

Rates and Regulatory Affairs
Integrated Resource Planning
Facsimile: 503.721.2532



April 29, 2005

Ms. Judy Johnson, Program Manager
Electric and Natural Gas Revenue Requirements
Oregon Public Utility Commission
550 Capitol Street, N.E., Suite 215
P.O. Box 2148
Salem, Oregon 97308-2148

RE: NW Natural's Earnings Review without Workpapers for the Twelve Months Ended December 31, 2004.

Dear Ms. Johnson:

Enclosed are an original and two copies of the Company's Earnings Review without workpapers for the twelve months ended December 31, 2004.

Please feel free to call if you have any questions.

Sincerely,

/s/ Natasha Siores

Natasha Siores
Senior Rates Analyst

NCS/kcm
enclosures



Rates & Regulatory Affairs

ANNUAL EARNINGS REVIEW
For the Twelve Months Ended 12/31/2004

Description of Adjustments

This report was developed in a manner consistent with the earnings review directives adopted in UM 903. The determination of the various adjustments included in this report reflect those typical and routinely developed adjustments as were also adopted in the Company's 2002 general rate filing (UG 152), and continue to be appropriate.

Weather Normalized Gas Sales and Purchases [Column 2(a)]:

This adjustment approximates the volumetric effects of weather on sales and gas costs. Core market volumes have been weather normalized; however, no industrial volumes have been adjusted. The adjustment also reflects the removal of the effects of the WARM mechanism adopted in docket UG 152.

Other Utility Revenue Adjustment [Column 2(b)]:

This adjustment reflects the normalization of other tariffed utility fees and revenues to a historical three-year average.

Commission-Required Advertising Disallowance [Column 2(c)]:

This adjustment reduces the Company's recorded expenses for advertising consistent with the methodology stipulated to in UG 152.

Dues and Membership Adjustment [Column 2(d)]:

Removes the promotional portion of industry associated expenses consistent with the methodology adopted in the Company's 1998 general rate case (UG 132).

Normalization of Property Tax Expense [Column 2(e)]:

Removes the expense accruals for the year, and reflects the actual cash payments made during the test period.

Uncollectible Accounts **[Column 2(f)]**:

This adjustment normalizes the 2004 accrual for Uncollectible expense to a three-year average of "actual net bad debt write-offs."

Capital Stock Expense **[Column 2(g)]**:

The three-year average approach adopted in this adjustment is consistent with both company experience and Commission policy adopted in the Company's 1998 general rate case.

Performance-Based Compensation **[Column 2(h)]**:

This adjustment depicts the disallowance of performance-based compensation as stipulated to in the Company's 2002 general rate case (UG 152 methodology).



NW Natural

REPORT:

ANNUAL EARNINGS REVIEW

(for the twelve months ended December 31, 2004)

WITHOUT WORKPAPERS

PREPARED BY:

NATASHA SIORES

SENIOR RATES ANALYST

RATES & REGULATORY AFFAIRS

NW Natural
2004 Oregon Earnings Review
12 Months Ended December 31, 2004
(\$000)

Line No.	Test Year		Test Year	
	Results	Adjustments	Adjusted	
	(a)	(b)	(c)	
Operating Revenues				
1	Sale of Gas	\$627,610	\$28,241	\$655,851
2	Revenue & Technical Adjustments	(35)	(6,005)	(6,040)
3	Transportation	11,621	0	11,621
4	Miscellaneous Revenues	3,257	23	3,281
5	Total Operating Revenues	642,453	22,259	664,712
Operating Revenue Deductions				
6	Gas Purchased	364,333	24,767	389,100
7	Uncollectible Accrual for Gas Sales	3,004	(371)	2,633
8	Other Operating & Maintenance Expenses	88,862	(781)	88,082
9	Total Operating & Maintenance Exp.	456,199	23,615	479,814
10	Federal Income Tax	22,200	(758)	21,442
11	State Excise	4,591	(152)	4,439
12	Property Taxes	13,872	765	14,637
13	Other Taxes	20,823	678	21,501
14	Depreciation & Amortization	51,185	0	51,185
15	Total Operating Revenue Deductions	568,870	24,148	593,019
16	Net Operating Revenues	\$73,583	(\$1,889)	\$71,694
Average Rate Base				
17	Utility Plant in Service	\$1,491,008	(\$257)	\$1,490,751
18	Accumulated Depreciation	(580,970)	0	(580,970)
19	Net Utility Plant	910,039	(257)	909,782
20	Aid in Advance of Construction	(1,361)	0	(1,361)
21	Materials & Supplies	57,629	0	57,629
22	Water Heater Program	0	0	0
23	Leasehold Improvements	552	0	552
24	Accumulated Deferred Income Taxes	(108,105)	0	(108,105)
25	Total Rate Base	\$858,753	(\$257)	\$858,497
26	Rate of Return	8.57%		8.35%
27	Return on Common Equity	9.89%		9.48%

NW Natural
2004 Oregon Earnings Review
12 Months Ended December 31, 2004
State Allocation of Other Revenues, Depreciation Expense and Other Taxes

	Oregon	Washington	System	
Other Operating Revenues				
Multnomah Tax	35,000	0	35,000	Direct
Reconnect Charges	406,235	44,290	450,525	Direct
Late Payment Charges	1,747,485	92,143	1,839,628	Direct
Automated Payment Charge	145,709	22,495	168,204	Direct
Returned Check	100,509	11,430	111,939	Direct
Field Collection	324,075	35,400	359,475	Direct
Meter Rentals	163,223	16,376	179,599	Direct
Utility Property Rental	183,619	18,534	202,152	Follows Plant Split
Water Heater Program	16,564	3	16,567	Direct
Curtailement Unauthorized Take Charge	70,340	0	70,340	Direct
Miscellaneous	64,414	1,500	65,914	Direct
Total Other Op Revenues	3,257,172	242,170	3,499,342	
Depreciation Expense				
Intangible	4,587,983	474,787	5,062,770	Customers
Transmission	315,283	0	315,283	Direct
Distribution	39,742,097	4,591,869	44,333,965	Direct
General	2,724,859	288,299	3,013,158	3-factor
Storage and storage transmission	3,673,099	347,940	4,021,039	Firm Sales
Production Plant	29,964	0	29,964	Direct
CNG and LNG	111,219	11,768	122,987	3-factor
Total Depreciation Expense	51,184,504	5,714,663	56,899,167	
	89.96%			
Other Taxes				
Property	13,872,071	1,073,461	14,945,532	Direct
Franchise	14,579,740	2,285,054	16,864,794	Direct
Payroll	4,674,372	473,955	5,148,327	Payroll
Regulatory Fee	1,388,296	91,926	1,480,222	Direct
Department of Energy	0	0	0	Direct
Other	143,429	11,760	155,189	3-factor on non-Oregon
Multnomah County Business	36,750	0	36,750	Direct
Other Taxes	34,694,657	3,936,156	38,630,813	

**NW Natural
Tax Provision - Historic
2004 Oregon Earnings Review
(\$000)**

<u>Line No.</u>	<u>State Taxes</u>	<u>Federal Taxes</u>	
1 Operating Revenues	\$642,453	\$642,453	
2 Operating Revenue Deductions	456,199	456,199	
3 Property & Other Taxes	34,695	34,695	
4 Book Depreciation	51,185	51,185	
5 Interest (Rate Base * Cost of Debt)	28,339	28,339	
6 State Tax Deduction	-	4,591	
7 Subtotal	72,035	\$67,444	
8 Permanent Differences	(2,177)	(1,959)	89.96% Depreciation Factor
9 Taxable Income	69,858	\$65,485	
10 Tax Rate	6.60%	35.00%	
11 Tax Before Credits	4,611	22,920	
12 Credits	(20)	(720)	
13 Total Tax	\$4,591	\$22,200	

NW Natural
12 Months Ended December 31, 2004
Input Assumptions
Proforma Cost of Capital

Line No.		% of Total Capital (a)	Average Cost (b)	Average Weighted Cost (c)
1	Long Term Debt	46.75%	7.05%	3.30%
2	Preferred Stock	0.00%	0.00%	0.00%
3	Common Stock	53.25%	10.20%	5.43%
4	Total	<u>100.00%</u>		<u>8.73%</u>
Revenue Sensitive Costs				
5	Gas Sales	98.67%		
6	Transportation	1.75%		
7	Other	0.49%		
8	Subtotal	<u>100.91%</u>		
9	O & M - Uncollectible	0.42%		
10	Franchise Taxes at	2.15%		
11	OPUC Fee	0.25%		
12	State Taxable Income	<u>98.09%</u>		
13	State Income Tax	6.47%		
14	Federal Taxable Income	91.62%		
15	Federal Income Tax	32.07%		
16	Total Income Taxes	<u>38.54%</u>		
17	Total Revenue Sensitive Costs	41.36%		
18	Utility Operating Income	<u>59.55%</u>		
19	Net-to-gross factor	167.92%		
20	Interest Coordination Factor	3.30%		
21	Rate of Return	10.20%		
22	Federal tax rate	35.00%		
23	State tax rate	6.60%		
24	Franchise Fees	2.15%		
25	Uncollectible Accounts	0.42%		
26	Regulatory fees	0.25%		

NW Natural
2004 Oregon Earnings Review
Rate Base
(\$000)

Line No.	Utility Plant Classified (a) [1]	Utility Plant not Classified (b)	Accumulated Depreciation (c)	Customer Advances for Construction (d)	Gas Inventory, Materials & Supplies (e)	Leasehold Improvement (f)	Stipulated Deferred Income Tax (g) [2]	Recorded Deferred Income Tax (h) [3]	Total Average Rate Base (i)
1 December 2003	\$1,598,800	\$0	(\$607,354)	(\$1,564)	\$63,028	\$880	(\$118,749)	(\$100,523)	\$935,042
2 January 2004	1,598,800	3,980	(611,727)	(1,522)	51,970	840	(118,749)	(105,545)	923,592
3 February	1,598,800	8,923	(616,283)	(1,528)	49,770	799	(118,749)	(108,693)	921,732
4 March	1,598,800	12,871	(620,138)	(1,560)	51,030	752	(118,749)	(116,570)	923,005
5 April	1,598,800	18,469	(624,430)	(1,575)	41,462	704	(118,749)	(118,141)	914,680
6 May	1,598,800	24,776	(628,720)	(1,572)	42,991	656	(118,749)	(117,985)	918,182
7 June	1,598,800	29,521	(632,186)	(1,584)	62,046	603	(118,749)	(116,456)	938,450
8 July	1,598,800	33,541	(636,540)	(1,507)	71,233	555	(118,749)	(114,344)	947,333
9 August	1,598,800	42,495	(640,767)	(1,625)	78,040	501	(118,749)	(115,013)	958,696
10 September	1,598,800	132,961	(644,462)	(1,463)	83,028	454	(118,749)	(117,011)	1,050,567
11 October	1,598,800	154,651	(649,389)	(1,498)	78,237	334	(118,749)	(117,411)	1,062,386
12 November	1,598,800	156,230	(654,481)	(1,521)	80,010	293	(118,749)	(122,222)	1,060,581
13 December	1,598,800	159,753	(659,176)	(1,529)	75,817	925	(118,749)	(136,975)	1,055,841
14 13 Month Average	\$1,598,800	\$58,191	(\$632,699)	(\$1,542)	\$63,270	\$616	(\$118,749)		\$967,887
15 Oregon Allocated	\$1,439,319	\$51,689	(\$580,970)	(\$1,361)	\$57,629	\$552	(108,105)		\$858,753

[1] Prior Year-End Balance

[2] Stipulated Average Deferred Taxes = Simple Average of Recorded Beginning and Ending Balances

[3] Balances excluding deferred taxes for temporary increments

NW Natural
2004 Oregon Earnings Review
Rate Base - Materials and Supplies
(\$000)

Line No.	Jackson Prairie (a)	Newport LNG (b)	Central LNG (c)	Gasco LNG (d)	Mist Storage Gas		Appliances For Resale & Demonstration (g)	Inventory Other Oper. Supplies (h)	Total Oper. Supplies & Materials (i)
					Permanent Gas (e)	Working Gas (f)			
1 December 2003	3,570	3,953	2,014	2,006	12,778	32,929	(609)	6,386	63,028
2 January 2004	3,179	3,246	1,255	963	12,778	24,898	(614)	6,265	51,970
3 February	3,362	3,143	1,255	942	12,778	22,240	(580)	6,629	49,770
4 March	4,805	3,050	396	916	13,608	22,009	(584)	6,831	51,030
5 April	1,741	2,970	0	890	13,608	15,947	(574)	6,880	41,462
6 May	3,902	2,898	446	1,001	13,608	14,697	(544)	6,983	42,991
7 June	4,760	2,883	935	1,159	13,608	32,311	(522)	6,912	62,046
8 July	4,376	3,744	1,364	1,397	13,608	39,882	(526)	7,387	71,233
9 August	4,606	4,003	2,213	1,607	13,608	44,920	(532)	7,615	78,040
10 September	4,892	4,539	2,334	1,859	13,608	48,506	(516)	7,805	83,028
11 October	3,211	4,636	2,433	2,157	13,608	44,846	(512)	7,856	78,237
12 November	5,638	4,506	2,356	2,402	13,608	43,560	(478)	8,416	80,010
13 December	5,393	4,345	2,448	2,394	13,434	39,805	(447)	8,446	75,817
14 13 Month Average	\$4,080	\$3,647	\$1,435	\$1,458	\$13,428	\$32,515	(\$542)	\$7,250	\$63,270

NW Natural
2004 Oregon Earnings Review
Rate Base Workpapers

December 31, 2004

Gross Plant		Oregon	Washington	System	Allocation Method
Intangible	Software	55,119,370	5,704,017	60,823,387	Total Customers
	Other	73,795	447	74,242	Direct
Production		675,198	-	675,198	Direct
Transmission		17,199,503	-	17,199,503	Direct
Distribution		1,193,086,587	141,461,420	1,334,548,007	Direct
General		84,138,067	7,511,203	91,649,270	3-Factor & Direct
Storage and storage transmission		241,862,552	22,910,842	264,773,394	Firm Delivered Volumes
CNG and LNG		2,321,963	245,671	2,567,634	3-Factor
Total Gross Plant		1,594,477,035	177,833,600	1,772,310,635	
Accumulated Depreciation					
Intangible		(29,320,850)	(3,034,262)	(32,355,113)	Total Customers
Production		(679,994)	-	(679,994)	Direct
Transmission		(8,178,888)	-	(8,178,888)	Direct
Distribution		(478,652,937)	(42,760,801)	(521,413,738)	Direct
General		(38,218,217)	(4,043,612)	(42,261,829)	3-Factor
Storage and storage transmission		(47,642,314)	(4,512,999)	(52,155,313)	Firm Delivered Volumes
CNG and LNG		(1,926,986)	(203,881)	(2,130,868)	3-Factor
Total Accumulated Depreciation		(604,620,187)	(54,555,556)	(659,175,744)	
Storage Gas		61,949,322	5,868,255	67,817,577	Firm Delivered Volumes
Customer Advances		(1,327,639)	(201,633)	(1,529,273)	Direct
Materials and Supplies		7,550,392	895,232	8,445,624	Gross Distribution Plant %
Appliances		(446,506)	-	(446,506)	Direct
Water Heater Program		-	-	-	Direct
Leasehold Improvements		836,791	88,535	925,326	Direct & 3-Factor
Deferred Taxes					
State		(21,153,149)	-	(21,153,149)	Direct
Federal		(103,529,965)	(12,291,723)	(115,821,688)	gross plant split
Total Rate Base - December 2004		933,736,094	117,636,710	1,051,372,804	

NW Natural
2004 Oregon Earnings Review
Rate Base Workpapers

December 31, 2003

Gross Plant		Oregon	Washington	System	Allocation Method
Intangible	Software	51,873,177	5,368,086	57,241,263	Total Customers
	Other	17,434	447	17,881	Direct
Production		675,198	-	675,198	Direct
Transmission		16,343,387	-	16,343,387	Direct
Distribution		1,130,680,217	130,746,794	1,261,427,011	Direct
General		80,320,250	7,107,266	87,427,516	3-Factor
Storage and storage transmission		158,166,786	14,982,618	173,149,404	Firm Delivered Volumes
CNG and LNG		2,277,042	240,918	2,517,960	3-Factor
Total Gross Plant		1,440,353,491	158,446,129	1,598,799,620	
Accumulated Depreciation					
Intangible		(24,732,867)	(2,559,476)	(27,292,343)	Total Customers
Production		(650,030)	-	(650,030)	Direct
Transmission		(7,811,814)	-	(7,811,814)	Direct
Distribution		(444,651,985)	(38,408,379)	(483,060,364)	Direct
General		(34,776,064)	(3,679,421)	(38,455,485)	3-Factor & Direct
Storage and storage transmission		(43,946,123)	(4,162,871)	(48,108,994)	Firm Delivered Volumes
CNG and LNG		(1,815,767)	(192,114)	(2,007,881)	3-Factor
Total Accumulated Depreciation		(558,384,650)	(49,002,261)	(607,386,911)	
Storage Gas		52,296,798	4,953,903	57,250,701	Firm Delivered Volumes
Customer Advances		(1,402,527)	(161,038)	(1,563,565)	Direct
Materials and Supplies		5,724,240	661,925	6,386,165	Gross Distribution Plant %
Appliances		(608,591)	-	(608,591)	Direct
Water Heater Program		-	-	-	Direct
Leasehold Improvements		780,169	100,165	880,334	Direct & 3-Factor
Deferred Taxes					
State		(15,894,647)	-	(15,894,647)	Direct
Federal		(75,632,052)	(8,996,633)	(84,628,686)	gross plant split
Total Rate Base - December 2003		847,232,232	106,002,190	953,234,421	
Average Rate Base (12/04 & 12/03)		890,484,163	111,819,450	1,002,303,613	

State Rate Base % of Total	88.84%	11.16%
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NW Natural
State Allocation Factors
Updated for year ended 2004 data

Allocation Factors - Summary	Washington	Oregon
Customers-all	9.38%	90.62%
Customers-Res	9.56%	90.44%
Customers-Com	7.76%	92.24%
Customers-Ind	5.87%	94.13%
Customers-The Dalles	25.66%	74.34%
3-factor	9.57%	90.43%
firm volumes	8.65%	91.35%
sales volumes	8.44%	91.56%
sendout volumes	6.82%	93.18%
sales/sendout volumes	7.63%	92.37%
Customers port/van	12.82%	87.18%
Customers port/van 80%	10.25%	89.75%
Customers port/van com	11.51%	88.49%
Payroll	9.21%	90.79%
Admin Tran	9.91%	90.09%
Employee Cost	9.93%	90.07%
Regulatory	30.00%	70.00%
Telemetry	10.00%	90.00%
Direct-Wa	100.00%	0.00%
Direct-Or	0.00%	100.00%
Gross plant direct assign	10.35%	89.65%

NW Natural
State Allocation Factors
Updated for year ended 2004 data

	<u>System</u>	<u>Oregon</u>	<u>Washington</u>
Customers			
Total Customers			
December 2003	578,150	525,022	53,128
December 2004	596,635	539,587	57,048
Average	587,393	532,305	55,088
% of System		90.62%	9.38%
Residential Customers			
December 2003	519,427	470,744	48,683
December 2004	537,152	484,801	52,351
Average	528,290	477,773	50,517
% of System		90.44%	9.56%
Commercial Customers			
December 2003	57,971	53,572	4,399
December 2004	58,548	53,904	4,644
Average	58,260	53,738	4,522
% of System		92.24%	7.76%
Industrial Customers			
December 2003	752	706	46
December 2004	935	882	53
Average	844	794	50
% of System		94.13%	5.87%
The Dalles			
December 2003	6,180	4,598	1,582
December 2004	6,373	4,734	1,639
Average	6,277	4,666	1,611
% of System		74.34%	25.66%
Portland / Vancouver			
December 2003	410,770	359,224	51,546
December 2004	423,724	368,315	55,409
Average	417,247	363,770	53,478
% of System		87.18%	12.82%
Portland / Vancouver Commercial			
December 2003	37,594	33,366	4,228
December 2004	37,977	33,509	4,468
Average	37,786	33,438	4,348
% of System		88.49%	11.51%

**NW Natural
State Allocation Factors**

Volumes - 12 Months Ended 12/31/04

Firm Delivered	679,013,471	620,260,118	58,753,353
% of System		91.35%	8.65%
Sales Volumes	750,116,075	686,836,506	63,279,569
% of System		91.56%	8.44%
Sendout Volumes	1,139,630,154	1,061,917,049	77,713,105
% of System		93.18%	6.82%

3-factor formula (simple average)

Gross Plant Directly Assigned		89.65%	10.35%
Number of Employees Directly Assigned		91.02%	8.98%
Number of Customers		90.62%	9.38%
Average		90.43%	9.57%

Derivation of factor for 3-factor - Gross Plant Directly Assigned

December 31, 2004

	System	Oregon	Washington
Intangible - Other	74,242	73,795	447
Production	675,198	675,198	0
Transmission	17,199,503	17,199,503	0
Distribution	1,334,548,007	1,193,086,587	141,461,420

December 31, 2003

	System	Oregon	Washington
Intangible	17,881	17,434	447
Production	675,198	675,198	0
Transmission	16,343,387	16,343,387	0
Distribution	1,261,427,011	1,130,680,217	130,746,794

Average

	System	Oregon	Washington
Intangible - Other	46,062	45,615	447
Production	675,198	675,198	0
Transmission	16,771,445	16,771,445	0
Distribution	1,297,987,509	1,161,883,402	136,104,107

**Gross Plant Directly Assigned
% of System**

	1,315,480,213	1,179,375,659	136,104,554
		89.65%	10.35%

NW Natural
Test year Normalizing Adjustments
2004 Oregon Earnings Review
(\$000)

Line No.	Weather Normalization & Gas Costs Adjustment (2a)	Miscellaneous Revenue Adjustment (2b)	Advertising Adjustment (2c)	Memberships and Dues Adjustment (2d)	Property Taxes Adjustment (2e)	Uncollectible Accounts Adjustment (2f)	Stock Issuance Adjustment (2g)	Bonus Adjustment (2h)	Total Adjustments (2i)
Operating Revenues									
1	\$28,241								\$28,241
2		(6,005)							(6,005)
3									0
4		23							23
5	28,241	(5,982)	0	0	0	0	0	0	22,259
Operating Revenue Deductions									
6	24,767								24,767
7	118	0	0	0	0	(489)		0	(371)
8			(246)	(205)			475	(805)	(781)
9	24,885	0	(246)	(205)	0	(489)	475	(805)	23,615
10	875	(1,956)	80	67	(250)	160	0	266	(758)
11	177	(395)	16	14	(50)	32	0	54	(152)
12					765			0	765
13	678	1	0	0	0	0	0	0	678
14							0	0	0
15	26,615	(2,350)	(150)	(124)	465	(297)	475	(485)	24,148
16	1,626	(3,631)	150	124	(465)	297	(475)	485	(1,889)
Average Rate Base									
17								(257)	(257)
18								0	0
19	0	0	0	0	0	0	0	(257)	(257)
20									0
21									0
22									0
23									0
24									0
25	0	0	0	0	0	0	0	(257)	(257)
26	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$8)	(\$8)

Northwest Natural Gas Company
Test year Normalizing Adjustments
2004 Oregon Earnings Review
(\$000)

Income Tax Calculations

Line No.	Weather Normalization & Repricing Adjustment (2a)	Other Revenue Adjustment (2b)	Advertising Adjustment (2c)	Memberships and Dues Adjustment (2d)	Property Taxes Adjustment (2e)	Uncollectible Accounts Adjustment (2f)	Stock Issuance Adjustment (2g)	Accrued Bonus Adjustment (2h)	Total Adjustments (2i)
1	Book Revenues	\$28,241	(\$5,982)	\$0	\$0	\$0	\$0	\$0	\$22,259
2	Book Expenses before Deprec. & Int.	25,563	1	(246)	(205)	765	(489)	(805)	25,388
3	State Tax Depreciation	0	0	0	0	0	0	0	0
4	Interest Expense (Income)	0	0	0	0	0	0	(8)	0
5	Book/Tax Differences (Sched. M)	0	0	0	0	0	0	0	0
6	State Taxable Income	2,678	(5,982)	246	205	(765)	489	813	(3,129)
7	State Excise Tax [1]	177	(395)	16	14	(50)	32	54	(206)
8	State Tax Credit	0	0	0	0	0	0	0	0
9	Net State Income Tax	177	(395)	16	14	(50)	32	54	(206)
10	Excess Book(Tax) Deprec.	0	0	0	0	0	0	0	0
11	Other Sched. M Differences	0	0	0	0	0	0	0	0
12	Federal Taxable Income	2,501	(5,587)	230	191	(715)	457	759	(2,923)
13	Federal Income Tax [2]	875	(1,956)	80	67	(250)	160	266	(1,024)
14	ITC	0	0	0	0	0	0	0	0
15	Current Federal Tax	875	(1,956)	80	67	(250)	160	266	(1,024)
16	Deferred Income Tax - Federal	0	0	0	0	0	0	0	0
17	Deferred Income Tax - State	0	0	0	0	0	0	0	0
18	ITC Restored (Deferred)	0	0	0	0	0	0	0	0
19	Total Federal Tax	875	(1,956)	80	67	(250)	160	266	(1,024)
20	Total State Tax	\$177	(\$395)	\$16	\$14	(\$50)	\$32	\$54	(\$206)

[1] Statutory State Excise Tax Rate: 6.60%

[2] Statutory Federal Income Tax Rate: 35.00%

Total Revenues

	<u>Therms</u>	<u>Rate/Therm</u>	<u>Revenue</u>
Sales Revenues	686,836,506		624,005,382
Unbilled Revenues	(7,029,331)		3,604,706
Unaccounted For Gas	5,438,564		0
Total Sales Revenues	685,245,739		627,610,088
Transportation Revenues	375,080,543		11,621,126
Grand Total Revenues	<u>1,060,326,281</u>		<u>639,231,214</u>

Gas Costs

Demand Charges	0		78,373,451
Commodity Charges	685,245,739	\$0.44045	301,817,366
Oregon Deferral Activities	0		(15,857,814)
Grand Total Gas Costs	<u>685,245,739</u>		<u>364,333,003</u>

Normalization Adjustment

	<u>Therms</u>	<u>Revenue</u>
WARM Adjustment	0	(8,996,178)
<u>Weather Normalization Adjustment</u>		
Residential	25,946,595	26,337,118
Commercial	12,943,142	10,900,002
Total Normalizing Margin Adjustment	<u>38,889,736</u>	<u>28,240,943</u>

Gas Cost Adjustment

WACOG equalization		1,082,422
Gas Deferral Adjustment - Restore Shareholder amount		559,171
Weather Normalization Gas Costs		23,125,397
Total Gas Cost Adjustment		<u>24,766,990</u>

NW Natural
2004 Oregon Earnings Review
Adjustments to Miscellaneous Revenues
(\$000)

Worksheet 2b

Line No.		Actual (a)	Normalized (b)	Adjustment (c)	
Revenue & Technical Adjustments					
1	Intervenor Funding Amortization	(\$40.1)	(\$40.1)	\$0.0	
2	DSM - Amortization	(2,729.2)	(2,729.2)	0.0	
3	Y2K Amortization	(1,171.1)	(1,171.1)	0.0	
4	Interstate Storage Credit	5,324.3	0.0	(5,324.3)	
5	Decoupling	680.9	0.0	(680.9)	
6	Decoupling Amortization	(2,951.7)	(2,951.7)	0.0	
7	Gain on Sale, OQ, Vancouver Gain Amortization	323.6	323.6	0.0	
8	SMPE Rate Adjustment	1,475.3	1,475.3	0.0	
9	SMPE Amortization	(600.6)	(600.6)	0.0	
10	Coos Bay Rate Adjustment	243.8	243.8	0.0	
11	Fish/Gaden Block Refund	(640.4)	(640.4)	0.0	
12	WARM Deferrals	35.3	35.3	0.0	
13	NNGFC Credit Guaranty	14.4	14.4	0.0	
14	Subtotal	(35.4)	(6,040.6)	(6,005.3)	
Other Miscellaneous Revenues					
15	Reconnection / Field Collection Charges	730.3	709.8	(20.5)	[1]
16	Returned Check Charge	100.5	97.1	(3.4)	[1]
17	Late Payment Fee	1,747.5	1,747.5	0.0	
18	Gas Property Rental	183.6	150.9	(32.7)	[1]
19	Meter Rental	163.2	154.9	(8.3)	[1]
20	Multnomah County Tax Collected	35.0	35.0	0.0	
21	Oregon Other Revenues	64.4	212.3	147.9	[1]
22	Automated Payment Charge	145.7	135.3	(10.4)	[1]
23	Water Heater Program	16.6	14.3	(2.3)	[1]
24	Curtailment Unauthorized Take Charge	70.3	23.4	(46.9)	[1]
25	Subtotal	3,257.2	3,280.5	23.3	
26	Total	\$3,221.8	(\$2,760.1)	(\$5,981.9)	

[1] Normalized to 3-year average

NW Natural
 2004 Oregon Earnings Review
 Advertising Adjustment

Worksheet 2c

<u>Line No.</u>	<u>Amount</u> (a)
	<u>Advertising Expense - Test Period</u>
1	Category A 971,059
2	Category B 379,439
3	Category C 271,500
4	Category E <u>0</u>
5	Total Advertising Expense <u>\$1,621,998</u>
	<u>Category A Threshold</u>
6	Total Oregon Customers - 2003-2004 average 532,305
7	Presumptive allowable \$2.19 per customer <u>2.19</u>
8	Category A Allowable <u>1,165,747</u>
9	Total Allowable Expense (Line 2 plus lesser of Lines 1 and 8) 1,350,498
10	Disallowed Amounts (Line 5 less Line 9) 271,500
11	Allocation Factor (Residential Customers) <u>90.44%</u>
12	Allocated to Oregon <u>(\$245,539)</u>

NW Natural
2004 Oregon Earnings Review
Dues and Memberships Adjustment

Worksheet 2d

Line No.	Operating		Non-Operating		Amount	
	Amount (a)	Percent (b)	Amount (c)	Percent (d)		
1	IGT / GRI	\$75,000	100%	\$75,000	0%	\$0
2	AGA	245,424	75%	184,068	25%	61,356
3	Western Energy Institute	50,000	75%	37,500	25%	12,500
4	Other	306,063	50%	153,032	50%	153,032
5	Total	<u>\$676,487</u>		<u>\$449,600</u>		<u>\$226,888</u>
6	Allocation Factor (3-Factor)					<u>90.43%</u>
7	Allocated to Oregon					<u>\$205,179</u>

**NW Natural
2004 Oregon Earnings Review
Property Tax Adjustment
(\$000)**

Worksheet 2e

<u>Line No.</u>	<u>Amount (a)</u>
1 Property Tax Accrual - Oregon	\$13,872
2 Property Taxes Paid - Oregon	<u>14,637</u>
3 Adjustment	<u><u>\$765</u></u>

NW Natural
2004 Oregon Earnings Review
Uncollectible Accounts Adjustments
(\$000)

Worksheet 2f

Line No.		2002 - 2004 Total (a)	2004 Actual (b)	2003 Actual (c)	2002 Actual (c)
Gas Revenues					
1	Residential	\$1,064,726	\$381,526	\$328,464	\$354,736
2	Commercial	577,585	199,725	176,385	201,475
3	Industrial	121,167	44,624	33,578	42,965
4	Interruptible	94,978	55,380	23,661	15,938
5	Total	1,858,456	681,256	562,088	615,113
Net Write-Offs					
6	Residential	6,091	2,139	1,583	2,369
7	Commercial	1,102	376	296	429
8	Industrial	584	126	315	143
9	Interruptible	(6)	-	(3)	(3)
10	Total	7,771	2,641	2,192	2,938
Write-Off Percentage					
11	Residential	0.572%	0.561%	0.482%	0.668%
12	Commercial	0.191%	0.188%	0.168%	0.213%
13	Industrial	0.482%	0.282%	0.939%	0.332%
14	Interruptible	-0.006%	0.000%	-0.012%	-0.020%
15	Weighted Total [1]	0.418%	0.388%	0.390%	0.478%
Normalized Uncollectible					
16	Residential	\$2,183			
17	Commercial	381			
18	Industrial	215			
19	Interruptible	(3)			
20	Total	\$2,775			
21	Allocation Factor (Total Customers)	90.62%			
22	Oregon Normalized Amount	2,515			
23	Oregon Allocation of Accrued Amount	3,004			
24	Adjustment (Normalized less Accrued)	(\$489)			

[1] Weighted uncollectible rate of :

0.4181% is used on page 1, column (b).

**NW Natural Company
2004 Oregon Earnings Review
Common Stock Issuance expense**

Worksheet 2g

<u>Line No.</u>	<u>Amount</u> (a)
1 Capital Stock Expense - 2002	\$6,676
2 Capital Stock Expense - 2003	19,199
3 Capital Stock Expense - 2004	<u>1,578,040</u>
4 Three Year Average	\$534,638
5 Allocation Factor (Rate Base)	<u>88.84%</u>
6 Allocated to Oregon	<u><u>\$474,993</u></u>

NW Natural
 2004 Oregon Earnings Review
 Bonus Adjustment
 (\$000)

Worksheet 2h

<u>Line No.</u>	<u>Key Goal Amount</u> (a)	<u>Performance Amount</u> (b)	<u>Total Amount</u> (c)
<u>Operating and Maintenance</u>			
1 Remove Accrued Amount	(\$1,377,199)	(\$1,839,509)	
2 UG 152 Allowed Amounts [1]	687,792	1,642,319	
3 Net Adjustment	(689,407)	(197,190)	
4 Allocation Factor (Payroll)	90.79%	90.79%	
5 Allocated to Oregon	(\$625,940)	(\$179,037)	(\$804,977)
<u>Construction</u>			
6 Remove Accrued Amount	(\$759,157)	(\$641,234)	
7 UG 152 Allowed Amounts [1]	504,141	607,146	
8 Net Adjustment	(255,016)	(34,088)	
9 Allocation Factor (Rate Base)	88.84%	88.84%	
10 Allocated to Oregon	(\$226,566)	(\$30,285)	(\$256,851)

[1] Per Order 03-507 (Docket UG-152), Bonus allowed as follows:

	<u>Key Goal</u>	<u>NBU</u>
Potential	3,157,200	6,118,600
Projected Award	38.0%	38.0%
Expected Payout	1,200,336	2,326,231
O&M %	57.3%	70.6%
Construction %	42.0%	26.1%
Total O&M	687,792	1,642,319
Total Capital	504,141	607,146