

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

LC 51

In the Matter of)
)
)
NORTHWEST NATURAL GAS)
COMPANY, dba NW NATURAL)
)
2011 Integrated Resource Plan)
_____)

**COMMENTS OF THE
CITIZENS' UTILITY BOARD OF OREGON ON NW NATURAL'S
REVISED 2011 INTEGRATED RESOURCE PLAN**

November 14, 2011



**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 51

In the Matter of)	
)	COMMENTS OF THE CITIZENS'
)	UTILITY BOARD OF OREGON ON
NORTHWEST NATURAL GAS)	NW NATURAL'S REVISED 2011
COMPANY, dba NW NATURAL)	INTEGRATED RESOURCE PLAN
)	
2011 Integrated Resource Plan)	
<hr/>		

I. Introduction

CUB appreciates the opportunity to comment on NW Natural's Integrated Resource Plan (IRP). NW Natural's IRP is quite extensive and goes beyond what most gas companies across the country are required to analyze. CUB is concerned, however, that the IRP is missing two important pieces of analysis. First, the issues surrounding the export of LNG and the effects that such exportation may have on price and volatility are not analyzed. Second, while the IRP has extensive analysis of demand-side management (DSM) activities, there is no discussion or analysis of how NW Natural's proposal for fixed/variable pricing methodology will affect DSM. CUB respectfully recommends that the Commission find that both of these issues must be fully and completely investigated before the Commission may acknowledge this IRP.

II. The Missing Pieces

A. LNG Export

NW Natural's IRP references potential LNG export projects in Coos Bay and British Columbia,¹ but includes no discussion or analysis of the effect of LNG export on prices and volatility. This can be contrasted with LC 45, in which NW Natural included the effects of LNG imports in its modeling of gas supply:

Imported LNG - The Company is evaluating the impact of two LNG import terminals proposed to be sited in Oregon. The Bradwood Landing terminal would have an estimated average production capacity of 1.0 Bcf per day and has proposed a 35-mile export pipeline to Northwest Pipeline in addition to the proposed interconnect with the Palomar pipeline. The Jordan Cove terminal is also sized at 1.0 Bcf/day and would connect to the proposed Pacific Connector Gas Pipeline. Although neither Bradwood nor Jordan Cove has been constructed, for analysis purposes, NW Natural is including them in its modeling.²

While NW Natural was quick to analyze the benefits of importing LNG, it has so far failed to analyze the risks of exporting LNG. There is an increasing chance that LNG export may soon become a reality, as the operator of the potential Jordan Cove LNG terminal near Coos Bay, Oregon, recently applied to operate an export facility.³ In a Federal DOE proceeding concerning a LNG export permit in the Gulf of Mexico, the American Public Gas Association raised concerns about the effect of LNG export on consumer prices:

Sabine Pass overstates the ability of U.S. exports to transform global markets. The amount of natural gas proposed to be exported from the U.S., while significant on the domestic scale, would be a proverbial "drop in the bucket" compared to global natural gas consumption. Since international markets are often less liquid, less transparent and less competitive, divided

¹ See NW Natural 2011 Modified Integrated Resource Plan at 3.20.

² LC 45, NW Natural, Executive Summary, page 10.

³ "Jordan Cove floats Oregon LNG export plan with US FERC." *Platts*, September 23, 2011. <http://www.platts.com/RSSFeedDetailedNews/RSSFeed/NaturalGas/6519626>.

by national boundaries, and natural gas commodity price [sic] are often indexed to crude oil, it seems far more likely that exporting natural gas from the United States would tie domestic commodity prices to international fluctuations rather than tame international fluctuations.⁴

There is a great deal of concern about how LNG export would affect the price of gas and the volatility of that price on a regional and national basis, or how LNG export would affect pipeline capacity. While it is too early to know whether and when LNG export will become an option for western gas producers, it is not too early to begin analyzing the consequences and determining how a gas utility should respond to those consequences. For example, if NW Natural's analysis showed that LNG export would increase price and volatility, it might lead to a conclusion that more long-term hedging is in customers' interest. CUB respectfully requests that the Commission require NW Natural to conduct a thorough analysis of the effects of LNG export on the Company's long-term gas price curve.

B. Fixed –Variable Pricing

NW Natural stated in workshops for its upcoming rate case that it intends to propose a fixed/variable pricing methodology where most fixed costs are recovered with a high fixed customer charge and only variable costs are supported with volumetric charges to customers. While CUB encourages NW Natural to reconsider this position before filing the rate case, if the Company is serious, it must analyze the effect of this change on its DSM goals. CUB suspects that this change in pricing methodology would significantly affect the customer incentive to conserve and participate in energy efficiency programs. While NW Natural discusses the price elasticity of demand for

⁴ DOE/FE ORDER NO. 2961, May 20, 2011, page 21

various customer groups in its IRP,⁵ it fails to discuss the effect of rate design on demand and whether a fixed/variable pricing model will affect the DSM goals. If the goals in the IRP assume a particular rate design, and NW Natural has decided to propose a different rate design that reduces the incentive to conserve, then it is necessary for the effects of that rate design on DSM goals to be analyzed in this IRP.

Furthermore, the larger fixed monthly cost in the proposed pricing methodology may be a deterrent for customers who would otherwise have invested in a natural gas home heating system. This is because, while the total annual cost to NW Natural's average residential customer will not change much under the plan, the idea of paying for winter heating in all twelve months of the year likely will not sit well with some customers, causing them to seek alternative heating sources. This fuel switching will likely cause NW Natural's total demand to drop. The potential drop in demand needs to be studied and incorporated into the Company's elasticity estimates. CUB respectfully requests that the Commission require NW Natural to conduct this study before the Commission considers acknowledgment of this IRP.

III. Conclusion

CUB respectfully requests that the Commission require NW Natural to conduct a thorough analysis of the effects of LNG export on the Company's long-term gas price curve before the Commission will consider acknowledgment of this IRP. CUB also requests that the Commission require NW Natural to study the effect of the Company's proposed fixed/variable pricing methodology on its demand elasticity estimates before the Commission considers acknowledgment of this IRP.

⁵ NW Natural 2011 IRP, page 2.12.

Respectfully Submitted,
November 14, 2011

A handwritten signature in black ink, appearing to read 'Gordon Feighner', with a long horizontal line extending to the right.

Gordon Feighner
Utility Analyst
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 400
Portland, OR 97205
gordon@oregoncub.org

LC 51 – CERTIFICATE OF SERVICE

I hereby certify that, on this 14th day of November, 2011, I served the foregoing **COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON ON NW NATURAL'S REVISED 2011 INTEGRATED RESOURCE PLAN** in docket LC 51 upon each party listed in the LC 51 OPUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and five copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

**W CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD
TOMMY A BROOKS
1001 SW FIFTH AVE, STE 2000
PORTLAND OR 97204-1136
tbrooks@cablehuston.com**

**W CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD
CHAD M STOKES
1001 SW 5TH - STE 2000
PORTLAND OR 97204-1136
cstokes@cablehuston.com**

**W NW INDUSTRIAL GAS USERS
PAULA E PYRON
4113 WOLF BERRY CT
LAKE OSWEGO OR 97035-1827
ppyron@nwigu.org**

**W NORTHWEST NATURAL
JENNIFER GROSS
220 NW 2ND AVENUE
PORTLAND OR 97209
jennifer.gross@nwnatural.com**

**W NORTHWEST NATURAL
MARK R THOMPSON
220 NW 2ND AVE
PORTLAND OR 97209
mark.thompson@nwnatural.com**

**W NORTHWEST PIPELINE GP
JANE HARRISON
295 CHIPETA WAY
SALT LAKE CITY UT 84108
jane.f.harrison@williams.com**

**W NORTHWEST PIPELINE GP
STEWART MERRICK
295 CHIPETA WAY
SALT LAKE CITY UT 84108
stewart.merrick@williams.com**

**W PUBLIC UTILITY COMMISSION
MOSHREK SOBHY
PO BOX 2148
SALEM OR 97308
moshrek.sobhy@state.or.us**

**W DEPARTMENT OF JUSTICE
PAUL GRAHAM
1162 COURT ST NE
SALEM OR 97301-4096
paul.graham@state.or.us**

//

LC 51 - Certificate of Service COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON ON NW NATURAL'S REVISED 2011 INTEGRATED RESOURCE PLAN

Respectfully submitted,



John C. Sturm, OSB #105174
Staff Attorney
Citizens' Utility Board of Oregon
610 SW Broadway Ste 400
Portland, OR 97205
(503) 227-1984
john@oregoncub.org