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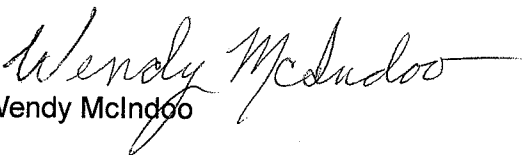
VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket UG 152 and 163

Attached for filing in the above dockets are an original and five copies of the Supplemental Stipulation and Joint Brief in Support of Supplemental Stipulation. A copy of this filing has been served on the parties to the UG 152 and UG 163 service list as indicated on the attached certificate of service.

Very truly yours,


Wendy McIndoo

Enclosure

CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing document in OPUC Docket Nos. UG 152 and UG 163 by electronic mail and first class mail to the following parties or attorneys of parties:

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1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UG 152/UG 163**

4 In the Matters of

5 NORTHWEST NATURAL GAS COMPANY

6 Application for a General Rate Revision
7 Advice No. 02-19, (UG 152)

8 and

9 Petition to Commence Investigation.
(UG 163)

SUPPLEMENTAL STIPULATION

10
11 **INTRODUCTION**

12 This agreement (hereinafter, "Supplemental Stipulation") is intended to supplement
13 the Stipulation adopted by the Public Utility Commission of Oregon ("Commission") in this
14 docket in Order No. 07-426. In that Stipulation, the Parties (listed below) agreed to extend
15 the terms of Northwest Natural Gas Company's ("NW Natural" or the "Company") Weather-
16 Adjusted Rate Mechanism ("WARM") and Distribution Margin Normalization ("DMN")
17 mechanisms. In addition, the Parties agreed that NW Natural would not file a rate case prior
18 to September 1, 2011 (the "Rate Case Moratorium"), except under certain conditions,
19 including the opportunity to seek recovery of its capital costs associated with its Automated
20 Meter Reading ("AMR") project.¹ The Commission has now approved NW Natural's request
21 to defer such capital costs for later recovery,² and the Parties wish to memorialize their

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24 ¹ The Stipulation included two other exceptions to the Rate Case Moratorium, allowing NW Natural to
25 file a rate case prior to September of 2011, as might be necessary to have the opportunity to recover
costs associated with its Integrity Management Program, and if in the event of an "extraordinary
event." Order No. 07-426, Appendix A, pp. 2-3.

26 ²See Order No. 09-105, issued in UM 1413.

1 further agreement as to the amortization of such costs and the impact of such amortization
2 on the Rate Case Moratorium.

3

PARTIES

4 The Parties to this Supplemental Stipulation are as follows: Commission Staff,
5 Citizens' Utility Board ("CUB"), Northwest Industrial Gas Users ("NWIGU"), and NW Natural.

6

BACKGROUND

7 On September 26, 2007, the Commission approved an all-party Stipulation extending
8 the terms of NW Natural's WARM and DMN mechanisms and establishing an annual
9 reporting requirement for WARM. As a key provision of that Stipulation, NW Natural
10 agreed—subject to specific qualifications—that the Company would not initiate a general
11 rate case prior to September 1, 2011. Among the agreed-upon exceptions is the following:

12 If Portland General Electric receives approval of its automated metering
13 infrastructure tariff (Docket UE 189) or otherwise notifies NW Natural that it is
14 terminating the agreement governing the PGE and NW Natural joint meter
15 reading territory, NW Natural intends to implement its automated meter
16 reading ("AMR") in the territory currently covered by the JMR agreement. If
17 the Parties do not support a request by NW Natural for the opportunity to
18 recover the capital costs for its AMR project on an annual basis and the
19 Parties cannot agree on an alternative form of recovery, or the Commission
20 does not approve recovery of prudent costs pursuant to NW Natural's
21 request, NW Natural may file a general rate case.³

18 The "JMR agreement" ("JMR Agreement") referenced above is the contract between
19 NW Natural and PGE, entered into in May of 2001, in which those two companies agreed to
20 divide between them the meter reading routes in their overlapping territories in the Portland
21 and Salem areas, and to each read each other's meters on their assigned routes. At the
22 time the Parties signed the Stipulation, PGE had requested that the Commission approve an
23 automated metering infrastructure tariff.⁴ The Stipulation specifically addressed the

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25 ³ Order No. 07-426, Appendix A, at pp. 2-3.

26 ⁴ See, Reference to Request to Add Schedule 111, Advanced Metering Infrastructure ("AMI"), UE 189.

1 condition that if the Commission approved PGE's tariff request, PGE would no longer need
2 to dispatch personnel to read its meters, thus rendering the JMR Agreement obsolete. The
3 Parties were informed that NW Natural had already begun deployment of its own automated
4 meter reading project in non-JMR territory (the Company's "Phase I AMR Project") and that
5 if the JMR Agreement were to be dissolved, NW Natural would likely extend the AMR project
6 to cover the JMR territory (the Company's "Phase II AMR Project"). The Stipulation states
7 that, in this event, NW Natural should be allowed an opportunity to recover its prudently
8 incurred capital costs for its AMR project, either through a rate case or other alternative
9 mechanism.

10 On May 5, 2008, the Commission approved PGE's proposed tariff to recover AMR
11 costs.⁵ Two days later, PGE provided NW Natural with formal notice of its intent to terminate
12 the JMR Agreement. NW Natural completed its financial analysis of a project to deploy its
13 own AMR system in the JMR territory and began work on Phase II in August 2008. The
14 current schedule anticipates that Phase II will be complete in December 2009. The total
15 capital cost for the Phase II project is estimated to be approximately \$30 million.

16 On January 14, 2009, the Company filed a petition requesting authorization to defer
17 the revenue requirement related to the installation of the Phase II AMR Project.⁶ The
18 purpose of the petition was to allow NW Natural an opportunity to recover its net costs of
19 service associated with the Phase II AMR project until those cost could be reflected in

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24 ⁵ Order No. 08-245, issued in UE 189.

25 ⁶ See, Application for Authorization to Defer Expenses Related to the Installation of Automated Meter
Reading, filed in UM 1413. The Company did not request deferral of costs related to the Phase I.

26

1 permanent rates.⁷ In its Order No. 09-105, issued in UM 1413, the Commission adopted
2 Staff's recommendation and approved NW Natural's deferral request.⁸

3 STIPULATION

4 **Whereas**, the Parties agree to support NW Natural's recovery of its revenue
5 requirement subject to earnings reviews described below associated with the prudently
6 incurred capital costs for its Phase II AMR Project through a deferral mechanism, and

7 **Whereas**, the Parties understand that NW Natural plans to file annual requests for
8 the renewal of its authority to defer its revenue requirement associated with its Phase II
9 AMR Project until such costs have been considered in a general rate filing, the Parties agree
10 as follows:

11 1. The Parties agree to support NW Natural's recovery of the revenue requirement
12 associated with prudently incurred capital costs for the Phase II AMR Project
13 through amortization of the amounts deferred pursuant to Commission orders
14 issued in UM 1413⁹ (or any other order approving the Company's request to
15 defer capital costs for the Phase II AMR Project), subject to an earnings review,
16 as described in Paragraph 4 below and subject to audit of those capital costs and
17 the terms and conditions of this Supplemental Stipulation.

18 2. The Parties agree to support renewal of the Phase II AMR Project deferral
19 applications each year until the effective date of rates set in NW Natural's next
20 general rate case.

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23 ⁷ *Id.*, at p. 4.

24 ⁸ The Parties are, however, now proposing a different earnings test period than the period
contemplated in the Commission-adopted Staff Report.

25 ⁹ UM 1413 describes the method in which the Company should calculate the associated revenue
26 requirement minus depreciation and the avoided Operations and maintenance expense related to
savings from JMR.

- 1 3. The Parties agree to support the amortization of all of NW Natural's prudently
2 incurred Phase II AMR Project cost deferrals as described herein.
- 3 4. The Parties agree that the earnings review applied to amortization of Phase II
4 AMR Project cost deferrals will be conducted in a manner consistent with ORS
5 757.259. For purposes of this Stipulation, the Parties agree that NW Natural will
6 be allowed to amortize the deferral except to the extent that recovery would
7 cause the Company's return on equity ("ROE") during the earnings review period,
8 described in Paragraph 6 below, to exceed the Company's authorized ROE in
9 effect during the earnings review period. The shareholders' portion of WACOG
10 variances deferred pursuant to NW Natural's purchased gas cost adjustment
11 mechanism ("PGA") will be excluded from the earnings test described in this
12 paragraph.
- 13 5. The Parties recognize that during the amortization periods of Phase II AMR
14 Project cost deferrals, the Company may be amortizing the customer share of
15 excess gas costs deferred pursuant to its PGA. The Parties agree that for
16 purposes of applying the amortization cap contained in ORS 757.259(6), the
17 Company should be allowed to amortize the full amount (after application of the
18 earnings test described in Paragraph 4 above) of Phase II AMR Project cost
19 deferral each calendar year, unless the amortization of all deferrals subject to
20 ORS 757.259(6), excluding costs deferred pursuant the Company's PGA
21 mechanism or other costs deferred pursuant to ORS 757.259(7), would result in
22 a surcharge in excess of three percent of the Company's gross revenues for the
23 preceding calendar year. The Parties agree that any amounts not allowed to be
24 amortized in any given year as a result of applying ORS 757.259(6) should be
25 amortized in a subsequent period.
- 26

- 1 6. NW Natural will seek amortization of Phase II AMR Project deferred amounts
2 concomitantly with the Company's annual PGA Filings.
- 3 a. The 2010 request for amortization will include AMR Phase II amounts
4 deferred from January 14, 2009 – December 31, 2009. The earnings
5 review period for this amortization will be the calendar year 2009. This
6 deferred amount will be subject to the earnings test in Paragraph 4 above
7 to determine the allowable recovery amount and then will be amortized
8 from November 1, 2010, through October 31, 2011. The 2011 request for
9 amortization will include AMR Phase II amounts deferred from January 1,
10 2010 through December 31, 2010. The earnings review period for this
11 amortization is the calendar year 2010. The deferred amount will be
12 subject to the earnings test described in paragraph 4 above to determine
13 the allowable recovery amount and then will be amortized from November
14 1, 2011, through October 31, 2012, along with any residual over-or-under
15 collection from the previous year's amortization. NW Natural will seek
16 subsequent amortizations of Phase II AMR Project deferred amounts
17 consistent with this paragraph, subject to Paragraph 6.b below.
- 18 b. For the purposes of subsequent requests for amortization of AMR Phase II
19 Project costs deferred pursuant to this Supplemental Stipulation, the
20 applicable earnings review period will be the calendar year of the first
21 deferral month for which amortization is being sought. For instance, when
22 the Company requests amortization of AMR Phase II Project cost amounts
23 deferred from January 1, 2011 – December 31, 2011, the earnings review
24 period for this amortization will be the calendar year 2011.
- 25 7. The Parties agree that amounts amortized pursuant to this Supplemental
26 Stipulation will be spread an equal percentage of margin basis for customer

- 1 classes participating in the AMR project—those customers taking sales service
2 under Schedules 1, 2, 3, and 31.
- 3 8. The Stipulation is offered into the record of this docket pursuant to OAR 860-014-
4 0085. The Parties agree to support the Stipulation throughout this proceeding
5 and any appeal, to provide witnesses to sponsor the Stipulation at any hearing
6 held in this docket and recommend that the Commission issue an order adopting
7 the settlement contained herein.
- 8 9. The Parties have negotiated the Stipulation as an integrated document. If the
9 Commission rejects any material portion of the Stipulation or conditions its
10 approval upon the imposition of additional material conditions, any Party
11 disadvantaged by such action shall have the right, upon written notice to the
12 Commission and all Parties within 15 business days of the Commission's order to
13 withdraw from this Stipulation, pursue its rights under OAR 860-014-0085 and
14 shall be entitled to seek reconsideration of the Commission's order. However,
15 prior to withdrawal, the Party shall engage in good faith negotiation with the other
16 Parties. No Party withdrawing from this Stipulation shall be bound to any
17 position, commitment, or condition of this Stipulation.
- 18 10. By entering into this Stipulation, no Party shall be deemed to have approved,
19 admitted to, or consented to the facts, principles, methods or theories employed
20 by any other Party in arriving at the terms of the Stipulation nor to have agreed to
21 the application of the methodology set forth in this Stipulation in any other
22 context.
- 23 11. This Stipulation may be executed in counterparts and each signed counterpart
24 shall constitute an original document.
- 25 12. Each Party enters into the Stipulation on the date below.
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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

By: C. O. + M. i.

By: _____

Dated: 10/21/09

Dated: _____

OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

By: _____

By: _____

Dated: _____

Dated: _____

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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

By: _____

By: Bob Puls

Dated: _____

Dated: 10-21-09

OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

By: _____

By: _____

Dated: _____

Dated: _____

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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

By: _____

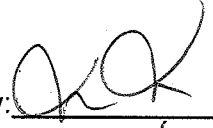
By: _____

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OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

By:  _____

By: _____

Dated: 10/21/9 _____

Dated: _____

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UG 152/UG 163**

4 In the Matters of

5 **NORTHWEST NATURAL GAS COMPANY**

6 Application for a General Rate Revision
7 Advice No. 02-19, (UG 152)

8 and
9 Petition to Commence Investigation.
(UG 163)

**JOINT BRIEF IN SUPPORT OF
SUPPLEMENTAL STIPULATION**

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11 Pursuant to OAR 860-014-0085(4), Northwest Natural Gas Company ("NW Natural" or
12 the "Company"), Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility
13 Board of Oregon ("CUB"), and Northwest Industrial Gas Users ("NWIGU") (together, the
14 "Parties")¹ file this brief in support of their Supplemental Stipulation dated October 21, 2009,
15 regarding the amortization of deferred capital costs associated with the Company's Automatic
16 Meter Reading ("AMR") project. The Parties intend this Supplemental Stipulation to
17 supplement the stipulation adopted by the Public Utility Commission of Oregon
18 ("Commission") in this docket in Order No. 07-426 ("Stipulation").

19 **I. BACKGROUND**

20 On September 26, 2007, the Public Utility Commission of Oregon ("Commission")
21 approved the Stipulation extending the terms of NW Natural's Weather Adjusted Rate
22 Mechanism ("WARM") and Distribution Margin Normalization ("DMN") mechanisms. As a key
23 provision of that Stipulation, NW Natural agreed that the Company would not initiate a general

24 _____
25 ¹ The Parties contacted the other parties to the Stipulation adopted by the Commission in Order No. 07-
26 426. The Oregon Department of Energy, the Natural Resources Defense Council, and the Northwest
Energy Coalition do not object to the Supplemental Stipulation. The Parties were unable to contact
representatives from the Oregon Energy Coordinators Association and the Community Action
Partnership of Oregon.

1 rate case prior to September 1, 2011 (the "Rate Case Moratorium") except under certain
2 conditions. Among the agreed-upon exceptions is the following:

3 If Portland General Electric receives approval of its automated
4 metering infrastructure tariff (Docket UE 189) or otherwise notifies
5 NW Natural that it is terminating the agreement governing the
6 PGE and NW Natural joint meter reading territory, NW Natural
7 intends to implement its automated meter reading ("AMR") in the
8 territory currently covered by the JMR agreement. If the Parties
9 do not support a request by NW Natural for the opportunity to
recover the capital costs for its AMR project on an annual basis
and the Parties cannot agree on an alternative form of recovery,
or the Commission does not approve recovery of prudent costs
pursuant to NW Natural's request, NW Natural may file a general
rate case.²

10 The "JMR agreement" ("JMR Agreement") referenced is the contract between NW
11 Natural and Portland General Electric ("PGE"), entered into in May of 2001. In that contract
12 Northwest Natural and PGE agreed to divide between them the meter reading routes in their
13 overlapping territories in the Portland and Salem areas, and to read each other's meters on
14 their respective assigned routes. At the time the Parties signed the Stipulation, PGE had
15 requested that the Commission approve an automated metering infrastructure tariff,³ which, if
16 approved would render the JMR Agreement obsolete. The Parties were informed that NW
17 Natural had already begun deployment of its own automated meter reading project in non-
18 JMR territory (the Company's "Phase I AMR Project") and that if the JMR Agreement were to
19 be dissolved, NW Natural would likely extend the AMR project to cover the JMR territory (the
20 Company's "Phase II AMR Project"). The Stipulation states that, in this event, NW Natural
21 should be allowed an opportunity to recover its prudently incurred capital costs for its AMR
22 project, either through a rate case or an alternative mechanism.

23 On May 5, 2008, the Commission approved PGE's proposed tariff to recover AMR
24 costs. Two days later, PGE served NW Natural with formal notice of its intent to terminate the

25 _____
26 ² Order No. 07-426, Appendix A, at pp. 2-3.

³ See, Reference to Request to Add Schedule 111, Advanced Metering Infrastructure ("AMI"), UE 189.

1 JMR Agreement. NW Natural's current schedule for deployment of the Phase II AMR Project
2 anticipates that Phase II will be complete in December 2009. The total capital cost for the
3 Phase II AMR Project is estimated to be approximately \$30 million.

4 On January 14, 2009, the Company filed a petition requesting authorization to defer
5 the revenue requirement related to the installation of the Phase II AMR Project. The purpose
6 of the petition was to allow NW Natural an opportunity to recover its net costs of service
7 associated with the Phase II AMR Project until those costs could be reflected in permanent
8 rates. In its Order No. 09-105, issued in UM 1413, the Commission adopted Staff's
9 recommendation and approved NW Natural's deferral petition. The Supplemental Stipulation
10 relates to the amortization phase of the Phase II AMR Project deferrals.

11 II. DISCUSSION

12 A. The Supplemental Stipulation Establishes Standards to be Applied to the 13 Commission's Evaluation of NW Natural's Requests for Amortization of Deferred Phase II AMR Project Costs.

14 The Supplemental Stipulation establishes the Parties' agreement as to future requests
15 by NW Natural to renew its Phase II AMR deferral application, and the standards that should
16 be applied to NW Natural's requests for amortization of the deferred revenue requirement
17 associated with the prudently incurred capital costs for its Phase II AMR Project. NW Natural
18 plans to file annual requests for the renewal of its authority to defer its revenue requirement
19 associated with its Phase II AMR Project until such costs are included in permanent rates.⁴

20 First, the Parties agree to support renewal of the Phase II AMR Project deferral
21 applications each year until the effective date of rates set in NW Natural's next general rate
22 case.⁵

23 Second, the Supplemental Stipulation states that the Parties agree to support the
24 amortization of all of NW Natural's prudently incurred Phase II AMR Project cost deferrals

25 _____
⁴ Supplemental Stipulation at ¶ 2.

26 ⁵ *Id.*

1 subject to the conditions described in the Supplemental Stipulation.⁶ The Supplemental
2 Stipulation provides that NW Natural will seek amortization of Phase II AMR Project deferred
3 amounts concomitantly with the Company's annual purchased gas adjustment ("PGA")
4 Filings.⁷ The Parties agree that prior to amortization, the deferred costs will be subject to
5 audit and an earnings review conducted in a manner consistent with ORS 757.259.⁸

6 Third, the Supplemental Stipulation also describes the earnings review periods and
7 deferral periods relevant to NW Natural's 2010 request for amortization and subsequent
8 requests for amortization,⁹ and further describes the earnings test the Parties agree should be
9 applied prior to approving amortization of Phase II AMR Project deferred amounts.¹⁰ The
10 Parties agree that NW Natural should be allowed to amortize the deferral costs except to the
11 extent that recovery would cause the Company's return on equity ("ROE") during the relevant
12 earnings review period to exceed the Company's authorized ROE in effect during the earnings
13 review period.¹¹

14 Fourth, the Supplemental Stipulation provides that the shareholders' portion of
15 WACOG variances deferred pursuant to NW Natural's PGA will be excluded from the earnings
16 test.¹² To the extent that the Commission believes that this provision conflicts with the
17 Commission precedent and policy on this issue, including Order No. 08-504, the NW Natural
18 requests an exception from Commission policy for purposes of the Supplemental Stipulation.
19 NW Natural makes this request because when the Company agreed to the Rate Case
20 Moratorium, it excluded WACOG from its earnings tests. This treatment of WACOG served
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22 ⁶ *Id.* at ¶ 3.

23 ⁷ *Id.* at ¶ 6.

24 ⁸ *Id.* at ¶¶ 1, 4.

25 ⁹ *Id.* at ¶ 6.

26 ¹⁰ *Id.* at ¶¶ 4, 5.

¹¹ *Id.* at ¶ 4.

¹² *Id.*

1 as a basis for NW Natural's decision to enter into the Stipulation that included the Rate Case
2 Moratorium. The other Parties support this request.

3 Fifth, the Supplemental Stipulation addresses the fact that during the amortization
4 periods of Phase II AMR Project cost deferrals, the Company may be amortizing the customer
5 share of excess gas costs deferred pursuant to its PGA.¹³ The Parties agree that for
6 purposes of applying the amortization cap contained in ORS 757.259(6), the Company should
7 be allowed to amortize the full amount (after the effects of any earnings review) of Phase II
8 AMR Project cost deferral each calendar year, unless the amortization of all deferrals subject
9 to ORS 757.259(6), excluding natural gas and pipeline commodity costs specified in
10 ORS 757.259(7), would result in a surcharge in excess of three percent of the Company's
11 gross revenues for the preceding calendar year.¹⁴ The Parties agree that any amounts not
12 allowed to be amortized in any given year as a result of applying ORS 757.259(6) should be
13 amortized in a subsequent period.¹⁵

14 Finally, the Supplemental Stipulation provides that amounts amortized pursuant to the
15 Supplemental Stipulation will be spread an equal percentage of margin basis for customer
16 classes participating in the AMR project—those customers taking sales service under
17 Schedules 1, 2, 3, and 31.¹⁶ The purpose of this provision is to amortize the deferred costs
18 only among customers who will directly benefit from the AMR project. Customers under other
19 schedules provide their own meters or already have automatic meter reading equipment
20 installed, and will therefore not directly benefit from the AMR project.

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¹³ *Id.* at ¶ 5.

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¹⁴ *Id.*

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¹⁵ *Id.*

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¹⁶ *Id.* at ¶ 7.

1 **B. The Commission Should Adopt the Supplemental Stipulation, as It Is Consistent**
2 **with Law and Commission Policy.**

3 The Supplemental Stipulation is consistent with law and Commission policy and should
4 therefore be adopted by the Commission. *First*, acceptance of the Supplemental Stipulation
5 will allow the Rate Case Moratorium to remain in place. In UG 152 and UG 163, NW Natural
6 agreed to the Rate Case Moratorium in exchange for an extension of its WARM and DMN
7 mechanisms. However, as discussed above, the Rate Case Moratorium is subject to several
8 exceptions. In the event that the Parties do not support an opportunity for NW Natural to
9 recover the capital costs for its AMR Project or in the event the Commission does not approve
10 recovery of prudently incurred costs of the AMR Project, NW Natural will be free to file a
11 general rate case. Thus, approval of the Supplemental Stipulation will maintain the Rate Case
12 Moratorium, which in turn will save the Commission and Parties the time and expense that
13 would be required to litigate a NW Natural general rate case.

14 *Second*, the Supplemental Stipulation is consistent with the Commission's policy in
15 favor of adopting stipulations that provide guidance to the parties and reduce unnecessary
16 litigation. *See U.S. West Communications, Inc.*, Docket UM 753, Order No. 96-179 (July 16,
17 1996) (adopting a stipulation because it provided standards that "should provide guidance for
18 [the utility] in the future and reduce unnecessary litigation."). The Parties' agreement on the
19 standards to be applied to amortization of AMR Phase II deferrals, including with respect to
20 the applicable earnings tests, will reduce the likelihood of the Parties litigating earnings test
21 issues in future PGA Filings.

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