

# McDowell Rackner & Gibson PC



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August 28, 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:

Enclosed for filing in the above captioned docket are an original and two copies of Northwest Natural Gas Company's List of Additional Exhibits to be Entered Into the Record. A copy of this filing has been served on all parties to this proceeding as indicated on the enclosed Certificate of Service.

Please contact this office with any questions.

Very truly yours,

Handwritten signature of Wendy McIndoo in blue ink.

Wendy McIndoo  
Office Manager

Enclosure

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

**UG 221**

In the Matter of:

NW NATURAL

Application of NW Natural for a General  
Rate Revision

**NW NATURAL'S LIST OF ADDITIONAL  
EXHIBITS TO BE ENTERED INTO THE  
RECORD**

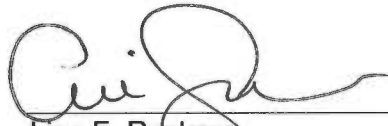
Pursuant to the cross examination at the hearing on August 23, 2012, enclosed is an additional cross exhibit.

**CROSS EXHIBIT IN UG 221**

Exhibit NWN/4325    NWN's Response to Staff's Data Request No. GR1-OPUC-DR 287.

DATED: August 28, 2012

**MCDOWELL RACKNER & GIBSON PC**



Lisa F. Rackner  
Amie Jamieson

**NORTHWEST NATURAL GAS COMPANY**

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Attorneys for NW Natural



Rates & Regulatory Affairs

Oregon General Rate Case – December 2011

Data Request Response

**Request No.** GR1-OPUC-DR 287:

In the Company's testimony NWN/400, Feltz/28, Mr. Feltz stated, ".several public utility commissions in other states have begun to use pension contribution as a component in setting rate recovery from utility customers."

- i. For the three instances cited in Mr. Feltz's testimony, Hawaii Electric Company, Pacific Gas & Electric, and Wisconsin Electric Power Company, please provide the docket numbers and each respective final Order number(s).
- ii. Please provide a description of the mechanism(s) each commission utilized that included pension contributions in establishing the utility's revenue requirement.
- iii. Is the Company aware of any other examples where rate recovery was provided for pension contributions? If so, please identify the docket and final order number.

**Response:** 2/15/2012

i.

<b>Company</b>	<b>Docket Number</b>	<b>Final Order Number</b>
Pacific Gas & Electric Company	09-090-020	09-090-020
Hawaii Electric Light Company	05-0315	05-0315
Wisconsin Electric <sup>1</sup>	05-UR-105	Pending

<sup>1</sup> Wisconsin Electric provided background information to NW Natural on how the Wisconsin commission has allowed pension contributions to be recovered through an adjustment to rate base. This rate base adjustment takes into account net working capital assets and liabilities, which includes prepaid pension expenses in working capital assets. See Exhibit 1.2, Schedule 4 in docket number 05-UR-105 for Wisconsin Gas detail showing rate base adjustment, including prepaid pension expense, for the 2012 test year.

ii.

**Pacific Gas & Electric Company** – The CPUC approved an all-party settlement agreement on a pension cost recovery mechanism in the PG&E rate case. This settlement allowed PG&E to recover its actuarially estimated pension contributions over the next 3 years based on a funding goal of 100% over a reasonable period. The Order also required PG&E to continue with its previously authorized pension contribution balancing account. The pension related revenue requirement for 2011 was an increase of \$140.5 million, for 2012 was an increase of \$177.2 million, and for 2013 was an increase of \$215.7 million. The 2013 pension contribution level will continue in rates for years after 2013 until a new General Rate Case or application is resolved.

**Hawaii Electric Light Company** – HPUC approved prepaid pension contributions to be allowed in rate base along with a pension expense tracking mechanism. In the HPUC Order, it was stated that “(s)ince estimating that HELCO’s ratepayers have historically received a net benefit relating to the difference between the NPPC amount historically included within and presumed to be collected through rates versus the amount of actual contributions to the pension fund, the Consumer Advocate contends that a separate amortization of the net benefit (i.e. the prepaid pension asset) would be appropriate only if the proposed pension tracking mechanism is adopted. The HPUC described the tracking mechanism as follows:

*In short, under the proposed pension tracking mechanism, an amount is identified in each rate case as pension costs in rates, and once new rates are effective and until rates are changed in a subsequent rate case, the amount of pension costs is separately tracked. Under the mechanism, HELCO would fund pension contributions at the actuarially calculated [net period pension costs] as determined under generally accepted accounting principles subject to certain exceptions. During each rate case, the cumulative amount of pension costs in rates since the last rate proceeding is compared to the cumulative amount of contributions to the pension fund and this net amount is an addition (if the cumulative contribution exceeds the cumulative amount in rates) or deduction (if the cumulative amount in rates exceeds the cumulative contribution) in the calculation of rate base. Then the test year ending pension balance in rate base is amortized over five years beginning when new rates are effective.”*

**Wisconsin Electric** – The Wisconsin PUC has allowed Wisconsin Gas (WG) to recover the carrying cost of its pension contributions through an adjustment to rate base. Pension contributions are included in rate base through working capital requirements.. Net working capital includes certain assets and liabilities, including general ledger account balances for prepaid pension expense and unfunded pension liability. The amount of net working capital is added to utility rate base plus CWIP (also known as “net investment rate base” (NIRB) in WG rate cases) to come up with total utility capital. NIRB is then divided by total utility capital to come up with the Ratio of NIRB to Utility Capital. That ratio is then used to adjust WG’s weighted cost of capital in order to derive the “Required Rate of Return on Average Net Investment Rate Base.” For example, in the final decision under Order 05-UR-104 from the Wisconsin PUC, WG’s weighted cost of capital was increased from 7.83% to 8.83% to reflect the impact of net working capital (i.e. the 7.83% was divided by the Ratio of NIRB to Utility Capital of 88.66% to come up with the 8.83% ROR).

Whenever WG’s contributions to the pension fund are greater than the amount recognized for FAS 87 expense, it creates a higher working

capital requirement, which in turn increases the WACC that gets applied to rate base investments. For illustration purposes, assume WG has rate base of \$100 and total utility capital of \$100, with no pension liability, no prepaid pension expense, and no other working capital requirements. If WACC was 10%, then the Required ROR would be 10% as calculated by taking WACC of 10% times 1 for the Ratio of NIRB to total utility capital (NIRB of \$100, divided by Total Utility Capital of \$100). Now let's assume WG records a pension liability of \$50 but makes no pension contribution. The Required ROR would still be 10% because rate base remained \$100, net working capital was \$0 (i.e. negative \$50 for unfunded pension liability, offset by a positive \$50 in prepaid pension account for unamortized pension expense, or AOCI), and total capital is still \$100. Now let's assume that WG funds \$10 of the \$50 pension liability by making a contribution to the pension plan. Rate base is still \$100, net working capital is now \$10 (i.e. positive \$50 in prepaid pension minus \$40 now in unfunded pension liability), and total capital is now \$110. So the ratio of NIRB to total capital is now 90.9%, or \$100 divided by \$110, and the Required ROR is 11.0%, or 10% divided by 90.9%.

iii. Yes. The Company is aware that San Diego Gas & Electric Company (SDG&E) is allowed rate recovery of pension contributions in a manner similar to PG&E. Attached is a report from the Division of Ratepayer Advocates of the California Public Utilities Commission for SDG&E's general rate case with a test year of 2012. The docket number is A.10-12-005/006, and the exhibit number is DRA-30.

We also understand that the Massachusetts Department of Telecommunications and Energy has permitted pension expense to be recovered through a pension tracker, plus it allows a return on assets for uncollected contribution amounts. Under the pension adjustment mechanism in Massachusetts, the amount of pension costs collected in rates is reconciled with the pension expense computed in accordance with FAS 87, and carrying charges on amounts uncollected are allowed as a component of pension costs through this adjustment mechanism. A rate order in a Boston Gas Company case said,

*“As an initial matter, we note that the Department (MTE) has, in the past encouraged companies to prefund pension and PBOP plans in order to take advantage of the tax-exempt status of IRS-qualified pension and PBOP plans. D.P.U. 92-111, at 226-227. The prefunding of these plans maximizes the ability of companies to accumulate earnings on pension trust investments on a tax free basis, thereby producing lower overall costs. Id. In addition, the poor market performance of the past several years, coupled with an extraordinary decline in interest rates, has required the Company to make even greater contributions to fund their pension plans. These payments may result in an unusually high prepaid pension balance (id). Because of the benefits which inure to ratepayers from these payments and the fact that prepaid balances arise from forces at work in the economy at large and outside the Company's*

*control, the Company should no longer absorb the money costs on these significant cash outlays. Accordingly, we will allow carrying charges to be recovered from customers on the prepaid pension and PBOP balances.”*

In addition, we are aware that NiSource and Duquesne Light have rate recovery mechanisms that are based on cash contributions. We also understand, but have not verified, that a number of states include prepaid pension asset balances in rate base. These states include Arkansas, Colorado, Connecticut, Delaware, Florida, Georgia, Indiana, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Mexico, New York, Oklahoma, Rhode Island, Texas, Virginia, Wisconsin and Wyoming.

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.

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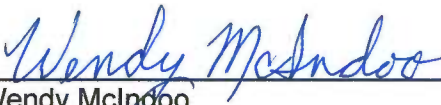
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Dated: August 28, 2012

  
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