

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 45

In the Matter of)	
)	
NORTHWEST NATURAL GAS)	NORTHWEST PIPELINE GP's
COMPANY, dba NW NATURAL)	COMMENTS
)	
2008 Integrated Resource Plan)	
)	

On April 14, 2008, NW Natural filed its 2008 Integrated Resource Plan ("IRP") with the Public Utility Commission of Oregon ("Commission"). Since that time, Northwest Pipeline GP ("Northwest") has submitted a series of data requests to NW Natural to learn more about the IRP and to undertake its own evaluation and analysis of the IRP. Based on the information Northwest has received and its own analysis, Northwest provides the following comments on the IRP.

1. The Viability of the Palomar East Project is Uncertain

NW Natural's responses to Northwest's second set of questions of August 6, 2008 contain a General Objection No. 1, stating that its "hard rate cap" makes Northwest's questions related to the cost of building Palomar East "not reasonably calculated to lead to admissible evidence," in other words, not relevant. The reason Northwest asked the questions was to more clearly understand the costs to build Palomar East and to ascertain whether, given these costs and NW Natural's negotiated rate, the project is viable.

Based on Northwest's estimates of the project construction costs, the "hard rate cap" NW Natural negotiated with Palomar East for NW Natural's 100 MDth/d of capacity is below cost. This below-cost rate places significant risk on the project

sponsor. Further, as NW Natural notes, Federal Energy Regulatory Commission (FERC) regulations require that similarly situated shippers would have the right to choose the same negotiated rate. Having additional shippers at this rate would place additional risk on the project sponsor.

In responses to data requests, NW Natural estimates the Palomar East rate to be \$.20 at a subscription of 1 Bcf/d. However, in its assumptions, NW Natural assumes that Palomar East is only constructed to transport 200 MDth/d.¹ All else being equal, the recourse rate at a 200 MDth/d subscription level would be approximately \$1.00. Even if Palomar East were downsized to a 30-inch diameter pipeline (as suggested by NW Natural in its July 17 response to Northwest's data request 1), Northwest believes that a cost-based recourse rate for 200 MDth/d of capacity would substantially exceed the rate cap negotiated by NW Natural. If all or a significant portion of shippers were paying a rate far below the recourse rate, one of two things would happen: 1) the project would not be built because the return on investment would simply be too low; or 2) NW Natural's negotiated rate would have to be renegotiated.

2. The Selection of the Palomar 100 Scenario as the Preferred Scenario May Not Meet Commission Requirements

In Order No. 07-002 entered on January 1, 2007, the Commission adopted the Integrated Resource Planning (IRP) guidelines first announced in 1989 in Order No. 89-507. Among those, Guideline 1 (c) states: "The primary goal [of an IRP] must be the selection of a portfolio of resources with the best combination of expected costs and associated risks and uncertainties for the utility and its customers."² The viability of the

¹ NW Natural's 2008 Integrated Resource Plan, p. 3-21.

² Commission Order No. 07-002, p. 5.

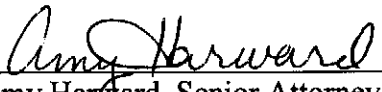
Palomar East project as currently proposed is questionable, therefore, NW Natural's reliance on such project may be unrealistic.

3. Conclusion

In Commission Order No. 08-107, issued in Docket No. UI 276, approving NW Natural's two Precedent Agreements with Palomar Gas Transmission, the Commission made its approval subject to the conditions recommended by the Staff in Appendix A to the Order. One of these conditions was that NW Natural "shall notify the Commission of any substantive changes to the contracts, including any material change in price. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket."³

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. As the costs of Palomar East are refined, both Northwest and the Commission will be better positioned to evaluate its viability and the reasonableness of the Palomar 100 Preferred Portfolio and whether the Palomar 100 Preferred Portfolio "is the best combination of expected costs and associated risks."

Respectfully submitted this 4th day of September, 2008.



Amy Harward, Senior Attorney
Northwest Pipeline GP

³ Staff Recommendation No. 3, Appendix A to Order No. 08-107, p. 1.

CERTIFICATE OF SERVICE

I certify that I have on this day served the foregoing document upon all parties of record in this proceeding via electronic mail and/or U.S. mail.

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DATED this 4th day of September, 2008.



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