

McDowell & Rackner PC



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November 11, 2008

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket No. UM 1335

Enclosed for filing in the above-identified docket are an original and five copies of the Stipulation of the joint parties and the joint Testimony of Roger White, Carla Owings, Paula Pyron, and Kevin McVay.

A copy of this filing has been served on all parties in this proceeding as indicated on the attached certificate of service.

Very truly yours,

A handwritten signature in cursive script that reads "Wendy L. McIndoo".

Wendy L. McIndoo

Enclosures

cc: Service List

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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1335 on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

Tommy Brooks
Cable Huston Benedict
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Chad Stokes
Cable Huston Benedict
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Paula E Pyron
Executive Director
Northwest Industrial Gas Users
ppyron@nwigu.org

David Hatton
Department of Justice
Regulated Utility & Business Section
1162 Court St NE
Salem, OR 97301-4096
david.hatton@state.or.us

DATED: November 11, 2008.



Wendy L. McIndoo
Legal Assistant
McDowell & Rackner

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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1335

In the Matter of
THE PUBLIC UTILITY COMMISSION OF
OREGON
In the Matter of an Application for an
Accounting Order Regarding Depreciation
Rates and Flow-Through Amounts

STIPULATION

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I. INTRODUCTION

The parties to this Stipulation are Northwest Natural Gas Company ("NW Natural"), Northwest Industrial Gas Users ("NWIGU"), and Commission Staff ("Staff") (collectively, the "Parties").

By entering into this Stipulation, the Parties intend to resolve all issues addressed in this docket, as more particularly described below.

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II. BACKGROUND

On August 3, 2007 NW Natural filed with the Public Utility Commission of Oregon ("the Commission") its Application for an Accounting Order Regarding Depreciation Rates and Flow-Through Amounts ("Application"). In the Application, NW Natural requested that the Commission issue an order authorizing the accounting treatment to revise NW Natural's book depreciation rates, and to revise the flow-through amounts for book depreciation in excess of tax and removal costs incurred that are used in calculating the Company's income tax provision for rate making.

The Parties to this Stipulation include all Parties to the docket.

A prehearing conference was held on February 14, 2008, at which time the ALJ set a schedule for the docket. Pursuant to the schedule, the Parties held a settlement conference

1 on May 13, 2008. An additional settlement conference was held on June 10, and was
2 continued on July 17 and August 13.

3 As a result of these settlement negotiations, the Parties agreed to enter into this
4 Stipulation:

5 **III. STIPULATION**

6 1. The Parties agree to NW Natural's depreciation study proposed in its Petition
7 with changes reflected in Attachment A, attached. The changes to the depreciation study
8 reflected in Attachment A result in an incremental decrease of system depreciation accruals
9 of approximately \$6 million from the depreciation study proposed in the Petition. The
10 revenue requirement effect for the depreciation study implementation is calculated with
11 regard to the treatment of depreciation for transportation and power operated equipment
12 (amounts cleared to both capital and O&M).

13 2. NW Natural will produce a new depreciation study for the Company's next
14 rate case or by January 1, 2014, whichever is sooner.

15 3. NW Natural will increase the level of pre-81 regulatory asset amortization,
16 from the level reflected in the Petition of \$5,021,000 to the new level of \$7,350,000. NW
17 Natural will retain the level of removal cost at \$2,322,000. See Attachment B.

18 4. The effective date of change for depreciation study implementation will be
19 January 1, 2009. The Oregon annual revenue requirement decrease including revenue
20 sensitive effects is \$10,992,789, as reflected in Attachment A.

21 5. The effective date of change for pre-81 regulatory asset amortization
22 implementation will be November 1, 2009. The Oregon annual revenue requirement
23 increase including revenue sensitive effects is \$4,076,000, as reflected in Attachment B.

24 6. In deference to NW Natural delaying the revenue requirement effects related
25 to the flow-through of the pre-1981 assets, the Parties have agreed to an interest effect of
26 \$246,249.

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3 12. Each Party enters into the Stipulation on the date below.

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5 OPUC STAFF

NW NATURAL GAS COMPANY

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7 By: Daniel B. Hatta

By: _____

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NORTHWEST INDUSTRIAL GAS USERS

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11 By: _____

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Dated: 2008, November 10

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3 12. Each Party enters into the Stipulation on the date below.

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5 OPUC STAFF

NW NATURAL GAS COMPANY

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7 By: _____

By: *CAJ Mi*

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11/10/08

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10 NORTHWEST INDUSTRIAL GAS USERS

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12 By: _____

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14 Dated: 2008

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3 12. Each Party enters into the Stipulation on the date below.

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5 OPUC STAFF

NW NATURAL GAS COMPANY

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7 By: _____

By: _____

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NORTHWEST INDUSTRIAL GAS USERS

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11 By: Paula E. Pyron

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Dated: 2008, 11/10

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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1335

In the Matter of an Application for an
Accounting Order Regarding Depreciation
Rates and Flow-Through Amounts

JOINT TESTIMONY

OF

ROGER WHITE

CARLA OWINGS

PAULA PYRON

and

KEVIN MCVAY

November 11, 2008

BACKGROUND AND SUMMARY OF RECOMMENDATIONS

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Q. PLEASE STATE YOUR NAMES, OCCUPATIONS, AND BUSINESS ADDRESSES.

A. My name is Roger White. I am a Senior Cost Analyst for the Public Utility Commission of Oregon. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551. My Witness Qualification Statement is found in Parties Exhibit 101.

A. My name is Carla Owings. I am a Senior Revenue Requirement Analyst employed by the Oregon Public Utility Commission. My qualifications are provided in Parties Exhibit 102.

A. My name is Paula E. Pyron. I serve as the Executive Director of the Northwest Industrial Gas Users ("NWIGU"). My business address is 4113 Wolf Berry Court, Lake Oswego, OR 97035-1827. My qualifications are shown in Parties Exhibit 103.

A. My name is Kevin McVay. I am a financial consultant for NW Natural Gas Company ("NW Natural" or "the Company"). My business address is 220 SW Second Ave, Portland, Oregon, 97209. My Witness Qualification Statement is found in Parties Exhibit 104.

Q. WHAT IS THE PURPOSE OF YOUR JOINT TESTIMONY?

A. The purpose of our testimony is to describe and provide support for the stipulated agreement among NWIGU, Commission Staff (Staff) and NW Natural (hereafter, the "Parties") attached hereto as Parties Exhibit 105 (the "Stipulation") in NW Natural's application for an Accounting Order Regarding Depreciation Rates and Flow-Through Amounts.

Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.

1 A. The Company seeks to revise its book depreciation rates and to accelerate the
2 amortization associated with the flow-through amounts for book depreciation in excess
3 of tax related to pre-1981 assets. This application was made pursuant to ORS
4 757.120 and 757.125.

5 **Q. IS THE COMPANY'S APPLICATION PART OF A GENERAL RATE CASE?**

6 A. No. This application is not part of a general rate case; however, the resulting decrease in
7 depreciation expense and increase in tax expense will be passed through to the
8 Company's customers.

9 **Q. PLEASE SUMMARIZE THE PARTIES' AGREEMENT REGARDING REVENUE**
10 **REQUIREMENT EFFECT.**

11 A. The Stipulation represents a revenue requirement agreement that incorporates a) a
12 decrease to depreciation associated with utility assets resulting in a lower revenue
13 requirement of \$10,992,789; and b) an increase in revenue requirement of \$4,076,000
14 related to changing the level of pre-1981 regulatory assets amortization from \$635,000
15 to a new level of \$7,350,000. The Company agrees to retain its current level of
16 removal costs at \$2,322,000 as demonstrated in Attachment B to the Stipulation.

17 **Q. HOW DOES THE STIPULATION ADDRESS THE REVENUE REQUIREMENT**
18 **EFFECT OF THESE ISSUES?**

19 A. The Stipulation provides that the *decrease* in rates associated with the change in
20 depreciation rates will be implemented on January 1, 2009. However, the *increase* in
21 rates associated with the accelerated flow-through of the pre-1981 regulatory assets
22 will be delayed until November 1, 2009. The purpose of the delay is to provide an
23 immediate reduction to rates through the implementation of lower depreciation rates

1 as an offset to the increasing gas costs included in rates in the Fall 2008 Purchased
2 Gas Adjustment filing. Delaying the increased amortization of the flow-through until
3 November 2009 is a benefit to ratepayers, as compared to implementing the change
4 on January 1 in conjunction with the depreciation change.

5 **Q. DOES THE STIPULATION ADDRESS ANY OTHER REVENUE REQUIREMENT**
6 **EFFECTS?**

7 A. Yes. In deference to NW Natural delaying the revenue requirement effects related to
8 the flow-through of the pre-1981 assets, the Parties have agreed to an interest effect
9 of \$246,249.

10 **Q. AS A RESULT OF THE STIPULATION, HAS NW NATURAL AGREED TO ANY**
11 **OTHER ISSUES THAT DO NOT IMPACT REVENUE REQUIREMENT?**

12 A. Yes. NW Natural has agreed to produce a new depreciation study in time for its next
13 general rate proceeding or January 1, 2014, whichever is sooner.

14 **DEPRECIATION STUDIES**

15 **Q. WHAT IS THE SCOPE OF THE COMPANY'S DEPRECIATION FILING?**

16 A. The Company filed a detailed depreciation study consisting of one hundred accounts
17 and sub-accounts. While some of the accounts were left at a relatively high level of
18 aggregation (the three-digit level), most were disaggregated to a five-digit level. The
19 general categories of plant reviewed were: Intangible, Storage, Transmission,
20 Distribution, and General Plant. The Gas Facilities and Other Production categories
21 were not reviewed since they are fully depreciated.

22 **Q. WHAT WAS THE RATE IMPACT OF THE COMPANY'S ORIGINAL FILING**

1 A. Based on the Company's original filing, using plant in service and reserves for
2 December 31, 2005, the Company's annual book depreciation expense and revenue
3 requirement would have dropped by about \$6.5 million.

4 **Q. WERE THE RESULTS OF STAFF'S ANALYSIS IN COMPLETE AGREEMENT**
5 **WITH THE COMPANY'S PROPOSED LIFE AND SALVAGE FACTORS?**

6 A. No. There were a number of disagreements with the Company's results, regarding
7 both depreciation parameters¹ and salvage rates. Staff's initial counter proposal to the
8 Company's filing contained fifty-eight accounts where Staff and the Company did not
9 agree. Many of the areas of disagreement involved accounts with depreciation
10 expense amounts that did not significantly impact the overall level of depreciation
11 expense.

12 **Q. HOW DID STAFF'S COUNTER PROPOSAL COMPARE WITH THE COMPANY'S**
13 **FILING?**

14 A. Staff's counter proposal would have reduced depreciation expense by \$16.3 million.

15 **Q. WERE THE PARTIES ABLE TO RESOLVE THEIR DIFFERENCES FOR EACH**
16 **OF THE ACCOUNTS WHERE THE ANALYSES DID NOT AGREE?**

17 A. Yes. After two settlement conferences, the Parties were able to reduce their
18 differences first to seven major accounts, and subsequently were able to resolve their
19 differences on those remaining accounts. The resulting agreement reached by the
20 Parties is a reasonable compromise based on the available data.

¹ Iowa Curves are described by three parameters. For example S3-55 indicates that the curve is an S-type, the dispersion is at level 3, and the projection life is 55 years.

1 **Q. IF THE COMMISSION ADOPTS THE STIPULATION, WHAT WILL BE THE**
2 **IMPACT ON THE COMPANY'S DEPRECIATION EXPENSES?**

3 A. As demonstrated in Attachment A to the Stipulation, adoption of the Stipulation would
4 result in a \$10.3 million reduction in depreciation expense attributable to Oregon, as
5 well as a \$390 thousand reduction to O&M. Prior to the settlement conference the
6 Company was proposing a \$6.5 million reduction and Staff was proposing a \$16.3
7 million reduction.

8 **FLOW-THROUGH**

9 **Q. WHY IS THE COMPANY REQUESTING TO ACCELERATE THE AMORTIZATION**
10 **OF ITS PRE-1981 REGULATORY ASSET ACCOUNT?**

11 A. Prior to agreeing to accelerate the amortization of its pre-1981 assets, the targeted
12 time for full amortization would have taken approximately 100 years. The Parties
13 agree that this is an unreasonable length of time to require the Company to wait to
14 recover its regulatory asset associated with the pre-1981 assets. The new
15 amortization schedule is approximately 25 years.

16 **RECOMMENDATIONS**

17 **Q. WHAT ARE THE RATES, CURVES, PROJECTION LIVES, AND SALVAGE**
18 **RATES AGREED TO BY THE PARTIES?**

19 A. Attachment A to the Stipulation contains account-by-account details of the
20 depreciation rates, the Iowa Curves, plant balances, book reserves, remaining lives,
21 existing and stipulated depreciation rates, existing and stipulated depreciation
22 amounts, and the change from existing depreciation amounts.

23 **Q. WHAT IS THE IMPACT OF RATE CHANGES AGREED TO BY THE PARTIES?**

1 A. The depreciation rate changes reduce the Company's annual expense by \$10.7 million
2 dollars, based on December 31, 2005 plant balances, book reserves, and depreciation
3 accruals. The changes to the pre-1981 regulatory account amortization increase the
4 Company's annual expenses by \$4.1 million. The net change will be approximately
5 \$6.6 million when both changes are in place. The Parties agree to a rate spread
6 based on an equal percent of margin for both changes. The use of an equal
7 percentage of margin is appropriate given its use between rate cases on most
8 adjustments affecting all rate schedules.

9 **Q. WHAT IS THE EFFECTIVE DATE FOR IMPLEMENTATION OF THE NEW**
10 **DEPRECIATION RATES AND THE IMPLEMENTATION OF THE NEW PRE-1981**
11 **AMORTIZATION LEVEL?**

12 A. The effective date for implementing the new depreciation rates is January 1, 2009,
13 and the effective date for implementing the change to the pre-1981 regulatory account
14 amortization is November 1, 2009.

15 **Q. DOES THIS STIPULATION FAIRLY TREAT THE COMPANY AND ITS**
16 **CUSTOMERS?**

17 A. Yes it does. The depreciation rates are acceptable to the Company and annual
18 depreciation expense will be lower, resulting in lower rates beginning January 1, 2009.
19 Likewise, the amortization period for the pre-1981 regulatory asset is acceptable and
20 the increase in rates on November 1, 2009 will offset the increased tax provision
21 resulting from the new amortization level.

22 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE STIPULATION?**

23 A. We recommend that the Commission adopt the Stipulation and Attachments.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.

QUALIFICATION STATEMENT

NAME: Roger White

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Telecommunications Analyst

ADDRESS: 550 Capitol St. NE, Suite 215
Salem, Oregon 97301-2551

DEGREES: MBA – Finance /Quantitative Methods
University of Washington

BS –Mathematics - Numerical Analysis
Minors: Physics/Chemistry
University of Washington

OTHER EDUCATION: Ph.D. in Business with a major in Economics
minor in Finance—near completion of course
work. University of Texas

Technical Certification: Electronics and Calibration
Techniques. Aberdeen Proving Grounds

Certified Oregon Project Management Associate

PROFESSIONAL EXPERIENCE:

Senior Telecommunications Analyst and Telecommunications Analyst, Public Utility Commission of Oregon, 2001-Present.

The senior telecommunications analyst's job consists of the following: reviewing annual cost filings done by Oregon telecommunications companies for accuracy and correctness, reviewing incremental cost studies done in support of pricing, developing usage forecasts, and reviewing depreciation studies for telecommunications and power companies.

Manager Cost Models and Methodology, GTE and Verizon, 1995-2001.

The manager's job consisted of the following activities: designing and managing the design of all components (e.g. local loop, transport, switching, SS7, expense) of GTE's integrated cost model, developing documentation packages for each module, training model advocates and user groups on the working of the model, reviewing alternative cost models, testifying in rate hearings when special expertise was required, and supervising a staff of administrators and staff managers.

PROFESSIONAL EXPERIENCE (Continued):

Manager Process Cost, GTE, 1994-1995, GTE, 1994-1995.

This was a cross training job involving the detailed benchmarking of GTE's process costs with the process costs of other comparable companies. The job also involved providing detailed product costs to the Margin and Benchmarking teams.

Manager Research/Methods, GTE, 1989-1994.

The manager's job consisted of the following: designing and managing the development of cost models, designing and managing the development of a product margin tracking system and the product margins, giving presentations to product managers and senior managers, supervising a staff of three.

Staff Manager Pricing Policy, GTE, 1987-1989

The staff manager's job consisted of the following: providing technical support to members of the operating companies on the use of switching cost models, modifying and supporting strategic pricing models, and designing a cost models to facilitate the pricing of switch features and local loop.

Administrator Demand Analysis, GTE, 1982-1987

The demand analysis administrator's job consisted of the following: developing marketing data through surveys and secondary sources, analyzing the data using various marketing research techniques, developing forecasts, developing models that could be used to predict how various markets would respond to price changes.

Administrator Pricing, GTE, 1981-1982

The pricing administrator's job consisted of the following: developing a computer based program that could be used by the sales force to price out PBX systems while meeting with the customer, and setting prices for customer premise equipment.

Administrator Economic Research, GTE, 1977-1981

The economic research administrator's job consisted of the following: developing wire center specific demand forecasts, introducing and providing training on econometric techniques, and providing statistical support for marketing research activities.

Administrator Operations Research, GTE, 1976-1977

The operation research administrator's job consisted of introducing operations research techniques such as linear, integer and dynamic programming techniques into the network planning process in a practical and useful way.

WITNESS QUALIFICATION STATEMENT

NAME: Carla M. Owings
EMPLOYER: Public Utility Commission of Oregon
TITLE: Senior Utility Analyst/Revenue Requirement/Rates and Regulation
ADDRESS: 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2115.
EDUCATION: Professional Accounting Degree
Trend College of Business 1983

EXPERIENCE: I have been employed by the Public Utility Commission of Oregon since April of 2001. I am the Senior Utility Analyst for revenue requirement for the Rates and Regulation Division of the Utility Program. Current responsibilities include leading research and providing technical support on a wide range of policy issues for electric and gas utilities.

From September 1994 to April 2001, I worked for the Oregon Department of Revenue as a Senior Industrial/Utility Appraiser. I was responsible for the valuation of large industrial properties as well as utility companies throughout the State of Oregon.

I have testified in behalf of the Public Utility Commission in Docket Nos. UE 177, UE 178, UG 170, UG 171, UE 180, UM 1234, UE 167, UE 180, UE 188, UM 1121, UM 1261 and UM 1271.

OTHER EXPERIENCE: I received my certification from the National Association of State Boards of Accountancy in the Principles of Public Utilities Operations and Management in March of 1997. I have attended the Institute of Public Utilities sponsored by the National Association of Regulatory Utility Commissioners at Michigan State University in August of 2002 and the College of Business Administration and Economics at New Mexico State University's Center for Public Utilities in May of 2004.

In 2008, I attended a Energy Utility Consultants presentation on Performance Benchmarking in Denver, Colorado. In 2005, I attended the National Association of Regulatory Utility Commissioners Advanced Course at Michigan State University. I worked for seven years for the Oregon State Department of Revenue as a Senior Utility and Industrial Appraiser.

Paula E. Pyron
Statement of Qualifications

Paula Pyron is the Executive Director of the Northwest Industrial Gas Users ("NWIGU"), a nonprofit association of 39 large end-users of natural gas with facilities in Oregon, Washington and Idaho. The association represents its members' interests in distributor and pipeline rate cases, tariff filings and regulatory policy issues in the three states and at the Federal Energy Regulatory Commission. Ms. Pyron accepted this representation of NWIGU effective September 2000.

Ms. Pyron has been a lawyer since 1983, hailing from the oil patch in Tulsa, Oklahoma for the first several years of her business-focused practice with the law firm of Boesche, McDermott & Eskridge. She began private practice in Portland, Oregon in 1991 with an emphasis in energy regulation and contract negotiation. She represented Northwest Industrial Gas Users from 1991 to 1999 as one of its outside counsel, most recently as a partner at Energy Advocates LLP, and prior to that firm's founding was a partner at Ball Janik LLP. Immediately prior to her engagement as NWIGU's executive director, from 1999 to 2000, she managed the legal department in Portland as Assistant General Counsel for PG&E Gas Transmission, Northwest Corporation.

Ms. Pyron is admitted to practice in the state bars of Oregon and Oklahoma and numerous federal courts. She is a 1983 graduate of the University of Tulsa, College of Law and has a BS in Economics, *summa cum laude* from the University of Texas at Dallas. She has testified on energy regulatory and legislative matters in Oregon and Washington before the Oregon Public Utility Commission (OPUC), the Washington Utilities and Transportation Commission (WUTC), and state legislative committees. She has appeared on numerous occasions before the WUTC, the OPUC and the Idaho Public Utility Commission as executive director of NWIGU.

WITNESS QUALIFICATION STATEMENT

NAME: Kevin S. McVay
EMPLOYER: NW Natural
TITLE: Consultant
ADDRESS: 220 NW Second Avenue, Portland OR 97209
EDUCATION: B.S. Accounting, George Mason University, Fairfax, VA
M.B.A., George Washington University, Washington, D.C.

PROFESSIONAL EXPERIENCE:

From 1981 to 1987, I held positions as an Accountant, Staff Auditor, and Forecasting Analyst for Washington Gas Light Company in Washington, D.C. In 1987, I joined NW Natural and since then, I have held various analytical positions in the Finance and Regulatory Affairs departments of NW Natural.

**Attachment A
OREGON SPECIFIC**

REMAINING LIFE DEPRECIATION RATES

[1] Account Number	[2] Description	[3] 12/31/2005 Balance \$	[4] IOWA CURVE	[8] 12/31/2005 Book Reserve \$	[9] Net Plant \$	[10] Rem. Life Yrs	[11] Existing Depr. Rate %	[12] Annual Amount \$	[13] Stipulated Depr. Rate %	[14] Annual Amount \$	[15] Increase or (Decrease) \$
INTANGIBLE PLANT											
303.10	MISC. INTANGIBLE PLANT - SOFTWARE	26,328,010	10-SQ	17,957,684	8,370,326	7.4	10.56%	2,779,158	4.31%	1,134,737	(1,644,421)
303.20	MISC. INTANGIBLE PLANT - CUSTOMER INFO SYSTEM	26,934,245	15-SQ	14,411,732	12,522,513	6.7	6.67%	1,796,514	6.96%	1,874,623	78,109
303.30	MISC. INTANGIBLE PLANT - IND. AND COMMERCIAL	3,744,350	10-SQ	1,751,744	1,992,605	3.1	7.69%	287,940	17.11%	640,658	352,718
303.40	MISC. INTANGIBLE PLANT - CRMS	1,194,912	5-SQ	404,801	790,111	2.9	20.00%	238,982	22.64%	270,528	31,546
303.50	MISC. INTANGIBLE PLANT - POWERPLANT SOFTWARE	1,021,479	10-SQ	97,510	923,970	8.5	10.00%	102,148	10.63%	108,583	6,435
TOTAL INTANGIBLE PLANT		59,222,996		34,623,471	24,599,525	6.1	8.79%	5,204,743	6.80%	4,029,130	(1,175,613)
OIL GAS FACILITIES											
305.50	STRUCTURES AND IMPROVEMENTS - OTHER	13,156	FULLY ACCRUED	13,814	(658)			0			
311.70	LIQUEFIED PETROLEUM GAS EQUIPMENT	4,033	FULLY ACCRUED	4,033	0			0			
311.80	LIQUEFIED PETROLEUM GAS EQUIPMENT	4,209	FULLY ACCRUED	4,209	0			0			
TOTAL OIL GAS FACILITIES		21,398.00		22,056	(658.00)			0			
OTHER PRODUCTION FACILITIES											
305.11	STRUCTURES AND IMPROVEMENTS - GAS PROD	8,320	FULLY ACCRUED	8,736	(416)			0			
305.17	STRUCTURES AND IMPROVEMENTS - MIXING STA	46,587	FULLY ACCRUED	51,246	(4,659)			0			
318.30	LIGHT OIL REFINING	144,896	FULLY ACCRUED	152,141	(7,245)			0			
318.50	TAR PROCESSING	243,551	FULLY ACCRUED	255,729	(12,178)			0			
319.00	GAS MIXING EQUIPMENT	185,448	FULLY ACCRUED	194,720	(9,272)			0			
PRODUCTION FACILITIES		628,802		662,572	(33,770)			0			
UNDERGROUND STORAGE PLANT											
350.20	LAND RIGHTS	46,448	65-R4	8,719	37,729	50.0	2.00%	929	1.62%	752	(177)
351.00	STRUCTURES AND IMPROVEMENTS	5,654,177	55-R3	1,277,980	4,376,197	45.2	1.76%	99,514	1.71%	96,686	(2,827)
352.00	WELLS	17,929,791	45-S3	6,040,960	11,888,831	36.3	2.37%	424,936	2.07%	371,147	(53,789)
352.10	STORAGE LEASEHOLDS AND RIGHTS	3,214,984	50-S2	771,000	2,443,984	39.0	1.65%	53,047	1.95%	62,692	9,645
352.20	RESERVOIRS	3,363,497	50-S2.5	529,987	2,833,509	45.4	1.65%	55,498	2.01%	67,606	12,109
352.30	NONRECOVERABLE GAS	5,852,030	50-S2.5	1,846,462	4,005,569	36.4	1.65%	96,558	1.88%	110,018	13,460
353.00	LINES	5,863,192	55-S2.5	1,454,587	4,408,605	45.5	1.85%	108,469	2.06%	120,782	12,313
354.00	COMPRESSOR STATION EQUIPMENT	24,496,420	40-R3	7,291,725	17,204,695	32.8	3.09%	756,939	2.66%	651,605	(105,335)
355.00	MEASURING AND REGULATING EQUIPMENT	5,181,009	45-R2.5	2,171,688	3,009,321	37.8	3.11%	161,129	2.17%	112,428	(48,701)
356.00	PURIFICATION EQUIPMENT	270,176	35-S3	124,548	145,628	21.8	3.25%	8,781	2.48%	6,700	(2,080)
357.00	OTHER EQUIPMENT	638,353	25-R4	381,402	256,951	17.6	7.79%	49,728	2.28%	14,554	(35,173)
TOTAL UNDERGROUND STORAGE PLANT		72,510,077		21,899,058	50,611,019	36.5	2.50%	1,815,528	2.23%	1,614,971	(200,557)
LOCAL STORAGE PLANT											
361.11	STRUCTURES AND IMPROVEMENTS	676,953	50-R3	196,547	480,406	13.1	1.82%	12,321	5.82%	39,399	27,078
361.12	STRUCTURES AND IMPROVEMENTS	2,825,118	50-R3	1,135,596	1,689,522	19.5	1.95%	55,090	3.32%	93,794	38,704
361.20	STRUCTURES AND IMPROVEMENTS - OTHER	24,311	55-S2	5,894	18,416	43.1	0.93%	226	1.87%	455	229
362.00	GAS HOLDERS										
	LINNTON	1,670,924	50-R4	1,548,336	122,588	11.6	1.96%	32,750	2.35%	39,267	6,517
	NEWPORT	5,261,607	50-R4	3,678,921	1,582,687	18.4	1.65%	86,817	2.72%	143,116	56,299
	OTHER	1,454	50-R4	838	616	47.1	1.96%	28	1.31%	19	(9)
	TOTAL GAS HOLDERS	6,933,985		5,228,094	1,705,890			119,595			
363.10	LIQUEFACTION EQUIPMENT										
	LINNTON	2,297,277	50-R1.5	1,550,436	746,841	13.0	3.36%	77,189	2.88%	66,162	(11,027)
	NEWPORT	6,211,501	50-R1.5	5,517,279	694,223	19.8	3.16%	196,283	0.82%	50,934	(145,349)
	TOTAL LIQUEFACTION EQUIPMENT	8,508,778		7,067,714	1,441,064			273,472			
363.20	VAPORIZING EQUIPMENT										
	LINNTON	2,097,562	40-R3	1,828,471	269,091	12.7	4.56%	95,649	1.40%	29,366	(66,283)

**Attachment A
OREGON SPECIFIC**

REMAINING LIFE DEPRECIATION RATES

[1] Account Number	[2] Description	[3] 12/31/2005 Balance \$	[4] IOWA CURVE	[8] 12/31/2005 Book Reserve \$	[9] Net Plant \$	[10] Rem. Life Yrs	[11] Existing Depr. Rate %	[12] Annual Amount \$	[13] Stipulated Depr. Rate %	[14] Annual Amount \$	[15] Increase or (Decrease) \$
	NEWPORT	2,254,174									
	TOTAL VAPORIZING EQUIPMENT	4,351,736	40-R3	2,324,212	(70,037)	21.0	3.16%	71,232	0.09%	2,029	(69,203)
363.30	COMPRESSOR EQUIPMENT				199,054			166,881			
	LINNTON	116,062	20-R2	79,501	36,561	5.1	11.38%	13,208	7.10%	8,240	(4,967)
	NEWPORT	196,351	20-R2	54,872	141,479	16.3	11.38%	22,345	4.71%	9,248	(13,097)
	TOTAL COMPRESSOR EQUIPMENT	312,413		134,373	178,040			35,553			
363.40	MEASURING AND REGULATING EQUIPMENT										
	LINNTON	491,161	45-R2.5	512,843	(21,682)	13.2	1.95%	9,578	0.04%	196	(9,381)
	NEWPORT	103,045	45-R2.5	93,465	9,580	19.6	2.83%	2,916	0.73%	752	(2,164)
	TOTAL MEASURING AND REGULATING EQUIPMENT	594,206		606,308	(12,102)			12,494			
363.50	CNG REFUELING FACILITIES	1,650,683	25-R3	1,368,894	281,789	16.4	6.82%	112,577	1.04%	17,167	(95,409)
363.60	LNG REFUELING FACILITIES	667,685	40-R2	667,685	0	-	0.07	0	0.00%		
TOTAL LOCAL STORAGE PLANT		26,545,868		20,563,789	5,982,079	16.5	2.97%	788,207	1.88%	500,144	(288,064)
TRANSMISSION PLANT											
365.20	LAND RIGHTS	4,827,468	65-R4	584,761	4,242,707	46.5	2.00%	96,549	1.89%	91,239	(5,310)
366.30	STRUCTURES AND IMPROVEMENTS	1,041,984	50-S3	97,849	944,135	46.5	1.18%	12,295	1.95%	20,319	8,023
367.00	MAINS	12,029,774	55-R3	7,640,666	4,389,108	24.8	1.94%	233,378	3.08%	370,517	137,139
367.21	MAINS - NORTH MIST TRANSMISSION	1,375,894	55-R3	568,595	807,299	39.3	1.88%	25,867	2.51%	34,535	8,668
367.22	MAINS - SOUTH MIST TRANSMISSION	13,582,524	55-R3	5,931,538	7,650,987	39.2	1.85%	251,277	2.46%	334,130	82,853
367.23	MAINS - SOUTH MIST TRANSMISSION	30,855,120	55-R3	3,156,452	27,698,667	48.7	1.88%	580,076	2.67%	823,832	243,755
367.24	MAINS - 11.7M SOUTH MIST S TRANSMISSION	15,869,333	55-R3	605,487	15,263,846	52.5	1.88%	298,343	2.59%	411,016	112,672
367.25	MAINS - 12M NORTH S MIST TRANSMISSION	16,726,492	55-R3	346,378	16,380,114	52.9	1.88%	314,592	2.61%	436,561	121,970
367.26	MAINS - 38M NORTH S MIST TRANSMISSION	62,055,256	55-R3	1,453,436	60,601,820	53.0	1.88%	1,167,135	2.60%	1,613,437	446,301
369.00	MEASURING AND REGULATING EQUIPMENT	3,202,066	40-R2.5	268,989	2,933,077	37.9	3.04%	97,343	2.68%	85,815	(11,527)
TOTAL TRANSMISSION PLANT		161,565,911		20,654,151	140,911,760	48.1	1.90%	3,076,856	2.61%	4,221,401	1,144,545
DISTRIBUTION PLANT											
374.20	LAND RIGHTS	1,565,433	65-R3	201,565	1,363,868	11.6	2.00%	31,309	7.50%	117,407	86,099
375.00	STRUCTURES AND IMPROVEMENTS	49,372	30-R1	41,454	7,918	19.5	3.34%	1,649	0.44%	217	(1,432)
376.11	MAINS - HP 4" AND LESS	373,669,759	60-R2.5	162,827,885	210,841,874	46.9	3.43%	12,816,873	2.51%	9,379,111	(3,437,762)
376.12	MAINS - HP 4" AND OVER	293,212,894	60-R2.5	97,762,614	195,450,280	48.7	2.87%	8,415,210	2.42%	7,095,752	(1,319,458)
376.21	MAINS - LP 4" AND LESS	466,256	40-R0.5	392,751	73,505	32.9	3.23%	15,060	0.73%	3,404	(11,656)
376.22	MAINS - LP 4" AND OVER	2,929,618	40-R0.5	3,194,102	(264,484)	32.2	3.87%	113,376	0.77%	22,558	(90,818)
377.00	COMPRESSOR STATION EQUIPMENT	818,380	35-S2	198,456	619,924	32.5	11.38%	93,132	2.33%	19,068	(74,063)
378.00	MEAS. & REG. STATION EQUIPMENT - GENERAL	14,783,808	50-R2	5,234,539	9,549,269	39.6	3.23%	477,517	2.12%	313,417	(164,100)
379.00	MEAS. & REG. STATION EQUIPMENT - CITY GATE	901,417	35-R2	425,839	475,578	15.3	3.87%	34,885	4.34%	39,121	4,237
380.00	SERVICES	457,333,457	49-R0.5	208,520,191	248,813,266	42.5	3.97%	18,156,138	2.71%	12,393,737	(5,762,402)
381.00	METERS	41,251,176	40-R2.5	12,965,913	28,285,263	29.6	2.35%	969,403	2.31%	952,902	(16,500)
381.10	METERS - ELECTRIC	507,007	15-R3	507,007	0	-	0.20	0	0.00%		
382.00	METER INSTALLATIONS	63,376,809	38-R2.5	21,352,701	42,024,108	27.8	2.65%	1,679,485	2.47%	1,565,407	(114,078)
382.10	METER INSTALLATIONS - ELECTRIC	397,682	15-R3	403,112	(5,430)	0.0	20.00%	79,536	0.05%	199	(79,338)
383.00	HOUSE REGULATORS	160,671	35-S2	-	160,671	34.2	-	0	2.92%	4,692	4,692
387.10	OTHER EQUIPMENT - CATHODIC PROTECTION TEST EQ	138,950	25-S2	124,767	14,183	18.7	6.29%	8,740	0.55%	764	(7,976)
387.20	OTHER EQUIPMENT - CALORIMETERS AT GATE STATION	69,794	20-S1	69,794	0	-	0.06	0	0.00%		
387.30	OTHER EQUIPMENT - METER TESTING EQUIPMENT	72,671	20-S4	72,671	0	-	0.06	0	0.00%		
TOTAL DISTRIBUTION PLANT		1,251,705,154		514,295,361	737,409,793	44.0	3.43%	42,892,313	2.55%	31,907,757	(10,984,556)
GENERAL PLANT											
390.00	STRUCTURES AND IMPROVEMENTS	18,901,773	50-R2.5	5,991,140	12,910,633	37.4	2.12%	400,718	1.97%	372,365	(28,353)
391.10	OFFICE FURNITURE AND EQUIPMENT	7,319,559	20-SQ	3,149,344	4,170,215	8.1	3.15%	230,566	7.97%	583,369	352,803
391.20	OFFICE FURNITURE AND EQUIPMENT - COMPUTERS	6,709,427	5-SQ	4,299,229	2,410,198	2.7	13.14%	881,283	16.62%	1,115,107	233,824

REMAINING LIFE DEPRECIATION RATES

Attachment A
OREGON SPECIFIC

[1] Account Number	[2] Description	[3] 12/31/2005 Balance \$	[4] IOWA CURVE	[8] 12/31/2005 Book Reserve \$	[9] Net Plant \$	[10] Rem. Life Yrs	[11] Existing Depr. Rate %	[12] Annual Amount \$	[13] Stipulated Depr. Rate %	[14] Annual Amount \$	[15] Increase or (Decrease) \$
391.30	OFFICE FURNITURE AND EQUIPMENT - BILLING	847,650	5-SQ	847,650	0	-		0	-	0	-
391.40	OFFICE FURNITURE AND EQUIPMENT - INFO SYSTEM	1,253,009	7-SQ	(83,329)	1,336,338	1.0		0	20.00%	250,602	250,602
392.00	TRANSPORTATION EQUIPMENT	20,863,485	12-L1.5	9,075,426	11,788,059	8.2	7.63%	1,591,884	5.04%	1,051,520	(540,364)
393.00	STORES EQUIPMENT	107,814	25-SQ	104,553	3,261	2.8	2.24%	2,415	1.10%	1,186	(1,229)
394.00	TOOLS, SHOP AND GARAGE EQUIPMENT	10,728,363	25-SQ	2,274,686	8,453,677	11.3	2.46%	263,918	6.99%	749,913	485,995
395.00	LABORATORY EQUIPMENT	61,663	20-SQ	46,675	14,988	6.7	3.47%	2,140	3.65%	2,251	111
396.00	POWER OPERATED EQUIPMENT	5,470,459	15-S0.5	3,123,298	2,347,161	13.9	7.39%	404,267	2.00%	109,409	(294,858)
397.00	COMMUNICATION EQUIPMENT	28,124	15-SQ	-	28,124	13.5		0	7.41%	2,084	2,084
397.10	COMMUNICATION EQUIPMENT - MOBILE	951,216	10-SQ	899,409	51,808	8.0		0	0.68%	6,468	6,468
397.20	COMMUNICATION EQUIPMENT - NON MOBILE&TELEMETER	1,589,058	15-SQ	874,869	714,189	10.5	7.52%	119,497	4.28%	68,012	(51,485)
397.30	COMMUNICATION EQUIPMENT - TELEMETER OTHER	2,673,955	15-SQ	2,645,885	28,070	14.5	7.52%	201,081	0.07%	1,872	(199,210)
397.40	COMMUNICATION EQUIPMENT - TELEMETER MICROWAVE	1,612,674	15-SQ	1,383,526	229,148	13.6		0	1.04%	16,772	16,772
397.50	COMMUNICATION EQUIPMENT - TELEPHONE	1,634,223	10-SQ	1,195,423	438,800	1.7	7.52%	122,894	16.25%	265,561	142,668
398.10	MISCELLANEOUS EQUIPMENT - PRINT SHOP	71,231	15-SQ	71,231	0	-	0.04	0	-	-	-
398.20	MISCELLANEOUS EQUIPMENT - KITCHEN	48,048	15-SQ	48,048	0	-	0.04	0	-	-	-
398.30	MISCELLANEOUS EQUIPMENT - JANITORIAL	13,429	20-SQ	13,429	0	-	0.04	0	-	-	-
398.40	MISCELLANEOUS EQUIPMENT - LEASED BUILDINGS	9,138	20-SQ	8,580	557	1.0	4.10%	375	5.94%	543	168
398.50	MISCELLANEOUS EQUIPMENT - OTHER	60,260	20-SQ	56,814	3,446	7.0	4.10%	2,471	0.81%	488	(1,983)
TOTAL GENERAL PLANT		80,954,559		36,025,888	44,928,671	9.1	5.22%	4,223,508	5.68%	4,597,520	374,012
TOTAL DEPRECIABLE GAS PLANT		1,653,154,765		648,746,346	1,004,408,419	37.1	3.51%	58,001,155	2.84%	46,870,923	(11,130,232)
NONDEPRECIABLE GAS PLANT											
301.00	ORGANIZATION	852			852						
302.00	FRANCHISES AND CONSENTS	86,723			86,723						
304.10	LAND	24,998			24,998						
350.10	LAND	96,808			96,808						
360.11	LAND - LNG LINNTON	75,955			75,955						
360.12	LAND - LNG NEWPORT	499,042			499,042						
360.20	LAND - OTHER	117,079			117,079						
365.10	LAND	89,772			89,772						
374.10	LAND	58,388			58,388						
389.00	LAND	2,149,498			2,149,498						
DEPRECIABLE GAS PLANT		3,199,115			3,199,115						
GAS PLANT IN SERVICE		1,656,353,880		648,746,346	1,007,607,534			58,001,155			

VE. EACH UNIT HAS A UNIQUE TERMINAL DATE.

Excluding Transportation and POE above	(835,222)
Add back O&M allocation of Trans and POE	(390,049)
Change Allocated to Oregon	(10,685,059)
Including revenue Sensitive (UG152 2.88%)	(10,992,789)

NW Natural
Results of Operations - Test Year Normalized
Oregon Jurisdictional Rate Case - 2003-2004 Test Period - UG 152
(\$000)

Attachment B

Summary - Impact of New Pre-81 Permanent Difference

<u>Line No.</u>	Before	After	Change	
	Margin Change (a)	Margin Change (b)	Margin Change (c)	
Operating Revenues				
1				
1	Sale of Gas	\$6,206	\$10,282	\$4,076
2	Revenue & Technical Adjustments			
3	Transportation			
4	Miscellaneous Revenues			
5	Total Operating Revenues	\$6,206	\$10,282	\$4,076
Operating Revenue Deductions				
6	Gas Purchased			
7	Uncollectible Accrual for Gas Sales	30	50	20
8	Other Operating & Maintenance Expenses			
9	Total Operating & Maintenance Expense	30	50	20
10	Federal Income Tax	1,970	3,265	1,294
11	State Excise	398	659	261
12	Property Taxes			
13	Other Taxes	148	245	97
14	Depreciation & Amortization			
15	Total Operating Revenue Deductions	2,547	4,219	1,673
16	Net Operating Revenues	\$3,659	\$6,063	\$2,403

NW Natural
 Results of Operations - Test Year Normalized
 Oregon Jurisdictional Rate Case - 2003-2004 Test Period - UG 152
 (\$000)

Attachment B

UG 152 Result before change to permanent difference

Line No.	Test Year Forecasted Results	Adjustments	Test Year Adjusted	Margin Change	Results @ 10.2% ROE	
						(a)
Operating Revenues						
1	Sale of Gas	\$551,987	\$4,744	\$556,731	\$6,206	\$562,937
2	Revenue & Technical Adjustments	-	-	-	-	-
3	Transportation	20,672	-	20,672	-	20,672
4	Miscellaneous Revenues	2,906	612	3,518	-	3,518
5	Total Operating Revenues	575,565	5,356	580,921	\$6,206	587,127
Operating Revenue Deductions						
6	Gas Purchased	319,342	2,767	322,109	-	322,109
7	Uncollectible Accrual for Gas Sales	2,815	(220)	2,596	30	2,626
8	Other Operating & Maintenance Expenses	95,716	(11,008)	87,864	-	87,864
9	Total Operating & Maintenance Expense	417,874	(8,461)	412,568	30	412,599
10	Federal Income Tax	14,635	4,482	18,147	1,970	20,118
11	State Excise	3,091	905	3,801	398	4,198
12	Property Taxes	12,739	0	12,739	-	12,739
13	Other Taxes	18,014	(33)	17,981	148	18,129
14	Depreciation & Amortization	50,091	110	50,086	-	50,086
15	Total Operating Revenue Deductions	516,443	(2,997)	515,322	2,547	517,868
16	Net Operating Revenues	\$59,123	\$8,353	\$65,600	\$3,659	\$69,259
Average Rate Base						
17	Utility Plant in Service	\$1,410,717	\$1,262	\$1,409,404	-	\$1,409,404
18	Accumulated Depreciation	(559,560)	(44)	(559,546)	-	(559,546)
19	Net Utility Plant	851,157	1,218	849,858	-	849,858
20	Aid in Advance of Construction	(2,015)	-	(2,015)	-	(2,015)
21	Gas Inventory	40,747	-	40,747	-	40,747
22	Materials & Supplies	4,589	-	4,589	-	4,589
23	Leasehold Improvements	678	-	678	-	678
24	Accumulated Deferred Income Taxes	(90,208)	(356)	(90,187)	-	(90,187)
25	Total Rate Base	\$804,948	\$862	\$803,670	\$0	\$803,670
26	Rate of Return	7.35%		8.16%		8.62%
27	Return on Common Equity	7.63%		9.28%		10.20%

**NW Natural
Tax Provision**

Attachment B

**Oregon Jurisdictional Rate Case - 2003-2004 Test Period - UG 152
(\$000)**

Tax Calculation - Prior to changes to permanent differences

<u>Line No.</u>	<u>State Taxes</u>	<u>Federal Taxes</u>
1 Operating Revenues	\$575,565	\$575,565
2 Operating Revenue Deductions	417,874	417,874
3 Property & Other Taxes	30,753	30,753
4 Book Depreciation	50,091	50,091
5 Interest (Rate Base * Cost of Debt)	28,336	28,336
6 State Tax Deduction	-	3,091
7 Subtotal	48,512	45,421
8 Permanent Differences	(1,685)	(1,549)
9 Taxable Income	46,827	43,872
10 Tax Rate	6.60%	35.00%
11 Tax Before Credits	3,091	15,355
12 Credits (ITC)	0	(720)
13 Total Tax	\$3,091	\$14,635

NW Natural
 Results of Operations - Test Year Normalized
 Oregon Jurisdictional Rate Case - 2003-2004 Test Period - UG 152
 (\$000)

Attachment B

UG 152 Result after change to permanent difference

Line No.	Test Year Forecasted		Test Year Adjusted	Margin Change	Results @ 10.2% ROE
	Results	Adjustments			
	(a)	(b)	(c)	(d)	(e)
Operating Revenues					
1	\$551,987	\$4,744	\$556,731	\$10,282	\$567,013
2	-	-	-		-
3	20,672	-	20,672		20,672
4	2,906	612	3,518		3,518
5	<u>575,565</u>	<u>5,356</u>	<u>580,921</u>	<u>\$10,282</u>	<u>591,203</u>
Operating Revenue Deductions					
6	319,342	2,767	322,109		322,109
7	2,815	(220)	2,596	50	2,646
8	95,716	(11,008)	87,864		87,864
9	<u>417,874</u>	<u>(8,461)</u>	<u>412,568</u>	<u>50</u>	<u>412,619</u>
10	16,595	4,482	20,107	3,265	23,372
11	3,534	905	4,244	659	4,903
12	12,739	0	12,739		12,739
13	18,014	(33)	17,981	245	18,226
14	50,091	110	50,086		50,086
15	<u>518,846</u>	<u>(2,997)</u>	<u>517,725</u>	<u>4,219</u>	<u>521,944</u>
16	<u>\$56,719</u>	<u>\$8,353</u>	<u>\$63,196</u>	<u>\$6,063</u>	<u>\$69,259</u>
Average Rate Base					
17	\$1,410,717	\$1,262	\$1,409,404		\$1,409,404
18	(559,560)	(44)	(559,546)		(559,546)
19	<u>851,157</u>	<u>1,218</u>	<u>849,858</u>	<u>-</u>	<u>849,858</u>
20	(2,015)	-	(2,015)		(2,015)
21	40,747	-	40,747		40,747
22	4,589	-	4,589		4,589
23	678	-	678		678
24	(90,208)	(356)	(90,187)		(90,187)
25	<u>\$804,948</u>	<u>\$862</u>	<u>\$803,670</u>	<u>\$0</u>	<u>\$803,670</u>
26	<u>7.05%</u>		<u>7.86%</u>		<u>8.62%</u>
27	<u>7.02%</u>		<u>8.68%</u>		<u>10.20%</u>

**NW Natural
Tax Provision**

Attachment B

**Oregon Jurisdictional Rate Case - 2003-2004 Test Period - UG 152
(\$000)**

Tax Calculation - Including changes to permanent differences

<u>Line No.</u>		<u>State Taxes</u>	<u>Federal Taxes</u>
1	Operating Revenues	\$575,565	\$575,565
2	Operating Revenue Deductions	417,874	417,874
3	Property & Other Taxes	30,753	30,753
4	Book Depreciation	50,091	50,091
5	Interest (Rate Base * Cost of Debt)	28,336	28,336
6	State Tax Deduction	-	3,534
7	Subtotal	48,512	44,978
8	Permanent Differences	5,030	4,495
9	Taxable Income	53,542	49,473
10	Tax Rate	6.60%	35.00%
11	Tax Before Credits	3,534	17,315
12	Credits (ITC)	0	(720)
13	Total Tax	\$3,534	\$16,595

Changes:

- a Increased permanent difference by \$7,350 - \$635
- b Federal Included an allocation of the permanent difference effect to Washington