

Rates and Regulatory Affairs
Facsimile: 503.721.2532



January 23, 2006

Public Utility Commission of Oregon
550 Capitol Street, Northeast, Suite 215
Post Office Box 2148
Salem, Oregon 97308-2148

ATTN: Filing Center

Re: **OPUC Docket UM ____**: Application for Authorization of Deferred Accounting of Revenues and Expenses

In accordance with ORS 757.125, 757. 259(2)(e), and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural (NW Natural or company), files herewith the above-referenced Application for Authorization of Deferred Accounting of Revenues and Expenses.

A notice concerning this application will be sent to all parties who participated in the company's most recent general rate case, UG 152. A copy of the notice is part of the enclosed application.

Please call me at 1-503-721-2452 if you have any questions or require any further information.

Sincerely,

/s/ Onita King

Onita R. King, Manager
Tariffs & Regulatory Compliance

enclosures

cc: UG 152 Service List

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BEFORE THE PUBLIC UTILITY COMMISSION

OF

OREGON

UM _____

In the Matter of the Application of
NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL, for an
Accounting Order

APPLICATION FOR DEFERRED
ACCOUNTING OF REVENUES AND
EXPENSES

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I. INTRODUCTION

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Northwest Natural Gas Company dba NW Natural (“NW Natural” or “Company”)

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files this application with the Public Utility Commission of Oregon (“Commission”) for an

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accounting order authorizing the Company to record and defer from the date of this

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Application forward the positive or negative difference between (a) test year net

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revenue from regulated operations of the Company, and (b) actual net revenue from

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regulated operations of the company, for each tax year of the Company commencing

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on and after January 1, 2006. NW Natural would refund or surcharge only that portion

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of the deferred difference equal to any corresponding tax surcharge or refund arising

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from such difference in net revenues, as provided in the Commission’s regulations

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implementing Senate Bill 408 (SB 408).

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Under separate filing, NW Natural will propose the automatic adjustment clause

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(AAC) required by SB 408, as such act has been interpreted by an Oregon Department

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of Justice letter opinion dated December 27, 2005. This deferral will address the

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potential mismatch in the calculation of the AAC under SB 408, which applies to current

1 year gross revenues from regulated operations of the utility – a prior test year ratio of
2 the company’s net revenues from regulated operations to gross revenues from
3 regulated operations. This offsetting deferral is necessary because the relationship
4 between such net revenues and gross revenues is dynamic, and not static as assumed
5 by the AAC calculation.

6 **II. COMMUNICATIONS**

7 Communications regarding this Application should be addressed to:

8 C. Alex Miller, Director
9 Regulatory Affairs & Forecasting
10 NW Natural
11 220 NW Second Avenue
12 Portland, OR 97209-3991
13 Telephone: (503) 721-3580
14 Facsimile: (503) 721-2532
15 E-mail: alex.miller@nwnatural.com

16 and

17
18
19 Elisa M. Larson
20 Associate Counsel
21 NW Natural
22 220 NW Second Avenue
23 Portland, OR 97209-3991
24 Telephone: (503) 220-2354
25 Facsimile: (503) 721-2516
26 E-mail: elisa.larson@nwnatural.com

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28 In addition, it is respectfully requested that all formal correspondence and
29 discovery requests regarding this matter be addressed to:

30
31 By e-mail: ork@nwnatural.com, and
32 kcm@nwnatural.com

33
34 By facsimile: Onita R. King (503) 721-2532
35

1
2 By regular mail: Onita R. King, Manager
3 Tariffs & Regulatory Compliance
4 NW Natural
5 220 NW Second Avenue
6 Portland, OR 97209-3991
7 Telephone: (503) 721-2452
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9 **III. DEFERRED ACCOUNTING RULE REQUIREMENTS**

10 **A. Description.**

11 The purpose for this Application is to address the unintended consequence of
12 SB 408 that the AACs could increase utility earning volatility in a manner that would be
13 contrary to rational ratemaking. Specifically, the ratio of the Company's net revenue
14 from regulated operations may vary substantially from year to year and the ratio of the
15 Company's net revenues from regulated operations to its gross revenues from
16 regulated operations may vary substantially from prior rate case assumptions. Unless
17 such variations are accounted for, then an unintended effect of the SB 408 AAC
18 calculation will be to produce (a) a surcharge to the Company's customers when its net
19 revenues exceed test year expectations and (b) a refund to the Company's customers
20 when its net revenues fall short of test year expectations. Without an additional
21 deferred accounting as permitted under Oregon law, or some other compensating
22 mechanism, SB 408 could worsen an under-earning situation and increase the
23 Company's earnings in an over-earning situation. The amortization of the deferred
24 balances collected in the deferral account should be concurrent with the operation of
25 any AAC refund or surcharge.

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1 **B. Reasons for Deferral.**

2 ORS 757.259(2)(e) allows the deferral of utility expenses or revenues where
3 necessary to minimize the frequency of rate changes or the fluctuation of rate levels or
4 to match appropriately the costs borne by and benefits received by ratepayers. This
5 application seeks approval for both purposes. The uncertainty regarding the final
6 outcome of the SB 408 rules and the AAC has created the need for this deferral
7 application. The deferral will allow for the recognition of changes in the Company's net
8 revenues, but only to the extent of the tax impacts of such changes.

9 **C. Proposed Accounting.**

10 In the event that the deferral is a credit to customers, the deferral will be
11 recorded as a regulatory liability in Account 254 (Other Regulatory Liabilities), debiting
12 Account 456 (Other Revenue). If the deferral is a charge of the income tax effect to
13 customers, the deferral will be recorded in Account 182.3 (Regulatory Assets), crediting
14 Account 456 (Other Revenue). The unamortized balance in the deferral account will
15 accrue interest at a rate equal to NW Natural's weighted average cost of capital most
16 recently approved by the Commission.

17 **D. Estimate of Amounts.**

18 An accurate estimate of the tax effect of the net revenue difference described in
19 this Application cannot be provided at this time because rules implementing SB 408 are
20 not yet established and the 2006 actual net revenues are not yet known. NW Natural
21 will supplement this Application when this information becomes available.

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January 23, 2006

**NOTICE OF APPLICATION FOR AUTHORIZATION OF DEFERRED
ACCOUNTINGS OF REVENUES AND EXPENSES**

To All Parties Who Participated in UG 152:

Please be advised that today Northwest Natural Gas Company, dba NW Natural (NW Natural or company), applied for authorization to defer certain expenses and revenues relative to annual SB 408 utility tax adjustments, pursuant to the provisions of ORS 757.259(2)(e). Copies of the company's application are available for inspection at its main and district offices.

This is not a rate case. The purpose of this Notice is to inform parties that participated in the company's most recent general rate case, UG 152, 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: Onita R. King
220 N.W. Second Ave.
Portland, Oregon 97209-3991
Telephone: (503) 721-2452

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol St., N.E., Ste. 215
P. O. Box 2148
Salem, Oregon 97308-2148
Telephone: (503) 378-6600

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.

The company's district offices in Oregon are located at:

7150 Supra Drive
Albany, Oregon 97321
Telephone: (541) 926-4253

176 W. Marine Drive
Astoria, Oregon 97103
Telephone: (503) 325-1632

1625 N. 7th Street
Coos Bay, Oregon 97420
Telephone: (541) 267-5655

790 Goodpasture Island Road
Eugene, Oregon 97401
Telephone: (541) 342-3662

1405 S. W. Highway 101
Lincoln City, Oregon 97367
Telephone: (541) 994-2111

309 E. 2nd Street
The Dalles, Oregon 97058
Telephone: (541) 296-2229

3123 Broadway N.E.
Salem, Oregon 97303
Telephone: (503) 585-6611



UM ____-Application for Authorization to Defer Certain Revenues and Expenses
CERTIFICATE OF SERVICE

I hereby certify that on the 23rd day of January, 2006, I served the foregoing APPLICATION FOR AUTHORIZATION OF DEFERRED ACCOUNTING OF REVENUES AND EXPENSES upon each party listed below by electronically mailing a copy to each party's email address of record, as listed on the Public Utility Commission of Oregon's official service list for NW Natural's last general rate case, UG 152.

UG 152 SERVICE LIST

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DATED at Portland, Oregon, this 23rd day of January, 2006.

/s/ Kelley C. Miller
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