

McDowell Rackner & Gibson PC



WENDY MCINDOO
Direct (503) 595-3922
wendy@mcd-law.com

July 9, 2012

VIA ELECTRONIC FILING AND FIRST CLASS MAIL

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

Re: Docket UG 221 – Northwest Natural Gas Company Application for a General Rate Revision

Attention Filing Center:

Attached for filing in the above captioned docket are the original and five copies of Partial Stipulation of the parties. A copy of this filing has been served on all parties to this proceeding as indicated on the attached Certificate of Service.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo
Office Manager

Enclosure

cc: Service List

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 221

In the Matter of
NORTHWEST NATURAL GAS COMPANY
Application for a General Rate Revision.

**PARTIAL
STIPULATION**

This Partial Stipulation is entered into for the purpose of resolving specific issues among all parties to UG 221, Northwest Natural Gas Company's ("NW Natural" or "the Company") 2011 general rate case.

PARTIES

1. The parties to this Partial Stipulation are NW Natural, Commission Staff ("Staff"), the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU) (collectively, "Parties"). Northwest Energy Coalition (NVEC) participated in settlement discussions, is not a party to this stipulation, but does not oppose the stipulation. Community Action Partnership of Oregon, Northwest Pipeline GP, and Portland General Electric Company are parties to this case but did not participate in settlement discussions.

BACKGROUND

2. On December 30, 2011, NW Natural filed revised tariff sheets to be effective February 1, 2012, seeking a general rate increase of approximately \$43.7 million, or 6.2 percent. In its filing, NW Natural used an historic base period of the 12 months ended December 31, 2011, with adjustments to calculate a future test period of the 12 months ending October 31, 2013 ("Test Year").

3. In Order No. 12-011, issued on January 19, 2012, the Public Utility Commission of Oregon ("Commission") suspended the Company's application for a general rate revision

for a period of nine months. Based on the suspension, the effective date of the revised tariff sheets will be November 1, 2012.

4. Pursuant to Administrative Law Judge Hardie's Prehearing Conference Memorandum of January 23, 2012, the parties to this docket convened settlement conferences on April 4 and 5, 2012. NW Natural, Staff, CUB, NWIGU, and NVEC participated in those settlement conferences.

5. On May 3, 2012, Staff, CUB, NWIGU, and NVEC filed Opening Testimony responding to the Company's Initial Filing.

6. The Parties again convened settlement conferences on May 22 and 23, 2012.

7. As a result of those settlement conferences, the Parties have reached a settlement resolving some of the issues in this case. This Partial Stipulation reduces NW Natural's proposed rate increase and resolves certain issues raised by Staff, CUB, and NWIGU. The final amount of NW Natural's rate increase, if any, will be determined following Commission resolution of the issues unresolved by this Partial Stipulation.

AGREEMENT

The Parties agree to settle the issues in this Partial Stipulation consistent with the numbers provided in Attachment A. Specifically, the issues settled in this Partial Stipulation are:

Capital Projects

8. In their testimony, Staff, CUB, and NWIGU raised concerns as to whether certain construction projects included in Test Year rate base, but not completed as of the date the rate case was filed, would be used and useful by the rate effective date or in the Test Year. Specifically, in Opening Testimony, these parties questioned whether the following capital projects would be used and useful: Corvallis Reinforcement; Nertec meters; Perrydale to Monmouth; Tualatin Replacement training facility and land; Unified Communication (Phase 1 and Phase 2); Westside Transmission Re-rate; Portland System Optimization (Phase 1 and

Phase 2); Tualatin Bioswale; Sunset Sheds; Generators 2012 and 2013; Coos Bay Retrofit; and Astoria Retrofit.

9. In addition, Staff, CUB, and NWIGU raised concerns regarding the prudence of the Monmouth Reinforcement (\$8,087,000) and Perrydale to Monmouth (\$18,131,000) projects. Finally, CUB and NWIGU questioned whether the costs associated with the Corvallis Reinforcement, Parkrose Retrofit, Portland System Optimization (Phase 1 and Phase 2), Nertec Replacement, Unified Communication Phase 1 and Salem Retrofit were known and measurable.

10. The Company has confirmed that the following projects have been cancelled or delayed past the rate effective date: Corvallis Reinforcement; Westside Transmission Re-rate; Portland System Optimization (Phase 2); Unified Communication Phase 2; Tualatin Bioswale; Sunset Sheds; Coos Bay Retrofit; and Astoria Retrofit. NW Natural agrees to remove the amounts that were included in rate base for these projects in the Test Year, consistent with Attachment A.

11. Further, the Company clarified that the Monmouth Reinforcement, Perrydale to Monmouth, Tualatin Replacement, Unified Communication Phase 1, Portland System Optimization Phase 1, and 2012 Generators projects will all be used and useful by the rate effective date. To remove any continuing concerns, however, the Company agrees that by October 1, 2012 it will file an attestation from senior management confirming that these projects either are or will be used and useful by the rate effective date. The attestation filing will also confirm the amount that the Company has invested in each of those projects as of the date of the filing, and, if the project is not yet complete, the Company's reasonable expectation of costs that will be incurred up to the rate effective date.

12. Except as discussed in paragraph 13 below, if the attestation described in paragraph 11 demonstrates that a project is, or will be, used and useful by the rate effective date, the Parties agree that the lower of the forecast or the actual amount expended on that

project as of the rate effective date may be added to rate base and recovered through the revenue requirement. Nothing in this paragraph precludes the Company from filing a deferral application in the event that the Company believes it will incur additional costs related to the project after the rate effective date, or if the amounts that have been incurred or will be incurred by the rate effective date are greater than the amount included in the Company's original filing for that project and are eligible for deferral. And, nothing precludes other Parties from taking any position (supporting or opposing) on the deferral application and application for amortization.

13. If the Company's attestation demonstrates that the Monmouth Reinforcement and the Perrydale to Monmouth projects will be used and useful by the rate effective date, there remains an issue of whether or not these two projects were prudent. The Parties may argue that these projects either were or were not prudent in this proceeding. To the extent the Commission finds that such projects were prudent, the lower of the forecast or actual costs of such projects, incurred as of the rate effective date, will be added to rate base for purposes of the Company's revenue requirement. Nothing in this paragraph precludes the Company from filing a deferral application in the event that the Company believes it will incur additional costs related to a project after the rate effective date, or if the amounts that have been incurred or will be incurred by the rate effective date are greater than the amount included in the Company's original filing for that project and are eligible for deferral. And, nothing precludes other Parties from taking any position (supporting or opposing) on the deferral application and application for amortization.

14. In the case of the Nertec project, the Parties understand that it is possible that not all of the Nertec meters will be installed by the rate effective date. For the purposes of this settlement, the Parties agree that, provided that the Company attests that all of the Nertec meters will be received by the rate effective date and installed by the end of the Test Period, 50% (fifty percent) of the Test Year costs of the meters will be added to rate base.

15. In regards to the Salem Retrofit, to remove any continuing concerns, the Company agrees that by October 1, 2012 it will file an attestation confirming that the project either is or will be used and useful by the rate effective date. The filing will also confirm the amount that the Company has invested in the project as of the date of the filing, and, if the project is not yet complete, the Company's reasonable expectation of costs that will be incurred up to the rate effective date.

16. The Parties agree that the lower of the forecast or actual costs of the project, incurred as of the rate effective date, will be added to rate base for purposes of the Company's revenue requirement. Nothing in this paragraph precludes the Company from filing a deferral application in the event that the Company believes it will incur additional costs related to the project after the rate effective date, or if the amount that has been incurred or will be incurred by the rate effective date is greater than the amount included in the Company's original filing for that project and are eligible for deferral. And, nothing precludes other Parties from taking any position (supporting or opposing) on the deferral application and application for amortization.

17. The Company also agrees to remove the following projects, which are scheduled to be completed during the Test Year but after the rate effective date: Portland System Optimization Phase 2; and Unified Communications Phase 2. The Parties agree that the 2013 Generators will be averaged into rate base such that 50% of the associated costs are reflected in rate base in the Test Year.

18. In the event that the Company's attestation demonstrates that one or more projects described above will not be used and useful by the rate effective date, the revenue requirement in the case will be offset by the effect of removing the costs of such project or projects from rate base.

19. Regarding those projects that will not be used and useful in time to be included in rates by the rate effective date, the Parties are aware that the Company may ask the

Commission to consider including those costs in rates through a tracker or at the time of a Purchased Gas Adjustment, but the impartation of this knowledge is not intended in any way to limit the Parties participation in future dockets or to prejudge the Parties' positions on such requests.

Revenue Adjustment related to the Company's Proposed Rate Design

20. In its Opening Testimony, Staff argued that the Company had understated its projected revenues for the Test Year by overstating the amount it would lose through customer attrition in the event that its rate design proposal is adopted (the "Company's Proposed Revenue Adjustment"). As a result, in its Opening Testimony, Staff recommended that the Company's Proposed Revenue Adjustment should be removed, and estimated a downward adjustment of \$5.356 million. After discussion, Staff agreed that the Company's Proposed Revenue Adjustment should be \$2.3 million, and the Parties agree that an adjustment of \$2.3 million of revenues should be made in the event that the Commission adopts the Company's proposed rate design (as proposed in the Company's Initial Filing). The parties agree that if the Commission does not adopt the Company's proposed rate design, then the Company should increase expected revenues by \$2.3 million.

Parkrose Retrofit

21. In its Opening Testimony, Staff recommended that the Company's proposed recovery for the Parkrose Retrofit be reduced by \$0.621 million. The Parties agree that Staff will withdraw this recommendation, and that the Company should recover its costs related to the Parkrose Retrofit as proposed.

Rate Case Amortization

22. In its Opening Testimony, CUB/NWIGU recommended that the Company's Rate Case Expense be amortized over five instead of the three years assumed in the Company's proposal, resulting in a downward adjustment to Operating and Maintenance Expense (O&M)

of \$0.093 million. The Parties agree that CUB/NWIGU will withdraw this recommendation and that the Company should recover its Rate Case Expense as proposed.

Uncollectibles Adjustment

23. In its Opening Testimony, CUB/NWIGU recommended that the Company's proposal for recovery of uncollectible expense be reduced by \$0.448 million. The Parties agree that CUB/NWIGU will withdraw this recommendation, and that the Company should recover its uncollectibles as proposed.

Injuries and Damages Expense

24. In its Opening Testimony, CUB/NWIGU recommended that the Company's proposed recovery for Injuries and Damages Expense be reduced by \$0.126 million. The Parties agree that CUB/NWIGU will withdraw that recommendation and that the Company should recover its Injuries and Damages Expense as proposed.

Directors and Officers Insurance

25. In Opening Testimony, Staff recommended that NW Natural be allowed to recover only 50% of the costs of Directors and Officers Insurance above the first layer of coverage. CUB/NWIGU made a different but similar recommendation. The Parties agree that the Company's O&M expense should be adjusted by a reduction of \$0.272 million to remove that portion of the costs of D&O insurance consistent with Staff's recommendation.

Incentive Pay

26. In its Opening Testimony, Staff and CUB/NWIGU both recommended that the Commission make a downward adjustment to the Company's proposal for recovery of incentive pay. The Parties agree the Company's proposed recovery for incentive pay should be adjusted by an amount that represents a 25% reduction to Staff's original recommendation. This amount will vary from the adjustment proposed in Staff's testimony to the extent required to match the Commission's ultimate determination on full-time employees (FTEs), such that the adjustment will represent the application of the Commission precedent described in Staff's

testimony to the number of FTEs determined by the Commission to be includable in revenue requirement, and then reduced by 25%.

Administrative and General

27. In its Opening Testimony, Staff recommended that the Company's proposed Administrative and General (A&G) expense should be reduced by \$1.982 million, and CUB/NWIGU has specifically proposed that the Company's proposed recovery for American Gas Association dues (which is included in A&G expense) should be reduced by \$148,114. After discussions the Parties agreed that the Company's A&G expense should be adjusted by (\$1.212 million).

Miscellaneous Revenue

28. In its Opening Testimony, and later corrected through an errata filing, Staff recommended that the Company's Miscellaneous Revenue proposal be adjusted by \$0.658 million. After discussion, the Parties agreed that the Commission should adopt an adjustment of \$0.494 million, which represents a reduction of 25% of Staff's adjustment proposed in its corrected Opening Testimony.

Advertising

29. In its Opening Testimony, Staff recommended that the Company's advertising expense for Category A advertising expenditures be reduced by \$0.930 million to match the level presumed prudent under OAR 860-026-0022(3)(a). The Parties agree that the Company should be allowed to recover Category A expense commensurate with the per-customer level of \$2.19 allowed in the Company's last rate case and applied to Test Year customer levels. Additionally, the Parties agree that NW Natural should recover \$510,000 of costs for Category B expenses.

Research and Development

30. In its Opening Testimony, Staff recommended that the Company's proposal for Research and Development expense be reduced by \$0.006 million. The Parties agree that

the Commission should accept this adjustment, and that the Company should be allowed to collect \$0.743 million of expenses related to Research and Development.

Materials and Supplies

31. In its Opening Testimony, CUB/NWIGU recommended that the Company's proposal for Materials and Supplies included in rate base should be reduced by \$0.633 million. The Parties agree that this recommendation should be accepted.

Contributions in Aid of Construction (CIAC)

32. In its Opening Testimony, CUB/NWIGU recommended that the Company's rate base be reduced by \$0.069 million to account for its adjustment related to CIAC. The Parties agree that the Company's rate base should be adjusted by this recommendation.

Customer Deposits

33. In its Opening Testimony, CUB/NWIGU recommended that the Company's rate base be reduced by \$5.1 million to account for the Company's possession of customer deposits. All Parties, including the Company agree to accept this recommendation. In addition, as an offset to this reduction, the Company's O&M expense should be increased by \$.005 for interest expense on the customer deposits.

Injuries and Damages Reserves

34. The Parties agree that the Company's proposed rate base should be reduced by \$0.211 million in recognition of the CUB/NWIGU recommendation on this issue.

35. This Partial Stipulation will be offered into the record as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Partial Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Partial Stipulation at hearing, if needed, and recommend that the Commission issue an order adopting the Partial Stipulation.

36. If this Partial Stipulation is challenged by any other party to this proceeding, the Parties agree that they will continue to support the Commission's adoption of the terms of this Partial Stipulation. The Parties reserve the right to cross-examine witnesses and put in such

evidence as they deem appropriate to respond fully to such issues presented including the right to raise issues that are incorporated in the settlements embodied in this Partial Stipulation.

37. The Parties have negotiated this Partial Stipulation as an integrated document. If the Commission rejects all or any material portion of this Partial Stipulation or imposes additional material conditions in approving this Partial Stipulation, any Party shall have the right to withdraw from the Partial Stipulation, along with any other rights provided in OAR 860-001-0350(9), including the right to present evidence and argument on the record in support of the Partial Stipulation, and shall be entitled to seek reconsideration pursuant to OAR 860-001-0720.

38. By entering into this Partial Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Partial Stipulation, other than as specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Partial Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Partial Stipulation.

39. This Partial Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Partial Stipulation is entered into by each Party on the date entered below such Party's signature.

SIGNATURE PAGE TO FOLLOW

NW NATURAL

By: Lisa Rackner
Printed Name: Lisa Rackner
Date: 7-9-12

STAFF

By: _____
Printed Name: _____
Date: _____

CUB

By: _____
Printed Name: _____
Date: _____

NWIGU

By: _____
Printed Name: _____
Date: _____

NW NATURAL

By: _____

Printed Name: _____

Date: _____


CUB

By: _____

Printed Name: _____

Date: _____

STAFF

By:  _____

Printed Name: Jason Jones

Date: 7/6/12

NWIGU

By: _____

Printed Name: _____

Date: _____

NW NATURAL

STAFF

By: _____

By: _____

Printed Name: _____

Printed Name: _____

Date: _____

Date: _____

CUB

NWIGU

By:  _____

By: _____

Printed Name: G. Catriona McCracken

Printed Name: _____

Date: 7-6-2012

Date: _____

NW NATURAL

STAFF

By: _____

By: _____

Printed Name: _____

Printed Name: _____

Date: _____

Date: _____

CUB

NWIGU

By: _____

By: Paula E. Pyron

Printed Name: _____

Printed Name: Paula E. Pyron

Date: _____

Date: 7/6/12

**UG 221 Northwest Natural
First Stipulation
Dollars (000s)**

ATTACHMENT A

Staff & Intervenors
Adjustments
Oregon
Allocation

S-2	Corvallis Reinforcement	(8,370)
S-4	Nertec Replacement	(844)
S-5	Parkrose Retrofit	0
S-7	Tualatin replacement, training facility & land	0
S-8	Unified Communication Phase 1 (PBX Switch)	0
S-9	Westside Transmission Rerate	(1,800)
S-10	Directors and Officers Insurance	(272)
S-11	Incentive Compensation	(2,573)
S-13	Various Customer Service, G&A Expenses	(1,212)
S-15	Research & Development	(6)
S-19	Advertising	(382)
S-21	Miscellaneous Revenue	494
C-1	Portland Optimization Phase II	(563)
C-2	United Communication Phase II	(450)
C-3	Tualatin Bio Swale	(540)
C-4	Sunset Sheds	(603)
C-5	Coos Bay Retrofit	(625)
C-6	Astoria Retrofit	(400)
C-7	Materials and Supplies (M&S)	(633)
C-8	Contributions in Aid of Construction (CIAC)	(69)
C-9	Customer Deposits	(5,101)
C-9	Customer Deposits - Interest Expense	5
C-10	Injuries & Damages Reserves	(211)
C-11	Portland System Optimization Phase I	0
C-12	2012 Generator	0
C-13	Salem Retrofit	0
C-14	2013 Generators	0

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in UG 221 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

OPUC Dockets
Citizens' Utility Board Of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
dockets@oregoncub.org

G. Catriona Mccracken
Citizens' Utility Board Of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
catriona@oregoncub.org

Judy Johnson -- Confidential Public
Utility Commission
PO Box 2148
Salem, OR 97308-2148
judy.johnson@state.or.us

Douglas C. Tingey
Portland General Electric
121 SW Salmon 1WTC13
Portland, OR 97204
doug.tingey@pgn.com

Tommy A. Brooks
Cable Huston Benedict Haagensen & Lloyd
1001 SW Fifth Ave, Ste 2000
Portland, OR 97204-1136
tbrooks@cablehuston.com

Jane Harrison
Northwest Pipeline GP
295 Chipeta Way
Salt Lake City, UT 84108
jane.f.harrison@williams.com

Jess Kincaid Community Action
Partnership Of Oregon
PO Box 7964
Salem, OR 97301
jess@caporegon.org

Dated: July 9, 2012

Robert Jenks
Citizens' Utility Board Of Oregon
610 SW Broadway, Ste 400
Portland, OR 97205
bob@oregoncub.org

Jason W. Jones -- Confidential
PUC Staff--Department Of Justice Business Activities
Section
1162 Court St NE
Salem, OR 97301-4096
jason.w.jones@state.or.us


Wendy Gerlitz
NW Energy Coalition
1205 SE Flavel
Portland, OR 97202
wendy@nwenergy.org

Randy Dahlgren
Portland General Electric
121 SW Salmon St – 1WTC0702
Portland, OR 97204
pge.opuc.filings@pgn.com

Chad M. Stokes
Cable Huston Benedict Haagensen & Lloyd Llp
1001 SW 5th - Ste 2000
Portland, OR 97204-1136
cstokes@cablehuston.com

Stewart Merrick
Northwest Pipeline GP 295
Chipeta Way
Salt Lake City, UT 84108
stewart.merrick@williams.com

Paula E. Pyron
Northwest Industrial Gas Users
4113 Wolf Berry Ct
Lake Oswego, OR 97035-1827
ppyron@nwigu.org



Wendy McIndoo
Office Manager