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October 13, 2014

***VIA ELECTRONIC FILING***

Public Utility Commission of Oregon  
3930 Fairview Industrial Drive SE  
P.O. Box 1088  
Salem, Oregon 97308-1088

Attn: Filing Center

**Re: OPUC Docket UM 1630**

Application for Reauthorization to Defer Carrying Costs Relating to the  
Company's Prepaid Pension Asset

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the  
"Company"), files herewith the above-referenced Application for Reauthorization to Defer  
Carrying Costs Related to the Company's Prepaid Pension Asset.

Exhibit A to this filing is confidential and is provided separately under the  
protections granted in Commission Order No. 12-468.

Attached as Exhibit B is a notice of this Application, which has been served on all  
parties who participated in the subject docket and the Company's most recent general  
rate case, UG 221. A Certificate of Service is attached as Exhibit C.

Please call Jennifer Gross at (503)226-4211, extension 3590, if you have any  
questions.

Sincerely,

*/s/ Mark R. Thompson*

Mark R. Thompson, Manager  
Regulatory Affairs

1 BEFORE THE PUBLIC UTILITY COMMISSION

2 OF

3 OREGON

4 UM 1630

5  
6  
7  
8  
9 In the Matter of the Application )  
10 by NORTHWEST NATURAL GAS COMPANY, )  
11 dba NW NATURAL, for Reauthorization )  
12 to Defer Carrying Costs on NW Natural's )  
13 Prepaid Pension Asset )  
14 Pursuant to ORS 757.259 )  
15  
16

17 APPLICATION FOR AUTHORIZATION AND  
18 REAUTHORIZATION TO DEFER CERTAIN EXPENSES OR REVENUES  
19  
20

21 Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), hereby  
22 files with the Public Utility Commission of Oregon (Commission) this application seeking  
23 reauthorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-27-300 for  
24 the 12-month period beginning October 29, 2014, for carrying costs relating to the Company's  
25 prepaid pension asset.

26 The Company filed its initial Application for Authorization to defer Carrying Costs on NW  
27 Natural's prepaid pension asset on October 29, 2012 for the twelve month time period October  
28 29, 2012, through October 28, 2013; It filed its second Application on October 24, 2013, for the  
29 twelve month times period October 29, 2013, through October 28, 2014. No action has been  
30 taken on either request as Staff is waiting for the resolution of Docket UM 1633, the  
31 Commission's investigation into Treatment of Pension Costs in Utility Rates. The Company is  
32 submitting this third request for reauthorization to defer carrying costs relating to the Company's  
33 prepaid pension asset for the 12-month period starting October 29, 2014, so that the

1 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

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Commission may act in such a manner that will not impose a gap of time where the Company has no authorization to defer these costs.

In support of this Application, NW Natural states:

**A. NW Natural**

NW Natural is a public utility in the state of Oregon and is subject to the jurisdiction of the Commission regarding rates, service and accounting practices. NW Natural also provides retail natural gas service in the states of Oregon and Washington.

**B. Statutory Authority**

This application is filed pursuant to ORS 757.259, which empowers the Commission to authorize the deferral of expenses or revenues of a public utility for later inclusion in rates.

In the Company's most recent general rate case, Docket UG 221, the Company proposed changing the ratemaking methodology for recovery of costs associated with the Company's defined benefit plans. Currently, the Company recovers pension costs by including a level of Financial Accounting Standard (FAS) 87 expense in rates.<sup>1</sup> As the Company explained in UG 221, the current FAS 87 methodology is no longer adequate to allow for recovery of the Company's substantial pension costs due to the impact of the Pension Protection Act of 2006 (PPA) and recent financial market conditions.<sup>2</sup> As a result of these factors, the Company is carrying on its books a substantial prepaid pension asset which it is required to finance, and which, under the current FAS 87 balancing account, is not accounted for. Therefore, the Company proposed in Docket UG 221 to change this methodology to allow for investor contributions in excess of those recovered through FAS 87 —the Company's

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<sup>1</sup> Docket UG 221, NWN/400, Feltz/21-27

<sup>2</sup> *Id.* at Feltz/23-24.

1 prepaid pension asset—to be added to rate base and to be amortized over time,<sup>3</sup> thus allowing  
2 the Company to earn a *return on* and a *return of* those excess investor contributions.

3 In opening testimony in UG 221, Commission Staff (Staff), the Citizens' Utility Board  
4 (CUB), and Northwest Industrial Gas Users (NWIGU) filed testimony objecting to the  
5 Company's proposed change in ratemaking methodology for pension contributions. One of  
6 the arguments put forth by these parties was that the Company's proposal would constitute  
7 retroactive ratemaking because the contributions were made in prior years.<sup>4</sup> The Company  
8 responded by explaining that the parties retroactive ratemaking argument misconstrued the  
9 nature of the cash contributions, because the cash contributions are not expenses to which  
10 retroactive ratemaking applies.<sup>5</sup> Rather, the Company explained that the contributions are  
11 prepaid obligations—investments that must be financed by the Company like any other long-  
12 term asset—that will continue to exist in the pension fund trust account and that will work to  
13 customers' benefit by reducing future FAS 87 expense.<sup>6</sup> Nevertheless, in an abundance of  
14 caution, on July 11, 2012, the Company filed a deferral application requesting permission to  
15 defer the amount of unrecovered pension contributions for the following 12 months.<sup>7</sup> The  
16 Company explained that, while it did not believe that a deferral application was necessary to  
17 allow for future recovery of these contributions, it was making the application to ensure that, if  
18 the Commission agreed with the parties' position on the issue, the Company had a deferral in  
19 place for pension contributions made in the ensuing twelve months.<sup>8</sup> The Company did not,  
20 however, request authority to defer its ongoing costs to finance the prepaid pension asset,  
21 which it was seeking to recover through UG 221.

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<sup>3</sup> *Id.* at Feltz/27-28; NWN/2000, Feltz/25.

<sup>4</sup> Docket UG 221, NWIGU-CUB/100, Larkin/48; Staff/900, Cimmiyotti/4.

<sup>5</sup> Docket UG 221, NWN/2000, Felts/27.

<sup>6</sup> *Id.* at Feltz/27.

<sup>7</sup> See, *Application for Deferred Accounting*, filed July 11, 2012, UE 1619.

<sup>8</sup> *Id.* at p.3.

### 3 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

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1 On October 26, 2012, the Commission issued a Preliminary Order in UG 221—Order  
2 No. 12-408 (“Preliminary Order”). In the Preliminary Order the Commission denied the  
3 Company’s proposal to allow the Company a return on and return of its prepaid pension asset,  
4 explaining that it was “not yet convinced that a change to the Commission’s existing policy is  
5 warranted or that the change proposed by NW Natural would be the correct policy choice  
6 even if a change is warranted.”<sup>9</sup> Instead, the Commission stated that it would “review the  
7 treatment of pension expense on a general, non-utility-specific basis.”<sup>10</sup> Moreover, the  
8 Commission stated that it might conclude in the generic docket that including prepaid assets is  
9 an appropriate policy to apply to all utilities on a going-forward basis, and further that “[s]hould  
10 that occur, NW Natural would be able to seek inclusion of an appropriate prepaid pension  
11 asset in rate base in future rate proceedings.”<sup>11</sup>

12 NW Natural appreciates the Commission’s willingness to consider whether utilities’  
13 prepaid pension assets should be included in rate base on a going forward basis. However  
14 the Company is concerned that, pending such a decision, the Company will be required to  
15 continue financing the carrying costs on its prepaid pension asset without appropriate  
16 compensation for the costs of such financing. For this reason, the Company requested  
17 permission and now seeks to continue to defer its carrying costs on its prepaid pension asset.  
18 In the event that the Commission finds that it is appropriate for utilities to recover their  
19 financing costs on prepaid pension assets, the Commission can consider whether NW Natural  
20 should be allowed to recover its carrying costs from prior to that date.

21 Granting this deferral application would be consistent with ORS 757.259(2)(e), which  
22 provides that the Commission may authorize deferral of utility expenses or revenues, where

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<sup>9</sup> Order No. 12-408 at 4.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

#### 4 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

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1 deferring such costs would “minimize the frequency of rate changes or the fluctuation of rate  
2 levels” or where it would “match appropriately the costs borne by and benefits received by  
3 ratepayers.” It also would allow the Commission to implement sound regulatory policy.  
4 Through granting this deferral application, the Commission could ensure a more appropriate  
5 matching of costs and benefits received by ratepayers with respect to NW Natural’s prepaid  
6 pension asset. Granting this deferral application would also help avoid any improper detriment  
7 to the Company from the delay between the Commission’s decision in UG 221 and its ultimate  
8 determination in the future proceeding on pensions, if the Commission were to find after this  
9 further review that NW Natural’s proposal should be adopted.

10 **C. Communications**

11 Communications regarding this Application should be addressed to:

12 NW Natural  
13 e-filing for Regulatory Affairs  
14 220 NW Second Avenue  
15 Portland, Oregon 97209-3991  
16 Telephone: (503) 226-4211, ext. 3589  
17 Facsimile: (503) 721-2516  
18 E-mail: eFiling@nwnatural.com

19  
20 and

21  
22 Jennifer Gross  
23 Tariff and Regulatory Affairs Consultant  
24 NW Natural  
25 220 NW Second Avenue  
26 Portland, Oregon 97209-3991  
27 Telephone: (503) 226-4211, ext. 3590  
28 Facsimile: (503) 721-2516  
29 E-mail: jennifer.gross@nwnatural.com

30  
31 **D. Description of Expenses or Revenues for which Deferred Accounting is**

32 **Requested - OAR 860-027-300(3)(a)**

33 NW Natural is seeking authorization to record and defer the carrying costs on its prepaid  
34 pension asset for the twelve months beginning October 29, 2014.

5 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

**E. Reason for Application for Reauthorization of Deferred Accounting - OAR 860-027-0300(3)(c)**

As explained above, in UG 221 the Company explained that is currently financing a very substantial prepaid asset related to its pension contributions made in excess of FAS 87 recovery. For that reason, in that docket, the Company proposed that it be allowed to recover a return on and return of that prepaid asset through an addition to rate base. In its Preliminary Order, the Commission denied the Company's proposal pending ongoing consideration of the appropriate pension recovery mechanism in a generic proceeding. The Company, therefore, wishes to defer its ongoing costs to finance its prepaid pension asset, so that those amounts can be recovered in rates in the event that the Commission should conclude that such recovery is appropriate in future proceedings.

**F. Accounting – OAR 860-027-0300(3)(c)**

Beginning on October 29, 2014, and ending twelve months from this date, NW Natural proposes to account for the carrying costs on the prepaid pension asset by recording the deferral in Account 186 (Other Deferred Debits).

**G. Estimated Amounts Subject to Deferral – OAR 860-027-0300(3)(d)**

The estimated amount subject to deferral is provided in Exhibit A, which is marked "confidential" and is subject to the protections granted in Protective Order No. 12-468.

**H. Reason for Continuation of Deferred Accounting – OAR 860-027-0300(4)(b)**

The continuation of deferred accounting for the matters addressed above is justified because they are continuing in nature.

**I. Requirements per Commission Order No. 09-263**

Below is the information required per Commission Order No. 09-263, issued in Docket UM-1286, Staff's Investigation into Purchased Gas Adjustment Mechanisms:

**6 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES**

1           **1. A completed Summary Sheet, the location in the PGA filing, and an account**  
2           **map that highlights the transfer of dollars from one account to another**

3                       No amounts were deferred last year as the Commission has not acted on the  
4           Company's requests to defer funds in this docket and, therefore, no amounts have  
5           been transferred for amortization.

6           **2. The effective date of the deferral**

7                       This application is for the 12-month period beginning October 29, 2014.

8           **3. Prior year Order Number approving the deferral**

9                       No Commission action has been taken on the Company's Application  
10          submitted in this docket.

11          **4. The amount deferred last year**

12                      No amounts were deferred last year as the Commission has not acted on the  
13          Company's requests to defer funds in this docket, but Exhibit A, which is marked  
14          "confidential" and is subject to the protections granted in Protective Order No. 12-  
15          468, provides the amount that will be deferred for the timeframe October 29, 2013  
16          through October 28, 2014, when the Commission approves the Company's initial  
17          application for authorization to defer submitted under this docket.

18          **5. The amount amortized last year**

19                      No amounts were amortized for collection as the Commission has not acted  
20          on the Company's initial request to defer funds in this docket.

21          **6. The interest rate that will apply to the accounts**

22                      The carrying costs for deferred amounts in this docket will be the Company's  
23          cost of capital. When monies are transferred for amortization, interest will accrue at  
24          the modified blended treasury rate.

7 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES



1           **7. An estimate of the upcoming PGA-period deferral and / or amortization**

2           The estimated amount subject to deferral is provided in Exhibit A, which is  
3           marked "confidential" and is subject to the protections granted in Protective Order  
4           No. 12-468.

5           **J. Notification of Filing**

6           A notice of this Application has been served on all parties who participated in the  
7           Company's most recent general rate case, UG 221, and is attached to this Application as  
8           Exhibit B.

9           DATED this 13th day of October 2014.

10                               Respectfully submitted,

11                               NW NATURAL

12                               */s/ Mark R Thompson*

13                               \_\_\_\_\_  
14                               Mark R. Thompson  
15                               Rates & Regulatory Affairs  
16                               220 NW Second Avenue  
17                               Portland, Oregon 97209-3991  
18                               Phone: (503) 721-2476  
19                               Email: mark.thompson@nwnatural.com

**NW Natural**  
**Rates & Regulatory Affairs**  
**2014-2015 Pension Deferral Filing (UM 1630)**  
**Calculation of Carrying Costs on Prepaid Pension Asset**  
**October 2013 - October 2014**

**CONFIDENTIAL**  
**SUBJECT TO GENERAL PROTECTIVE ORDER**

**Average Prepaid Pension Asset Balance:**

	Balance
October-13	28,685,581
November-13	26,986,796
December-13	25,185,391
January-14	26,832,871
February-14	25,680,351
March-14	24,527,830
April-14	26,575,310
May-14	25,422,790
June-14	24,270,270
July-14	
August-14	
September-14	
October-14 (forecasted)	
13 month AMA	

**Calculation of Carrying Costs:**

Average prepaid pension asset	
Overall rate of return	7.78%
Return on rate base	
Tax benefit of debt component	(1)
Net to gross factor	171.50%
Carrying costs	

**UG 221 Factors**

Interest coordination factor	3.028%
State tax rate	7.60%
Federal tax rate	35.00%
Combined tax rate	39.94%
Net to gross factor	171.50%

**Note:**

(1) Calculated as:

Average Prepaid Pension Asset x Interest coordination factor x Combined tax rate

**NW Natural**  
**Rates & Regulatory Affairs**  
**2014-2015 Pension Deferral Filing (UM 1630)**  
**Deferral of 2013-2014 Carrying Costs**

**CONFIDENTIAL**  
**SUBJECT TO GENERAL PROTECTIVE ORDER**

1	Carrying Costs		\$3,547,233						
2	(10/28/2012 - 10/27/2013)								
3									
4	Monthly allocation - Sales Revenue 2013 Budget				Deferral	Interest rate	Interest	Total Activity	Balance
5				beginning balance					0
6	November	11.46%	\$406,513	2012 November	406,513	7.78%	1,318	407,831	407,831
7	December	15.56%	\$551,949	2012 December	551,949	7.78%	4,433	556,382	964,213
8	January	14.67%	\$520,379	2013 January	520,379	7.78%	7,938	528,317	1,492,530
9	February	12.20%	\$432,762	2013 February	432,762	7.78%	11,079	443,841	1,936,372
10	March	10.76%	\$381,682	2013 March	381,682	7.78%	13,791	395,473	2,331,845
11	April	8.14%	\$288,745	2013 April	288,745	7.78%	16,054	304,799	2,636,644
12	May	5.49%	\$194,743	2013 May	194,743	7.78%	17,726	212,469	2,849,113
13	June	3.86%	\$136,923	2013 June	136,923	7.78%	18,916	155,839	3,004,952
14	July	3.60%	\$127,700	2013 July	127,700	7.78%	19,896	147,596	3,152,549
15	August	3.61%	\$128,055	2013 August	128,055	7.78%	20,854	148,909	3,301,458
16	September	3.74%	\$132,667	2013 September	132,667	7.78%	21,835	154,502	3,455,959
17	October	6.91%	\$245,114	2013 October	245,114	7.78%	23,201	268,315	3,724,274
18		100.00%	\$3,547,233		3,547,233		177,041		



**NW Natural**  
**Rates & Regulatory Affairs**  
**2014-2015 Pension Deferral Filing (UM 1630)**  
**Calculation of Carrying Costs on Prepaid Pension Asset**  
**October 2014 - October 2015**

**CONFIDENTIAL**  
**SUBJECT TO GENERAL PROTECTIVE ORDER**

1 **Average Prepaid Pension Asset Balance (1):**

2

3 Step 1: Calculate the projected October 2014 balance

4 Projected end of year balances:

5 12/31/2014

6 12/31/2015

7

8 Projected [REDACTED] rate:

9 = (Line 6 - Line 5) / Line 5

10

11 October 2014 balance (forecasted)

12 Multiplied by (1 - REDACTED rate)

13 Projected October 2015 balance

14

15 Step 2: Calculate the average October 2014 - October 2015 balance

16

17 Simple Average:

18 October 2014 balance

19 October 2015 balance

20 Average 2014-15 balance

21

22

23 **Calculation of Carrying Costs:**

24

25 Average prepaid pension asset

26

27 Overall rate of return

7.78%

28

29 Return on rate base

30 Tax benefit of debt component

(2)

31

32

33 Net to gross factor

171.50%

34

35 **Carrying costs**

36

37 UG 221 Factors

38 Interest coordination factor

3.028%

39 State tax rate

7.60%

40 Federal tax rate

35.00%

41 Combined tax rate

39.94%

42 Net to gross factor

171.50%

43

44 **Notes:**

45 **(1)** Only year-end projected balances are available from the Company's actuary. To calculate the average  
46 balance for determining the carrying costs, a simple average is used based on an assumed [REDACTED] rate  
47 of the prepaid pension asset balance. The [REDACTED] rate is calculated as the [REDACTED] in the projected  
48 prepaid pension asset between 12/31/14 and 12/31/15.

49

50 **(2)** Calculated as: Average Prepaid Pension Asset x Interest coordination factor x Combined tax rate



October 13, 2014

**NOTICE OF APPLICATION FOR REAUTHORIZATION TO  
DEFER CERTAIN EXPENSES OR REVENUES**

**To All Parties Who Participated in UM 1630 and UG 221:**

Please be advised that today Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), applied for reauthorization to defer CARRYING COSTS RELATING TO THE COMPANY'S PREPAID PENSION ASSET pursuant to the provisions of ORS 757.259(2)(e). Copies of the Company's Application are available for inspection at its main office.

**This is not a rate case.** The purpose of this Notice is to inform parties that participated in either UM 1630 or the Company's most recent general rate case, UG 221, that the Application was filed.

Parties who desire more information or who wish to obtain a copy of the filing, or notice of the time and place of any hearing, if scheduled, should contact the Company or the Public Utility Commission of Oregon as follows:

**NW Natural  
Attn: Jennifer Gross  
220 NW Second Ave  
Portland, Oregon 97209-3991  
Telephone: (503) 226-4211 x3590**

**Public Utility Commission  
of Oregon  
Attn: Filing Center  
3930 Fairview Industrial Drive SE  
P O Box 1088  
Salem, Oregon 97308-1088  
Telephone: (503) 373-0886**

Any person may submit to the Commission written comments on this matter no sooner than 25 days from the date of this Application. The granting of this Application will not authorize a change in rates, but will permit the Company to defer amounts in rates to a subsequent proceeding.

\* \* \* \* \*

**CERTIFICATE OF SERVICE****UG 221 – UM 1630**

I hereby certify that I have this day served the foregoing NOTICE OF APPLICATION FOR DEFERRED ACCOUNTING ORDER FOR CARRYING COSTS RELATING TO THE COMPANY'S PREPAID PENSION ASSET, upon all parties of record in the UM 1630 proceeding and the UG 221 proceeding, which is the Company's most recent general rate case, by electronic mail.

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**NICHOLAS (NICK) CIMMIYOTTI W**  
PUBLIC UTILITY COMMISSION  
OF OREGON  
nick.cimmiyotti@state.or.us

**EXHIBIT C**



DATED at Portland, Oregon, this 13<sup>th</sup> day of October 2014

/s/ Kelley C. Miller  
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Rates & Regulatory Affairs  
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Portland, Oregon 97209-3991  
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kelley.miller@nwnatural.com