



DEPARTMENT OF JUSTICE
GENERAL COUNSEL DIVISION

August 14, 2012

Lisa Hardie
Administrative Law Judge
Public Utility Commission of Oregon
550 Capitol St NE – Suite 215
Salem OR 97301

RE: UG 221 - Settlement in principle

Dear ALJ Hardie,

The parties to this proceeding have reached a settlement in principle on many of the issues in this proceeding. The settlement in principal covers the following items:

- Rate design;
- Decoupling and the Weather Adjusted Mechanism;
- LRIC;
- Rate Spread, with the exception of rate spread related to an environmental cost recovery mechanism;
- Cost of Long Term Debt, except that NW Natural's interest rate hedging activity remains an issue;
- The level of full-time employees to be included in rates;
- Other issues related to FTE: medical benefits, workers' compensation, overtime, payroll tax, and depreciation expense;
- Payroll capitalization;
- Working gas inventory;
- Schedule 31 and Schedule 32 rate design;
- Interstate Storage;
- System Integrity Program;
- Service window guarantee; and
- Reconnection Charges

The settlement in principle does not resolve the following issues:

- Cost of Capital, including NW Natural's interest rate hedging activity;

Lisa Hardie Administrative Law Judge

August 14, 2012

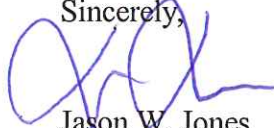
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- Environmental cost recovery mechanism;
- Pensions;
- State Taxes;
- The prudence of Mid-Willamette Valley Feeder projects – the Monmouth to Perrydale and Monmouth Reinforcement projects.

The parties to this settlement in principle intend to file a formal stipulation on these issues before the hearing scheduled on August 23-24, 2012.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Jason W. Jones
Assistant Attorney General
Business Activities Section

JWJ:nal/3570795-v1

1 **CERTIFICATE OF SERVICE**

2 I certify that on August 14, 2012, I served the foregoing Letter upon the parties in this
3 proceeding by electronic mail only as all parties waive paper service.

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Legal Secretary
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