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October 15, 2010

Salem Safe Room
Public Utility Commission of Oregon
550 Capitol Street N.E., Suite 215
Salem, OR 97301-2551

**Re: Docket No. UG 170
Submission of 2010 Tax Report by Northwest Natural Gas Company for
Fiscal Years 2007, 2008 and 2009**

Northwest Natural Gas Company ("NW Natural") hereby files its October 15, 2010 tax report (the "Report") in Oregon Public Utility Commission ("the Commission") Docket No. UG 170 pursuant to OAR 860-022-0041, as amended by AR 517, Order No. 07-401 ("the Rules"). The Report shows for each of the fiscal years 2007, 2008, and 2009, calculated in the manner set out in the Final Rules, and using the template provided by Commission staff, the amounts of "taxes paid" by NW Natural, as compared with the amounts of taxes that NW Natural was "authorized to collect in rates".

This cover letter, which is not confidential, contains information for each year about the difference between the taxes paid and the taxes authorized to be collected in rates. An original and two courtesy copies of the Report and Template have been separately submitted to the Commission as "highly confidential information" under seal and Bates numbered subject to the protections set forth in the Protective Order adopted by the Commission in Order No. 06-033. Pursuant to OAR 860-022-0041(7) and Order No. 06-033, NW Natural has also submitted copies of workpapers supporting the calculations set forth in the Report as "highly confidential information" subject to the Protective Order in this docket.

Tax Report Conclusions

ORS 757.268 and OAR 860-022-0041 provide for either rate refunds or rate increases, depending on whether the "taxes paid" by a utility were lower or higher than the taxes the utility was "authorized to collect in rates." If "taxes paid" were less than the taxes the utility was "authorized to collect in rates," the company would be required to make the rate refund of its supposed tax savings. If "taxes paid" were more than the taxes the utility was "authorized to collect in rates," the company would be entitled to increase its rates to recover the supposed additional tax payments.

Based on the calculations required by the Rules, in each of 2007, 2008 and 2009, NW Natural's federal and Oregon "taxes paid" were more than the amount of federal and Oregon taxes it was "authorized to collect in rates." The total 3-year difference was \$10,789,487, broken down as follows: \$5,480,897 for 2007; \$178,705 for 2008; and \$5,129,885 for 2009. In addition, NW Natural reported that it collected \$370,916 more in local taxes in rates than it paid attributed to the 2009 tax year.

The Rules do require that, upon order of the Commission, the utility implement an automatic adjustment clause to account for the difference between "taxes paid" and taxes the utility was "authorized to collect in rates" for the 2007, 2008 and 2009 tax years (OAR 860-022-0041(8)). For the 2007 tax year, Commission staff approved our filing and we collected the \$5,480,897 surcharge in a one-time adjustment in June 2009. For the 2008 tax year, Commission staff approved our filing and we are collecting the \$178,705 over a 12-month period beginning in June 2010. Upon order by the Commission, NW Natural will be required to implement a tariff to collect the \$5,129,885 difference calculated for 2009.

We have prepared the attached Report based on what we believe is a reasonable interpretation of the Rules and tax report template provided by Commission staff. We look forward to working closely with Commission staff in their review of this Report.

Sincerely,

/s/ David H. Anderson

David H. Anderson
Senior Vice President and Chief Financial Officer

Attachments (Submitted separately and designated as Highly Confidential Information pursuant to Order No. 06-033)

cc: Portland Safe Room



CERTIFICATE OF SERVICE

I hereby certify that on the 15th day of October, 2010, I served the foregoing Northwest Natural's HIGHLY CONFIDENTIAL 2010 Tax Report – Cover Letter Only in OPUC Docket No. UG 170 upon each party or attorneys' of parties listed below by e-mail and, where paper service is not waived, by first-class U.S. Mail, postage prepaid.

/s/ Kelley C. Miller
 Kelley C. Miller, Staff Assistant
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OPUC DOCKET NO. UG 170

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