



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

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December 23, 2010

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
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**RE: Docket No. UG 170 (4) – In the Matter of NORTHWEST NATURAL GAS
COMPANY Senate Bill 408 Tax Filing for 2009 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 (4)

**STAFF ISSUES LIST
CARLA BIRD
DUSTIN BALL
DEBORAH GARCIA**

**In the Matter of
NORTHWEST NATURAL GAS COMPANY
Senate Bill 408 Tax Filing for 2009 Tax Period**

December 23, 2010

**SENATE BILL 408, TAX FILINGS
STAFF'S INITIAL FINDINGS
FOR NORTHWEST NATURAL GAS COMPANY – UG 170(4)**

TO: LEE SPARLING, MAURY GALBRAITH, JUDY JOHNSON AND
JASON JONES

**RE: NW NATURAL – UG 170(4)
SB 408 TAX FILINGS
2009 TAX PERIOD**

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

DATE: DECEMBER 23, 2010

CC: ALL PARTIES

On October 15, 2010, Northwest Natural Gas Company (NW Natural or Company) filed UG 170(4), its tax report covering the 2009 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 2009 SB 408 IMPACT:

NW Natural reports the following for its Oregon Regulated Operations during the 2009 Tax period:

Table 1

Federal and State Taxes Paid to units of Government	Taxes Collected	Surcharge or (Refund)	Interest¹ (7/1/09 through 6/1/2011)	Total Surcharge
\$35.9 million	\$30.8 million	\$5.1 million	\$0.9 million	\$6.0 million
Local Taxes Paid to units of Government	Taxes Collected	Surcharge or (Refund)	Interest² (7/1/09 through 6/1/2011)	Total Refund
\$84,000	\$455,000	(\$371,000)	\$63,000	(\$434,000)

NW Natural's original filing reflected a total surcharge related to the Federal and State tax true-up for the 2009 tax period to be \$6.0 million including interest through the deferral period. *Staff's recommendation for NW Natural's 2009 SB 408 filing relates to a clerical error in the Company's filing that results in a difference of only \$3,300. NWN has agreed to the change and has filed an amended return.*

NWN forecasts additional interest of approximately \$73,000 that will accrue during the amortization period based upon the current blended treasury rate. This estimate will be updated prior to rate implementation June 1, 2011 based upon the 2011 Blended Treasury rate that will be calculated in January of 2011.

For local taxes, ratepayers in Multnomah County will receive a refund of approximately \$434,000 coincident with the surcharge that will be implemented for the State and Federal taxes resulting in a slight decrease in the overall surcharge for customers residing in Multnomah County.

¹ This is an estimate of all interest that would apply through the deferral period.

² This is an estimate of all interest that would apply through the deferral period.

The impact of NW Natural's surcharge represents an increase to NW Natural's 2009 retail rates of approximately 0.7 percent. NW Natural relied upon the stand-alone method for the outcome of its 2009 SB 408 filing.

For the 2008 tax period, NW Natural surcharged approximately \$340,000³.

The implementation of the SB 408 surcharge coincides with an interstate storage credit that NW Natural refunds in June on an annual basis, therefore, as in previous years; there will be only a one-month rate impact to implement SB 408.

*At the conclusion of Staff's review and after some of the Parties⁴ had reached an agreement in principle for settlement Staff discovered a potential inconsistency between SB 408 and OAR 860-022-0041. The inconsistency involves the manner for determining the existence of a normalization violation⁵ under (4)(d) of the commission rule and under Staff's template. The impact of improperly applying the normalization violation test (on Page 8 of Staff's template) would not impact NWN's 2009 SB408 filing. Since Staff's only recommendation in this case was to correct a clerical error, and the Company has willingly agreed, **Staff recommends that we proceed to drawing a Stipulation with NWN and the participating Parties.***

Upon discovering this issue, Staff immediately consulted with the Assistant Attorney General's (AAG or Staff's Counsel) office and our upper management team. As a result of those discussions, Staff requested a delay of six days from December 17, 2010 to December 23, 2010 to publish this issues list. In addition, Staff and its Counsel held phone discussions with each of Utility companies as well as the Parties represented at the Settlement conference⁶ to notify them of the potential impacts of this issue. Staff also informed the Parties that we could not go forward with the initial agreements made at the Settlement Conferences.

The basis of the Staff recommendation in this report outlines the foundation of Staff's findings and agreements made in Settlement discussions. Most importantly, these recommendations are based upon rule implementation prior to Staff's discovery of the issue described above.

Staff is in the process of investigating the validity of the assumption that the rules and Staff's template conflict with the original intent of the test for a Normalization Violation. If Staff concludes there is a conflict in the rules and Staff's template from the intent of SB408, then the findings in the report below

³ This amount includes interest during the deferral period and through amortization as well as a residual balance from the prior year.

⁴ The Parties to the Stipulated Agreements are defined in the section "Summary of Review" section on Page 4 below.

⁵ Discussed in section "Staff Review" on page 5 below.

⁶ Id.

would change significantly. Staff's Testimony is scheduled to be published on January 11, 2011 which would incorporate the findings of Staff's investigation into this matter. If Staff's investigation concludes that there is no conflict between the current rules and Normalization Violations, Staff will likely propose settlement based upon the original agreements described below.

STAFF REVIEW:

Staff conducted interviews with the Company, requested supplemental work papers, and conducted several phone interviews. Staff also conducted a face-to-face conference with the Company on November 4, 2010. In attendance were the Citizens' Utility Board (CUB) and the Northwest Customers of Industrial Gas Utilities (NWIGU) (collectively referred to as the Parties).

Staff thoroughly reviewed NWN's filing, its calculations and the methods employed to determine taxes paid, as well as taxes collected.

As a result of Staff's review, Staff requested that NW Natural correct a clerical error discovered by Staff in the filing. The amendment reduces the surcharge proposed in the original filing by approximately \$3,300. NWN has agreed to the change and filed an amended report on December 1, 2010.

The Parties have agreed in principal that with the correction of the clerical error the amount results in a just and reasonable outcome for NWN's 2009 SB408 filing. The Parties are currently drafting a Stipulation and Joint Testimony to be filed before the Commission no later than January 10, 2011.

UG 170
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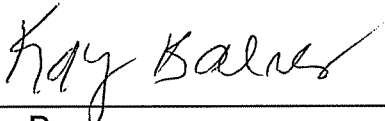
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CERTIFICATE OF SERVICE

UG 170

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 860-001-0180, to the following parties or attorneys of parties.

Dated this 23rd day of December 2010, at Salem, Oregon.



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