



Oregon

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December 18, 2009

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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**RE: Docket No. UG 170(3) – In the Matter of NORTHWEST NATURAL GAS
COMPANY's Senate Bill 408 Tax Filing for 2008 Tax Period.**

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission's Staff Issues List.

/s/ Kay Barnes

Kay Barnes

Regulatory Operations Division

Filing on Behalf of Public Utility Commission Staff

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c: UG 170 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UG 170(3)

STAFF ISSUES LIST

**Carla Owings
Dustin Ball
Deborah Garcia**

**In the Matter of
NORTHWEST NATURAL GAS COMPANY's
Senate Bill 408 Tax Filing
for 2008 Tax Period**

December 18, 2009

**SENATE BILL 408, TAX FILINGS
STAFF'S INITIAL FINDINGS
FOR NORTHWEST NATURAL GAS COMPANY – UG 170(3)**

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

**RE: NW NATURAL – UG 170(3)
SB 408 TAX FILINGS
2008 TAX PERIOD**

FROM: CARLA OWINGS, SENIOR UTILITY ANALYST
DUSTIN BALL, SENIOR UTILITY ANALYST,
DEBORAH GARCIA, SENIOR UTILITY ANALYST
PUBLIC UTILITY COMMISSION

DATE: DECEMBER 18, 2009

CC: ALL PARTIES

On October 15, 2009, Northwest Natural Gas Company (NW Natural or Company) filed UG 170(3), its tax report covering the 2008 calendar year pursuant to Senate Bill 408 (SB 408) (codified at ORS 757.267, 757.268 and OAR 860-022-0041).

Much of the information contained in these tax reports represents highly confidential and sensitive information. 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 has thoroughly reviewed each calculation and all documentation provided by the Company.

SUMMARY OF 2008 SB 408 IMPACT:

NW Natural reports the following for its Oregon Regulated Operations during the 2008 Tax period:

Table 1

Federal and State Taxes Paid to units of Government	Taxes Collected	Surcharge	Interest ¹ (7/1/08 through 7/1/2010)	Total Surcharge
\$31.7 million	\$31.5 million	\$191,194	\$36,515	\$227,709

NW Natural’s original filing reflected a total surcharge related to the Federal and State tax true-up for the 2008 tax period to be \$227,709 million including interest.

Following is the Staff recommendation for NW Natural’s 2008 SB 408 filing:

Table 2- Staff Recommendation

Federal and State Taxes Paid to units of Government	Taxes Collected	Surcharge	Interest ² (7/1/08 through 7/1/2010)	Total Surcharge
\$31.7 million	\$ 31.5 million	\$178,705	\$34,000	\$212,705

The total difference between the Staff recommendation and NW Natural’s original filing for federal and state taxes paid is a difference of \$12,489. For this reason, due to rounding and interest, Table 1 and Table 2 differences related to the final surcharge equal \$15,004. The impact of NW Natural’s surcharge represents an increase to NW Natural’s 2008 retail rates of approximately 0.02 percent. NW Natural relied upon the stand-alone method for the outcome of its 2008 SB 408 filing.

¹ This is an estimate of all interest that would apply until the NWN-proposed 1-month amortization is completed in June 2010. .

² The estimated interest will be further adjusted by the addition of a 12-month amortization period..

In its original filing, NW Natural reported it paid \$100 to local taxing authorities and collected \$384,041 in rates. During the review process, Staff discovered that the Company had modified the amount it had collected in rates to reflect an under collection of approximately \$11,500 of local taxes in the prior period. This adjustment results a revision to taxes collected and a total refund of approximately \$395,519 without interest. NW Natural forecasts interest from July 1, 2008 through June 30, 2010 to be approximately \$67,437, resulting in a total local refund for NW Natural of \$462,956.

For the 2007 tax period, NW Natural surcharged approximately \$5.5 million. The implementation of the SB 408 surcharge coincided with an interstate storage credit that NW Natural refunds in June on an annual basis. NW Natural netted the \$5.5 million SB 408 surcharge against the interstate storage credit resulting in a one-time credit to all customer bills for the month of June, 2008. The residual balance related to the one-time surcharge is approximately \$127,776.

STAFF REVIEW:

Staff conducted interviews with the Company, requested supplemental work papers, conducted several phone interviews, and met face-to-face with the Company on November 17, 2009 and again on December 1, 2009. During these conferences, the Citizens' Utility Board (CUB) and the Northwest Customers of Industrial Gas Utilities (NWIGU) participated in the discussions.

As a result of Staff's review, Staff believes the amounts reported in Table 1 above will require revisions from the Company. Following is a detailed summary of Staff's review.

Staff requested the Company provide further clarification of the following items:

- provide copies of exhibits 2, 9 and 12 in electronic format;
- statement M3 and a letter from IRS referred to in work papers;
- clarify imputed losses in Exhibit 9;
- the source of funds that generate certain tax credits;
- the method used for adding tax credits back;
- the method used to calculate taxes collected for mid-year rate changes;
- reconciliation of the factors related to gross plant, sales and wages; and

- documentation of the actual local taxes paid.

As a result of our review, Staff recommends the following changes to NW Natural's original filing:

(1) Imputed losses in Exhibit 9 not included in the stand-alone calculation;

Exhibit 9 shows imputed losses related to a non-utility affiliate of NW Natural. Staff believes that this amount should be imputed into the apportioned stand-alone calculations³.

Staff recommends that NW Natural revise its apportioned stand-alone calculation to include the imputed losses related to the non-utility entity. Doing so will not change outcome of NW Natural's surcharge, as the stand-alone method (rather than the apportionment method) results in the lowest taxes paid amount of the three methods.

(2) Apportionment data related to Oregon Regulated Operations and the System Regulated Operations;

Throughout the Staff report there were inconsistencies in the ratios and apportionment data when compared to the Oregon Results of Operations report and NW Natural's apportionment data found in Schedule AP of the State tax report. Staff learned that these ratios had been modified for various reasons.

Staff believes the ratios should be reported consistent with the reporting methodology used on the Schedule AP. Staff requested that NW Natural revise its tax report to use the same methodology for all of the apportionment factors.

Staff recommends that NW Natural revise its tax report to report the apportionment factors using the same methodology used for Schedule AP purposes. This change will not change the surcharge, found in Table 1 above, as these factors relate to the apportionment methods and NW Natural relies upon the stand-alone method for its 2008 SB 408 filing.

(3) Application of tax credits generated through ratepayer funds;

Through its regulated operations during 2008, NW Natural generated a dependent care tax credit. Staff believes that because ratepayers have paid for the regulated operations of the utility, that they are entitled to the tax benefit of this credit. In its tax report, however, it appears that NW Natural inadvertently

³ The apportionment method was referred to as the calculation of a "floor" during the rule-making proceeding whereby the utility is required to choose between the lesser of the apportioned stand-alone or the apportioned consolidated methods.

applied this credit as an addition to taxes paid as opposed to a reduction to taxes paid.

Staff recommends that NW Natural revise its tax report so that the dependent tax credit is applied as a reduction to taxes paid as opposed to an addition. Because the original application of the credit was applied in the opposite direction, this revision results in an amount that is double the actual benefit of the credit. Doing so will decrease the amount of NW Natural's surcharge by approximately \$12,000.

(4) Actual Local taxes paid in the tax period;

NW Natural keeps a balancing account of taxes collected. Prior to any refunds or surcharges of local taxes, NW Natural reconciles the taxes collected in its balancing account with any residual balances remaining from the previous year's amortization. Therefore, if the Company under-collects by a certain amount, that amount is then applied to the taxes collected portion of the tax report so that ratepayers will be given the benefit of any differences related to prior periods.

Staff agrees that ratepayers should be given the benefit or should be required to pay the portion of any unpaid balances of taxes owed, and this method mimics the intent of SB408. However, Line 13 on Page 1 of the tax report needs to be net of any adjustments to account for residual balance, otherwise the delta stated on line 14 of the tax report is improperly adjusted for these over- or under-collections. Done properly, Line 14 of Page 1 of the tax report should end up showing the same balance that is remaining in the balancing account once all actual taxes have been paid and all actual revenues have been collected.

Staff recommends that NW Natural revise its Staff report to remove any modifications to Line 13 of Page 1 of the tax report. Doing so will increase NW Natural's refund for local taxes by approximately \$11,500 to \$395,519.

(5) Automatic Adjustment Clause;

As discussed above for the 2007 tax period, NW Natural surcharged approximately \$5.5 million. The implementation of the tax surcharge coincides with an interstate storage credit that NW Natural refunds in June on an annual basis. NW Natural was able to net the \$5.5 million refund against the interstate storage credit for a one-time credit to all customer's bills for the month of June, 2008.

The residual balance related to the 2007 tax period is due to the fact that NW Natural refunds or surcharges only to customers that were on its system at the time of certain events. For the surcharge related to the 2007 tax period, NW Natural identifies customers who were on the system from January 1, 2006

through December 31, 2006. If customers have since left the system, there will be a small residual balance of the surcharge remaining.

Staff believes that it is inappropriate to surcharge or refund to customers who were receiving service during a specific tax period. Staff's counsel has advised that because SB 408 is an automatic adjustment clause, NW Natural should surcharge or refund customers who are on the system during the amortization phase of a surcharge or refund. This would be consistent with the three other utilities that file SB 408 tax reports and surcharge or refund current customers during the amortization phase of the implementation.

Staff identified this issue just prior to the 2007 surcharge implemented in June of 2009. NW Natural had already programmed its system to implement the surcharge only to previous customers. Since that time, Staff has had conversations with NW Natural and Staff's attorneys to understand which method should be implemented. Staff's attorney advises that the rate must be implemented pursuant to an automatic adjustment clause which contemplates current customer base the day of a rate change and subsequent amortization period.

Staff recommends that NW Natural revise its Customer Information Management System to accommodate the SB408 impact for current ratepayers on the system during the amortization phase of implementation.

UG 170
Service List (Parties)

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CERTIFICATE OF SERVICE

**UG 170(3)
Staff Issues List**

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to the following parties or attorneys of parties.

Dated at Salem, Oregon, this 18th day of December, 2009.



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