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***VIA ELECTRONIC FILING
AND HAND DELIVERY***

PUC Filing Center
Public Utility Commission of Oregon
550 Capitol Street N.E., Suite 215
Salem, OR 97301-2551

**Re: Docket No. UG 170
Submission of 2007 Tax Report by Northwest Natural Gas Company
For Fiscal Years 2004, 2005 and 2006**

Northwest Natural Gas Company ("NW Natural") hereby files its October 15, 2007 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 2004, 2005, and 2006, calculated in the manner set out in the 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 a courtesy copy of the attached Report, however, is submitted herewith and being hand delivered 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 2004, 2005 and 2006, NW Natural's “taxes paid” were more than the amount of taxes it was “authorized to collect in rates.” The total 3-year difference was \$5,869,000, broken down as follows: \$1,218,000 for 2004; \$2,957,000 for 2005; and \$1,694,000 for 2006.¹

Because the Rules only require rate adjustments for taxes collected on or after January 1, 2006, there will be no rate change as a result of the first two years of this report (2004 and 2005). 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” in 2006. OAR 860-022-0041(8). Thus, upon order by the Commission, NW Natural will be required to implement a tariff to collect the \$1,694,000 difference calculated for 2006.

Based on current calculations, if NW Natural were to amortize this amount over a single year, the approximate rate increase to residential customers would be \$0.23 per month or 0.30%; the approximate rate increase to small commercial customers would be \$0.74 per month or 0.28%; and the approximate rate increase to industrial customers would be \$26.09 per month or 0.09%.

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/ Gregg S. Kantor

Gregg S. Kantor
President and Chief Operating Officer

Attachments (Via Hand Delivery, Designated as Highly Confidential Information
Pursuant to Order No. 06-033)

¹ Note that because NW Natural's 2006 Tax Report was not affected by the rule changes established in AR 517, Order No. 07-401, after consultation with OPUC Staff, the Company has not re-calculated its tax information for 2004 and 2005.