
**SENATE BILL 408, TAX FILINGS
STAFF'S INITIAL FINDINGS
FOR NORTHWEST NATURAL-UG 170**

TO: ALL PARTIES
DOCKET NO. AR 499
NORTHWEST NATURAL
SB 408 TAX FILINGS – UG 170
2003, 2004 AND 2005

FROM: ED DURRENBERGER, UTILITY ANALYST,
PUBLIC UTILITY COMMISSION

DATE: DECEMBER 15, 2006

CC: LEE SPARLING, ED BUSCH, JUDY JOHNSON AND JASON
JONES

On October 16, 2006, Northwest Natural (NW Natural) filed UG 170, its tax report covering the calendar years 2003, 2004 and 2005 pursuant to Senate Bill 408 (SB 408) (codified at ORS 757.267, 757.268 and OAR 860-022-0041).

The information contained in these tax reports represents highly confidential and sensitive information. Staff has adhered to the handling of the confidential information in these filings consistent with Commission Order No. 06-033. In addition, Staff has structured its initial findings in this report in a generic manner in order to avoid the possibility of disclosing confidential, or sensitive, information.

Staff finds that NW Natural's original filing was very detailed and adequately documented its procedures and methodologies compliant with the current AR 499 rules. Staff acknowledges the effort of NW Natural's Tax Manager, Linda Deckard, to facilitate Staff's review of their work papers.

Staff reviewed in great specificity one particular tax year, each calculation and all supporting documentation provided by the Company were examined and evaluated. For NW Natural this tax year was 2003. For NW Natural's 2004 and

2005 filings, Staff reviewed the source documents and calculations to assure consistency for each year's report.

In the process of these reviews, Staff has discovered a few issues specific to NW Natural's filing, as well as inconsistencies that appear to relate more globally to AR 499 rules as they currently exist and/or to the interpretation of AR 499 by the utility companies versus Staff's understanding of the current rules.

Following is a description first of the issues Staff found with NW Natural's filing, followed by the more generic issues regarding the rules in general.

Issue 1) Federal and State Income Taxes Collected

In calculating the Federal and State Income Taxes Collected, line 7, tax work sheet page 1 of 7, NW Natural used a value for Gross revenue in line 2 that included revenue from sources other than sale of gas. Revenues from other sources are excluded from the evaluation of taxes authorized to be collected in rates.

Staff Comment:

Adjusting the Gross Revenue to include only revenues from sales of gas will tend to increase the value of taxes authorized to be collected in rates and change the value of line 11, the difference between Taxes Paid and Taxes Collected. In the sample year evaluated the change would move the value in line 11 from a small surplus to a small deficit.

Staff recommendation:

This issue is addressed as generic issue 1) below. It is Staff intention to raise this issue in up-coming workshops. Staff's recommendation is that NW Natural should calculate the revenue collected using only those revenues from sales of gas. There are issues with the treatment of taxes and income related adjustments at the time of the annual Purchased Gas Adjustment that will require further discussion and evaluation.

Issue 2) Origin of numbers used to represent ratio calculations.

Staff Comment:

The calculations used to compute the percentage of the revenues and taxes properly attributed to Oregon required the use of costs categories that could not be readily segregated from annual reports or confidential tax documents. In the absence of having these cost categories segregated out from other costs in the

annual results of operations report the company made a good faith effort to derive values which enabled the calculations to go forward. This was a problem with the other utilities also and NW Natural has agreed to segregate the necessary cost categories in future results of operations reports.

Staff recommendation:

Staff recommends that NW Natural follow through with segregating the cost categories in future financial reports to facilitate SB 408 reporting requirements.

Generic issues:

Staff discovered two generic issues that appear to be global misconceptions between Staff, the Utilities and the rules as they currently exist.

Generic Issue 1) Appropriate Gross Revenues and Taxes.

The treatment of the income and taxes associated with the permanent changes to base rates that have occurred between general rate cases such as, in the case of NW Natural, permanent rate increases that take place concurrent with the annual purchased gas adjustment need to be clarified in the rule.

Staff Comments:

The calculation of Federal and State Taxes Collected in Rates needs to include the income and the taxes collected from the base rate adjustments as well as those authorized by the rate case. Staff suggests the rule could further clarify this issue preventing the confusion it raised in the current filing.

Generic Issue 2) Calculation of Stand-alone Utility (the floor).

Staff Comments:

Pursuant to OAR 860-022-0041(3)(b)(B) and (3)(d)(B), the amount of federal income taxes paid that is properly attributed to the regulated operations is not to be less than the Utility's stand-alone calculation reduced by a proportionate share of the tax losses after adjusting for tax effects of Public Utility Property (PUP). It is Staff's opinion that the adjustment for the tax effects of PUP should

ONLY include depreciation for those entities that are regulated AND are experiencing a loss in that tax period and not an adjustment for the tax effects of all public utility property. Staff believes that in order to avoid IRS normalization violations, there is no need to add back the tax effect of depreciation related to PUP of regulated utilities that do not have losses.

Staff found that the utility companies tended to make this adjustment for depreciation by including all PUP and not just PUP from entities that experienced a loss in that tax year.

Staff recommendation:

Staff suggests a housekeeping change to this section of the rule clarifying that the “floor” calculation should be based either solely on the losses of unregulated entities in the consolidated group (eliminating the need to make any PUP-related add backs), or alternatively, that the add back should be the amount related to those regulated entities with losses. Staff will make a recommendation in the rulemaking expected next spring.

1 **CERTIFICATE OF SERVICE**

2 I certify that on December 15, 2006, I served the foregoing upon the parties in this
3 proceeding hereto by electronic mail and sending a true, exact and full copy by regular mail,
4 postage prepaid or by shuttle mail/hand deliver to the parties accepting paper service.

5 R TOM BUTLER
tom@butlert.com

6 REP TOM BUTLER
7 H-289 STATE CAPITOL
8 SALEM OR 97310
cpatom@fmtc.com

9 JIM DEASON
10 ATTORNEY AT LAW
11 1 SW COLUMBIA ST - STE 1600
12 PORTLAND OR 97258-2014
jimdeason@comcast.net

13 KEN LEWIS
14 PO BOX 29140
15 PORTLAND OR 97296

16 **AF LEGAL & CONSULTING SERVICES**
17 ANN L FISHER
18 ATTORNEY AT LAW
19 PO BOX 25302
20 PORTLAND OR 97298-0302
energlaw@aol.com

21 **ASSOCIATED OREGON INDUSTRIES**
22 JULIE BRANDIS
23 1149 COURT ST NE
24 SALEM OR 97301-4030
jbrandis@aoi.org

25 **ATER WYNNE LLP**
26 LISA F RACKNER
ATTORNEY
222 SW COLUMBIA ST STE 1800
PORTLAND OR 97201-6618
lfr@aterwynne.com

AVISTA CORPORATION
DAVID J MEYER
VICE PRESIDENT & CHIEF COUNSEL
PO BOX 3727
SPOKANE WA 99220-3727
david.meyer@avistacorp.com

AVISTA CORPORATION
THOMAS R PAINE
1411 EAST MISSION
SPOKANE WA 99202
tom.paine@avistacorp.com

AVISTA UTILITIES
DON M FALKNER
MANAGER REVENUE REQUIREMENTS
PO BOX 3727
SPOKANE WA 99220-3727
don.falkner@avistacorp.com

AVISTA UTILITIES
RON MCKENZIE
MANAGER - REGULATORY ACCT.
PO BOX 3727
SPOKANE WA 99220-3727
ron.mckenzie@avistacorp.com

AVISTA UTILITIES
KELLY O NORWOOD
VICE PRES. - STATE & FEDERAL REGULATION
PO BOX 3727
SPOKANE WA 99220-3727
kelly.norwood@avistacorp.com

CABLE HUSTON BENEDICT ET AL
EDWARD A FINKLEA
1001 SW 5TH - STE 2000
PORTLAND OR 97204
efinklea@chbh.com

CITIZENS' UTILITY BOARD OF OREGON
LOWREY R BROWN
UTILITY ANALYST
610 SW BROADWAY - STE 308
PORTLAND OR 97205
lowrey@oregoncub.org

CITIZENS' UTILITY BOARD OF OREGON
JASON EISDORFER
ENERGY PROGRAM DIRECTOR
610 SW BROADWAY STE 308
PORTLAND OR 97205
jason@oregoncub.org

CITIZENS' UTILITY BOARD OF OREGON
ROBERT JENKS
610 SW BROADWAY STE 308
PORTLAND OR 97205
bob@oregoncub.org

CITY OF PORTLAND
DAVE JUBB
dave@jubb.com

DANIEL W MEEK ATTORNEY AT LAW

DANIEL W MEEK
ATTORNEY AT LAW
10949 SW 4TH AVE
PORTLAND OR 97219
dan@meek.net

DAVISON VAN CLEVE PC

MELINDA J DAVISON
333 SW TAYLOR - STE 400
PORTLAND OR 97204
mail@dvclaw.com

DAVISON VAN CLEVE PC

MATTHEW W PERKINS
333 SW TAYLOR - STE 400
PORTLAND OR 97204
mwp@dvclaw.com

DEPARTMENT OF REVENUE

DENNIS J MAURER
dennis.j.maurer@state.or.us

ENERGY STRATEGIES

KELLY FRANCONI
CONSULTANT
215 SOUTH STATE ST - STE 200
SALT LAKE CITY UT 84111
kfranconi@energystrat.com

IDAHO PUBLIC UTILITY COMMISSION

DAN PFEIFFER
POLICY STRATEGIST
472 WEST WASHINGTON ST
BOISE ID 83720
dan.pfeiffer@puc.idaho.gov

INDUSTRIAL CUSTOMERS/NW UTILITIES

MICHAEL EARLY
EXECUTIVE DIRECTOR
333 SW TAYLOR STE 400
PORTLAND OR 97204
mearly@icnu.org

JD ANDERSON ASSOCIATES

JIM ANDERSON
910 SAHALEE CT SE
SALEM OR 97306
lobbyoregon@comcast.net

KAFOURY & MCDUGAL

LINDA K WILLIAMS
ATTORNEY AT LAW
10266 SW LANCASTER RD
PORTLAND OR 97219-6305
linda@lindawilliams.net

LEAGUE OF OREGON CITIES

ANDREA FOGUE
SENIOR STAFF ASSOCIATE
PO BOX 928
1201 COURT ST NE STE 200
SALEM OR 97308
afogue@orcities.org

MCDOWELL & ASSOCIATES PC

SARAH J ADAMS LIEN
ATTORNEY
520 SW SIXTH AVE - SUITE 830
PORTLAND OR 97204
sarah@mcd-law.com

MCDOWELL & ASSOCIATES PC

KATHERINE A MCDOWELL
ATTORNEY
520 SW SIXTH AVE - SUITE 830
PORTLAND OR 97204
katherine@mcd-law.com

MIDAMERICAN ENERGY HOLDINGS CO.

RICK TUNNING
666 GRAND AVENUE
DES MOINES IA 50303
rrtunning@midamerican.com

MIDAMERICAN ENGERY HOLDINGS CO.

STEVE EVANS
666 GRAND AVE
DES MOINES IA 50303
srevans@midamerican.com

NORTHWEST INDUSTRIAL GAS USERS

PAULA E PYRON
EXECUTIVE DIRECTOR
4113 WOLF BERRY COURT
LAKE OSWEGO OR 97035-1827
ppyron@nwigu.org

NORTHWEST NATURAL

GARY BAUER
220 NW 2ND AVE
PORTLAND OR 97209
gary.bauer@nwnatural.com

NORTHWEST NATURAL

LINDA DECKARD
220 NW 2ND AVE
PORTLAND OR 97209
lsd@nwnatural.com

NORTHWEST NATURAL

GREGG KANTOR
220 NW SECOND
PORTLAND OR 97209
gsk@nwnatural.com

1 **NORTHWEST NATURAL**
MARGARET D KIRKPATRICK
INTERIM GENERAL COUNSEL
2 220 NW 2ND AVE
PORTLAND OR 97209
3 margaret.kirkpatrick@nwnatural.com

4 **NORTHWEST NATURAL**
ELISA M LARSON
ASSOCIATE COUNSEL
5 220 NW 2ND AVE
PORTLAND OR 97209
6 elisa.larson@nwnatural.com

7 **NORTHWEST NATURAL GAS COMPANY**
ALEX MILLER
DIRECTOR - REGULATORY AFFAIRS
8 220 NW SECOND AVE
PORTLAND OR 97209-3991
9 alex.miller@nwnatural.com

10 **PACIFIC POWER & LIGHT**
RYAN FULLER
825 NE MULTNOMAH STE 800
11 PORTLAND OR 97232
ryan.fuller@pacificcorp.com

12 **PACIFIC POWER & LIGHT**
LARRY O MARTIN
13 825 NE MULTNOMAH STE 800
PORTLAND OR 97232
14 larry.martin@pacificcorp.com

15 **PACIFIC POWER & LIGHT**
JAN MITCHELL
825 NE MULTNOMAH - STE 2000
16 PORTLAND OR 97232
jan.mitchell@pacificcorp.com

17 **PACIFIC POWER & LIGHT**
PAUL M WRIGLEY
18 MANAGER - REGULATION
825 NE MULTNOMAH STE 800
19 PORTLAND OR 97232
paul.wrigley@pacificcorp.com

20 **PACIFICORP**
LAURA BEANE
21 MANAGER - REGULATORY
825 MULTNOMAH STE 2000
22 PORTLAND OR 97232
laura.beane@pacificcorp.com

23 **PACIFICORP**
SCOTT BOLTON
24 825 NE MULTNOMAH
PORTLAND OR 97232
25 scott.bolton@pacificcorp.com

26

PACIFICORP
RICHARD PEACH
825 NE MULTNOMAH
PORTLAND OR 97232
richard.peach@pacificcorp.com

PAINE HAMBLEN COFFIN BROOKE ET AL
AUSEY H ROBNETT III
PO BOX E
COEUR D'ALENE ID 83816-0328
ausey.robnett@paineambly.com

PORTLAND CITY OF - OFFICE OF CITY ATT
BENJAMIN WALTERS
DEPUTY CITY ATTORNEY
1221 SW 4TH AVE - RM 430
PORTLAND OR 97204
bwalters@ci.portland.or.us

PORTLAND GENERAL ELECTRIC CO.
RATES & REGULATORY AFFAIRS
121 SW SALMON ST 1WTC0702
PORTLAND OR 97204
pge.opuc.filings@pgn.com

PORTLAND GENERAL ELECTRIC
RANDALL DAHLGREN
121 SW SALMON ST 1WTC 0702
PORTLAND OR 97204
randy.dahlgren@pgn.com

PORTLAND GENERAL ELECTRIC
PAMELA G LESH
VP RATES & REGULATORY AFFAIRS
121 SW SALMON ST 1 WTC 1703
PORTLAND OR 97204
pamela.lesh@pgn.com

PORTLAND GENERAL ELECTRIC
RAUL MADARANG
121 SW SALMON ST
PORTLAND OR 97204
raul.madarang@pgn.com

PORTLAND GENERAL ELECTRIC
DAVE ROBERTSON
121 SW SALMON ST
PORTLAND OR 97204
dave.robertson@pgn.com

PORTLAND GENERAL ELECTRIC
INARA K SCOTT
ASSISTANT GENERAL COUNSEL
121 SW SALMON ST
PORTLAND OR 97204
inara.scott@pgn.com

PORTLAND GENERAL ELECTRIC
BOB TAMLYN
121 SW SALMON ST
PORTLAND OR 97204
bob.tamlyn@pgn.com

1 **PORTLAND GENERAL ELECTRIC**

DOUGLAS C TINGEY
ASST GENERAL COUNSEL
2 121 SW SALMON 1WTC13
PORTLAND OR 97204
3 doug.tingey@pgn.com

4 **PORTLAND GENERAL ELECTRIC**

JAY TINKER
PROJECT MANAGER
5 PORTLAND GENERAL ELECTRIC CO.
121 SW SALMON ST 1WTC-0702
6 PORTLAND OR 97204
jay.tinker@pgn.com

7 **PUBLIC AFFAIRS COUNSEL**

8 MARK NELSON
PO BOX 12945
SALEM OR 97309
9 pacounsel@pacounsel.org

10 **PUBLIC UTILITY COMMISSION**

JUDY JOHNSON
11 PO BOX 2148
SALEM OR 97308-2148
judy.johnson@state.or.us

PUBLIC UTILITY COMMISSION/OR

ED BUSCH
PO BOX 2148
SALEM OR 97308-2148
ed.busch@state.or.us

STATE CAPITOL


SENATOR RICK METSGER
900 COURT ST NE S-307
SALEM OR 97301
sen.rickmetsger@state.or.us

STATE CAPITOL

SENATOR VICKI L WALKER
900 COURT ST NE S-210
SALEM OR 97301
sen.vickiwalker@state.or.us

STOEL RIVES LLP

MARCUS A WOOD
900 SW FIFTH AVE - STE 2600
PORTLAND OR 97204
mwood@stoel.com

12
13 

14 Neoma Lane
15 Legal Secretary
16 Department of Justice
17 Regulated Utility & Business Section
18
19
20
21
22
23
24
25
26