest's concerns with regard to the certainty of the Palomar East project in no way undermine NW Natural's selection of its Preferred Portfolio. NW Natural continues to believe the Preferred Portfolio represents "the best combination of expected costs and associated risks and uncertainties for the utility and its customers."³

Respectfully submitted,

NW NATURAL

/s/ Inara K. Scott

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³ Guideline 1(c), Order No. 07-002, at 5.

3 – NW NATURAL'S REPLY COMMENTS