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October 16, 2006

***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 2006 Tax Report by Northwest Natural Gas Company
For Fiscal Years 2003, 2004 and 2005**

Northwest Natural Gas Company ("NW Natural") hereby files its October 15, 2006 tax report (the "Report") in Oregon Public Utility Commission ("the Commission") Docket No. UG 170 pursuant to the final rules promulgated under Docket No. AR 499 ("Final Rules"). The Report shows for each of the fiscal years 2003, 2004, and 2005, 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. One 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 Section (6) of the Final Rules, NW Natural will submit copies of all workpapers and documents supporting the calculations set forth in the Report as "highly confidential information" also subject to the Protective Order promptly after the October 17th conference in this docket.

Tax Report Conclusions

The Final Rules 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 Final Rules, in each of 2003, 2004 and 2005, NW Natural’s “taxes paid” were more than the amount of taxes it was “authorized to collect in rates.” Thus, had the Final Rules been in effect for those years, NW Natural would have been entitled to a rate increase in each of years 2003, 2004 and 2005. Based on our interpretation of the provisions of the Final Rules, the total 3-year rate increase would have been \$4,812,000, broken down as follows: \$637,000 for 2003; \$1,218,000 for 2004; and \$2,957,000 for 2005. Based on current calculations, we expect this trend of customer surcharges to continue, at least in the near future. Because the Final Rules only apply to taxes collected on or after January 1, 2006, there will be no adjustment of our rates as a result of the Report.

One-Time Permanent Election

We note that Section 3(c)(C) of the Final Rules provides that if a utility’s taxes collected in rates reflect non-Oregon state income taxes, the utility must make a one-time permanent election in its October 15, 2006, tax report filing. We have not made that one-time permanent election because the Oregon tax return is the only state tax return we file.

Conclusion

We have prepared the attached Report based on what we believe is a reasonable interpretation of the Final Rules and tax report template provided by Commission staff. However, we believe limited clarifications may be required to

PUC Filing Center
October 16, 2006
Page 3

resolve some ambiguities that we have observed in the Final Rules, and we look forward to engaging in further discussions in this regard.

Sincerely,

/s/ Gregg S. Kantor

Gregg S. Kantor
Senior Vice President

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