

Rates and Regulatory Affairs
Facsimile: 503.721.2516



January 25, 2010

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street, NE, Suite 215
PO Box 2148
Salem, Oregon 97308-2148

Attn: Filing Center

Re: Docket UG 170(3)

Enclosed please find the original and five copies of a Stipulation among Staff of the Public Utility Commission of Oregon and Northwest Natural Gas Company, and the original and five copies of Joint Testimony in Support of the Stipulation.

Sincerely,

/s/ Onita King

Onita R. King
Rates & Regulatory Affairs

cc: Service list

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

3 **UG 170(3)**

4 In the Matter of:

5 **NORTHWEST NATURAL**

6 Filing of tariffs establishing automatic
7 adjustment clauses under the terms of
8 SB 408

STIPULATION

9 This Stipulation resolves all issues among the parties to this Stipulation related to
10 Northwest Natural's 2008 Tax Report, filed in UG 170(3) pursuant to Senate Bill 408 ("SB
11 408"). SB 408 is codified in ORS 757.267, 757.268 and 757.210 and implemented by the
12 Commission in OAR 860-022-0041.

13 **PARTIES**

14 1. The parties to this Stipulation are Staff of the Public Utility Commission of Oregon
15 ("Staff"), Northwest Natural (NWN or the "Company"), the Citizens' Utility Board of Oregon
16 (CUB) and the Northwest Industrial Gas Users (NWIGU) (together, the "Parties").

17 **BACKGROUND**

18 2. SB 408 requires certain Oregon public utilities to file an annual Tax Report with
19 the Public Utility Commission of Oregon ("Commission") that provides information on: (1) the
20 amount of taxes paid by the utility to units of government or that was paid by an affiliated
21 group and that is properly attributed to the utility's regulated operations; and (2) the amount of
22 taxes authorized to be collected in rates. ORS 757.268(1). The law requires the Commission
23 to review the Tax Report to determine whether the amount of taxes paid differs from the
24 amount of taxes authorized to be collected in rates by more than \$100,000. ORS 757.268(4);
25 ORS 757.268(13)(f); OAR 860-022-0041(2)(q) & (r). If so, the Commission must require the
26 public utility to establish an automatic adjustment clause to account for the difference. ORS

1 757.268(4). The Commission must complete its review of the Tax Report and order an
2 automatic adjustment clause ("AAC") if necessary within 180 days after the Tax Report is filed.
3 Any rate adjustment must be calculated to amortize the difference determined by the
4 Commission over a period authorized by the Commission. ORS 757.268(4); OAR 860-022-
5 0041(7) & (8).

6 3. As required by SB 408, on October 15, 2009, NWN filed its Tax Report for
7 calendar year 2008 ("2008 Tax Report"). NWN's 2008 Tax Report reflected a difference of
8 approximately \$191,194 of state and federal taxes paid above taxes authorized to be collected
9 in rates. Additionally, NWN reported that it collected approximately \$383,941 less in local
10 taxes in rates than it paid to units of government.

11 4. Under SB 408, these differences, plus interest, are to be collected/refunded as a
12 surcharge/credit through an AAC. ORS 757.268(6) and OAR 860-022-0041(8)(c). NWN
13 proposed to recover the 2008 SB 408 state and federal tax surcharge of \$191,194, through
14 Schedule 161, in a one-time adjustment. The Commission has discretion to set the
15 amortization period for a refund or surcharge under the AAC. OAR 860-022-0041(8)(e).

16 5. In *Re NWN's Automatic Adjustment Clause under SB 408*, Order No. 09-128, UG
17 170(2), the Commission approved a surcharge related to NWN's 2007 Tax Report of
18 approximately \$5.5 million, for a one-time surcharge collected in June of 2009.

19 6. The proposed surcharge was allocated by customer rate schedule on an equal
20 percentage of margin basis, as required by OAR 860-022-0041(8)(d).

21 7. The Commission held a prehearing conference on November 5, 2009, at which
22 Administrative Law Judge Grant adopted a full procedural schedule for this docket, including
23 testimony, a hearing, and briefing.

24 8. Staff convened a workshop on November 17, 2009, and another settlement
25 conference on December 1, 2009. The meetings were noticed to all parties of the docket,
26

1 Staff, NWN, CUB, and NWIGU participated in the settlement conferences. As a result of the
2 settlement conference, the Parties have reached a comprehensive settlement in this case.

3 **AGREEMENT**

4 9. NWN has filed a revised 2008 Tax Report (Revised Tax Report) to adjust for the
5 factors described in Staff's issue list, which is attached as Exhibit A. The only revision to
6 NWN's state and federal taxes was the correction of an error in the application of the
7 dependent tax credit which was originally calculated as an addition to taxes paid, rather than a
8 reduction.¹ This revision decreased the total state and federal SB 408 surcharge by \$12,489.
9 The only revision to NWN's 2008 refund for local taxes was the removal of a modification to
10 Line 13 on Page 1 of the 2008 Tax Report related to the residual balance from the previous
11 tax year.² This revision increased the local tax refund by approximately \$11,500. The Parties
12 agree that the Revised 2008 Tax Report complies with SB 408 and OAR 860-022-0041.

13 10. The Parties agree that the 2008 SB 408 tax surcharge amount for state and
14 federal taxes should be \$206,907³, plus an estimated \$3,728 in interest accruing during
15 amortization. The 2008 refund for local taxes should be \$457,937⁴, plus approximately
16 \$5,101 in interest accruing during amortization⁵. The Parties further agree that both the
17 surcharge and refund should be amortized over one year. The Parties agree that any future
18 rate adjustments will be determined on an annual basis and authorized by the Commission
19 pursuant to OAR 860-022-0041(8)(c).

20 11. The 2008 SB 408 surcharge for state and federal taxes, and the refund for local
21 taxes, will be collected over a 12-month period through Schedule 161 NWN's Income Tax

22

23 ¹ See Exhibit A, pages 3-4, Issue 3.

24 ² Id., page 5, Issue 4.

25 ³ The \$206,907 total consists of the \$178,705 2008 SB 408 surcharge and estimated accumulated
26 interest from July 2008 through May 2010.

⁴ The \$457,937 consists of the \$395,915 local tax refund and estimated accumulated interest from July
2008 through May 2010.

⁵ See Exhibit C to this Stipulation for an accounting of the amounts proposed for amortization from June
1, 2010 through May 31, 2011.

1 Adjustment tariff, a copy of which is attached as Exhibit B to this Stipulation. Upon approval of
2 this Stipulation, NWN will file an updated Schedule 161 as set forth in Exhibit B with effective
3 dates of June 1, 2010.

4 12. The Parties agree to submit this Stipulation to the Commission and request that
5 the Commission approve the Stipulation as presented. The Parties agree that the
6 adjustments and the rates resulting from the Stipulation are fair, just, and reasonable.

7 13. This Stipulation will be offered into the record of this proceeding as evidence
8 pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout this
9 proceeding and any appeal, (if necessary) provide witnesses to sponsor this Stipulation at the
10 hearing, and recommend that the Commission issue an order adopting the settlements
11 contained herein.

12 14. If this Stipulation is challenged by any other party to this proceeding, the Parties
13 agree that they will continue to support the Commission's adoption of the terms of this
14 Stipulation. The Parties agree to cooperate in cross-examination and put on such a case as
15 they deem appropriate to respond fully to the issues presented, which may include raising
16 issues that are incorporated in the settlements embodied in this Stipulation.

17 15. The Parties have negotiated this Stipulation as an integrated document. If the
18 Commission rejects all or any material portion of this Stipulation or imposes additional material
19 conditions in approving this Stipulation, any Party disadvantaged by such action shall have the
20 rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal
21 of the Commission's Order.

22 16. By entering into this Stipulation, no Party shall be deemed to have approved,
23 admitted, or consented to the facts, principles, methods, or theories employed by any other
24 Party in arriving at the terms of this Stipulation, other than those specifically identified in the
25 body of this Stipulation. No Party shall be deemed to have agreed that any provision of this
26

1 Stipulation is appropriate for resolving issues in any other proceeding, except as specifically
2 identified in this Stipulation.

3 17. This Stipulation may be executed in counterparts and each signed counterpart
4 shall constitute an original document.

5 This Stipulation is entered into by each party on the date entered below such Party's
6 signature.

7 ***Signature page follows.***

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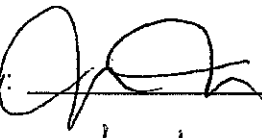
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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

NORTHWEST NATURAL GAS COMPANY

By:  _____

By: _____

Date: 1/25/10 _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

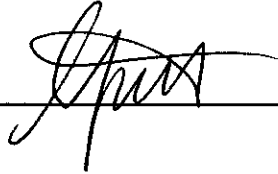
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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

NORTHWEST NATURAL GAS COMPANY

By: _____

By:  _____

Date: _____

Date: 1-21-10 _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

NORTHWEST NATURAL GAS COMPANY

By: _____

By: _____

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: *DM #* _____

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Date: 1/21/2010 _____

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

NORTHWEST NATURAL GAS COMPANY

By: _____

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Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

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Date: _____

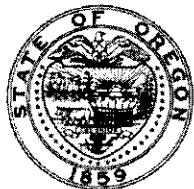
Date: 1-22-10

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

STIPULATION

EXHIBIT A – Staff Issues List

January 25, 2010



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

550 Capitol St NE, Suite 215

Mailing Address: PO Box 2148

Salem, OR 97308-2148

Consumer Services

1-800-522-2404

Local: (503) 378-6600

Administrative Services

(503) 373-7394

December 18, 2009

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

**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

(503) 378-5763

Email: kay.barnes@state.or.us

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)

CABLE HUSTON BENEDICT HAAGENSEN & LLOYD LLP CHAD M STOKES (C) (HC)	 1001 SW 5TH - STE 2000 PORTLAND OR 97204 cstokes@cablehuston.com
CITIZENS' UTILITY BOARD OF OREGON OPUC DOCKETS	 610 SW BROADWAY STE 308 PORTLAND OR 97205 dockets@oregoncub.org
GORDON FEIGNER (C) (HC) ENERGY ANALYST	610 SW BROADWAY, SUITE 308 PORTLAND OR 97205 gordon@oregoncub.org
ROBERT JENKS (C) (HC)	610 SW BROADWAY STE 308 PORTLAND OR 97205 bob@oregoncub.org
G. CATRIONA MCCRACKEN (C) (HC) LEGAL COUNSEL/STAFF ATTY	610 SW BROADWAY - STE 308 PORTLAND OR 97205 catriona@oregoncub.org
DANIEL W MEEK ATTORNEY AT LAW DANIEL W MEEK (C) (HC) ATTORNEY AT LAW	 10949 SW 4TH AVE PORTLAND OR 97219 dan@meek.net
DEPARTMENT OF JUSTICE JASON W JONES (C) ASSISTANT ATTORNEY GENERAL	 REGULATED UTILITY & BUSINESS SECTION 1162 COURT ST NE SALEM OR 97301-4096 jason.w.jones@state.or.us
ENERGY ACTION NORTHWEST EDWARD A FINKLEA (C) (HC)	 PO BOX 8308 PORTLAND OR 97207 efinklea@energyactionnw.org
KAFOURY & MCDUGAL LINDA K WILLIAMS (C) (HC) ATTORNEY AT LAW	 10266 SW LANCASTER RD PORTLAND OR 97219-6305 linda@lindawilliams.net

NORTHWEST INDUSTRIAL GAS USERS PAULA E PYRON (C) (HC) EXECUTIVE DIRECTOR	4113 WOLF BERRY CT LAKE OSWEGO OR 97035-1827 ppyron@nwigu.org
NORTHWEST NATURAL INARA K SCOTT REGULATORY AFFAIRS MANAGER	220 NW 2ND AVE PORTLAND OR 97209 iks@nwnatural.com
NW NATURAL RATES & REGULATORY AFFAIRS	220 NW 2ND AVE PORTLAND OR 97209-3991 efiling@nwnatural.com
STOEL RIVES LLP MARCUS A WOOD	900 SW FIFTH AVE - STE 2600 PORTLAND OR 97204

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.



Kay Barnes
Public Utility Commission
Regulatory Operations
550 Capitol St NE Ste 215
Salem, Oregon 97301-2551
Telephone: (503) 378-5763

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

STIPULATION

Exhibit B – Schedule 161

January 25, 2010

**SCHEDULE 161
AUTOMATIC ADJUSTMENT FOR UTILITY INCOME TAX**

PURPOSE

This schedule implements an automatic adjustment clause required by ORS 767.268 and implemented by the Commission in OAR 860-022-0041, to recognize rate differences between the amount of income taxes paid to units of government that is properly attributed to the regulated operations of the Company and the amount of income taxes collected through the Company's approved Base Rates.

BALANCING ACCOUNT

A balancing account will be maintained to accrue any differences between the amount of income taxes included in current Base Rates and the amount of taxes actually paid to units of government. The balancing account will accrue interest at the rate approved by the Commission.

APPLICABLE:

The adjustment shall apply to customers taking service under the following Rate Schedules of this Tariff:

Schedule 1	Schedule 3 (all)	Schedule 31 (all)	Schedule 33
Schedule 2	Schedule 19 (all)	Schedule 32 (all)	

(D)

APPLICATION TO RATE SCHEDULES:

The adjustments shown below will apply commencing with bills issued in the month of June. The Multnomah County Business Income Tax Adjustment will apply only to Customers that reside within Multnomah County. These adjustments are not included in the Temporary Adjustment reflected in the above-listed Rate Schedules. ADDITIONAL ADJUSTMENT TO RATES IS REQUIRED.

(C)

(C)

Schedule	Block	State & Federal Tax Adjustment (per therm)	Multnomah County Business Income Tax Adjustment (per therm)
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1C			
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3 (CSF)			
3 (ISF)			
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31CFS	Block 1		
	Block 2		
31ISF	Block 1		
	Block 2		
31CSI	Block 1		
	Block 2		
31ISI	Block 1		
	Block 2		
31CTF	Block 1		
	Block 2		
31ITF	Block 1		
	Block 2		

(continue to Sheet 161-2)

Issued April ____, 2010
NWN Advice No. OPUC 10-__

Effective June 1, 2010

SCHEDULE 161
AUTOMATIC ADJUSTMENT FOR UTILITY INCOME TAX
(continued)

APPLICATION TO RATE SCHEDULES: (continued)

Schedule	Block	State & Federal Tax Adjustment (per therm)	Multnomah County Business Income Tax Adjustment (per therm)
32CFS	Block 1		
	Block 2		
	Block 3		
	Block 4		
	Block 5		
	Block 6		
32ISF	Block 1		
	Block 2		
	Block 3		
	Block 4		
	Block 5		
	Block 6		
32CTF / ITF	Block 1		
	Block 2		
	Block 3		
	Block 4		
	Block 5		
	Block 6		
32CSI / ISI	Block 1		
	Block 2		
	Block 3		
	Block 4		
	Block 5		
	Block 6		
32CTI / ITI	Block 1		
	Block 2		
	Block 3		
	Block 4		
	Block 5		
	Block 6		
33 (all)			

(C)

(D)

PRIOR YEAR BALANCES:

The Company will include any remaining balance from the prior year's adjustment in the calculation of the current year's adjustment.

GENERAL TERMS:

This Schedule is governed by the terms of this Schedule, the General Rules and Regulations contained in this Tariff, any other Schedules that by their terms or by the terms of This Schedule apply to service under this Schedule, and by all rules and regulations prescribed by regulatory authorities, as amended from time to time.

Issued April __, 2010
NWN Advice No. OPUC 10-__

Effective June 1, 2010

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

STIPULATION

EXHIBIT C – Accounting of Amortization Amounts

January 25, 2010

**NW Natural
 2010-11 Tax Surcharge Amortization**

<u>Line</u>		
1	2007 Tax period residual balance (inc. previously accrued interest)	\$ 114,814.07
2	2008 Tax Period surcharge (inc. previously accrued interest)	<u>206,907.19</u>
3	Beginning balance (Amortization) June 10 - May 11	\$ 321,721.26
4	Projected Interest at applicable Blended Treasury Rate	\$ 16,690.30
5	Total Projected 2010-11 Surcharge Amortization	<u><u>\$ 338,411.56</u></u>

"At a Glance"

Current revenues	866,828,338
Amount of surcharge and 2007 residual	338,412
New proposed revenues	867,166,750
Percentage of overall impact	0.04%

NW Natural
2008 Tax Period Surcharge Interest & Amortization Summary
 Multnomah County Business Income Tax (MCBIT)

Line	Interest period	
1	Actual 2008 surcharge (tax report)	395,519.00
2	Interest at Cost of Capital (ROR) - 8.618% July 2008 - April 15, 2010	60,857.83
3	Interest at 2010 Blended Treasury Rate 2.05% April 16, 2010 - May 31, 2010	1,560.62
4	Total 2008 surcharge	<u>\$ 457,937.45</u>
Beginning balance (Amortization) June 10 - May		
5	11	\$ 457,937.45
6	Projected Interest at 2010 B.T.Rate X.XX% June 2010 - May 2011	<u>5,100.93</u>
7	Total projected 2008 tax period surcharge amortization, including interest	\$ 463,038.38
Or:		
8	Total 2008 surcharge (per the tax report)	\$ 395,519.00
9	Add: Total interest	\$ 67,519.38
10	Total	\$ 463,038.38

"At a Glance"

Current revenues	866,828,338
Amount of surcharge	463,038
New proposed revenues	867,291,377
Percentage of overall impact	0.05%

Docket UG 170(3)
Joint Testimony /100
Owings – Ball – Garcia – Jenks – Pyron - Deckard

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

STAFF – NW NATURAL JOINT STIPULATION

JOINT TESTIMONY IN SUPPORT OF STIPULATION

January 25, 2010

1 **Q. Who is sponsoring this testimony?**

2 A. This testimony is jointly sponsored by NW Natural (“NWN” or the “Company”),
3 Staff of the Public Utility Commission of Oregon (“Staff”), the Citizens’ Utility
4 Board of Oregon (“CUB”), and Northwest Industrial Gas Users, (“NWIGU”). In
5 this Joint Testimony these parties are referred to collectively as the “Parties.”

6 **Q. Please state your names.**

7 A. Carla Owings, Dustin Ball, and Deborah Garcia for Staff, Linda Deckard for
8 NWN, Bob Jenks for CUB, and Paula Pyron for NWIGU. Our witness
9 qualification statements are set forth in Joint Testimony Exhibits/101 through
10 106.

11 **Q. What is the purpose of your testimony?**

12 A. This testimony is in support of the Parties’ Stipulation filed in Docket UG 170(3),
13 regarding NWN’s tax filing as it relates to Senate Bill 408 (“SB 408”), codified in
14 ORS 757.267, 757.268 and implemented by OAR 860-022-0041. Pursuant to
15 ORS 757.268 and OAR 860-022-0041, on October 15, 2008, NWN filed its tax
16 report for calendar years 2006, 2007, and 2008 (the “Tax Report”). On
17 November 5, 2009, Chief ALJ Grant entered a procedural schedule for the
18 docket. On November 17, 2009, Staff convened a workshop and on December
19 1, 2009, a settlement conference. All parties to the docket were invited to both
20 meetings, which Staff, NWN, CUB, and NWIGU attended. The Parties were able
21 to reach agreement on December 1, 2009 on all issues as outlined in the
22 Stipulation. On January 12, 2010, NWN filed an amended 2008 tax report (the

1 "Amended 2008 Tax Report") that reflects the settlement of the issues as agreed
2 to by the Parties to the Stipulation.

3 The Parties have agreed to the terms of this Stipulation and submit the
4 Stipulation, along with this Joint Testimony in support of the Stipulation, to the
5 Commission. In addition, included as Exhibit A to the Stipulation and Joint
6 Testimony is Staff's Issues List filed on December 19, 2009 for information
7 purposes only. The Parties request that the Commission issue an order
8 approving the Stipulation and implementing its terms.

9 **Q. Did Staff raise any issues related to its review of NWN's 2008 Tax Report?**

10 A. Yes. Staff performed a thorough review of the Company's filing, serving many
11 data requests and hosting both a workshop and settlement conference, to
12 discuss the details of the Company's responses to the data requests. The issues
13 Staff raised related to the review of Northwest Natural's Tax Report are
14 described in Exhibit A to the Stipulation.

15 **Q. Please provide a brief summary of the issues that resulted in NWN
16 amending the results of its 2008 Tax Report.**

17 A. As stated in paragraph 9 of the Stipulation, the only revision which affects the
18 state and federal SB 408 surcharge (2008 Surcharge), is the correction of an
19 error in the application of the dependent tax credit which was originally calculated
20 as an addition to taxes paid, rather than a reduction, which reduces the
21 surcharge by \$12,489. Again, the only revision which affects the local tax refund
22 was the removal of a modification to Line 13 on Page 1 of the 2008 Tax Report

1 related to the residual balance from the previous tax year, which increases the
2 refund by approximately \$11,500.

3 **Q. In consideration of the revisions submitted by NWN in its Revised Tax**
4 **Report, what is the final outcome of its 2008 SB 408 filing?**

5 A. The final outcome of the 2008 SB 408 filing results in a \$178,705 difference
6 (before interest) between state and federal taxes paid and taxes authorized to be
7 collected in rates, and an approximate \$395,519 difference between local taxes
8 collected in rates and local taxes paid to units of government. Put another way,
9 NWN paid \$178,705 more in state and federal taxes than it collected in rates,
10 under the calculation set forth in its Tax Report. NWN paid approximately
11 \$395,519 less in local taxes than it collected in rates.¹

12 **Q. How do the Parties propose that the difference between taxes paid and**
13 **taxes authorized to be collected in rates be reflected in NW Natural's rates?**

14 A. The rate adjustment for NWN's 2008 SB 408 filing will be a rate surcharge. The
15 Parties agree that the surcharge for state and federal taxes should be amortized
16 for a 12-month period through Schedule 161, NWN's Income Tax Adjustment
17 Tariff effective with customer bills issued beginning June 1, 2010 through May
18 31, 2011. The Parties agree that the refund related to local tax should be applied
19 to customer bills under the terms and conditions stated in NWN's Schedule 161.

20 **Q. Please provide an estimate of the interest that has accrued from July 2008**
21 **for both the Federal and State surcharge and the local refund?**

¹ See Exhibit C to the Stipulation for a summary accounting of the amount proposed for amortization from June 1, 2010 through May 31, 2011.

1 A. The preliminary estimate for interest from July 2008 through May 2010 for the
2 Federal and State surcharge is \$28,202. The preliminary estimate for interest for
3 the local refund for the same time period is \$62,418. Preliminary estimates are
4 necessary until a new Blended Treasury Rate for 2010 amortizations is
5 established in Docket UM-1147.

6 **Q. Is there any residual balance from the 2007 SB 408 impact?**

7 A. Yes, a residual balance of \$127,776, including interest of \$12,262 remains from
8 the 2007 SB 408 surcharge.

9 **Q. Do you have anything further on these issues or any other issues?**

10 A. No.

11 **Q. Does this conclude your Testimony?**

12 A. Yes.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

STAFF – NW NATURAL

EXHIBIT TO JOINT TESTIMONY IN SUPPORT
OF STIPULATION

January 25, 2010

List of Exhibits

- | | |
|-----|----------------------------------|
| 101 | Qualifications of Carla Owings |
| 102 | Qualifications of Dustin Ball |
| 103 | Qualifications of Deborah Garcia |
| 104 | Qualifications of Linda Deckard |
| 105 | Qualifications of Bob Jenks |
| 106 | Qualifications of Paula Pyron |

WITNESS QUALIFICATION STATEMENT

NAME: Carla M. Owings

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Utility Analyst/Revenue Requirement/Rates and Regulation

ADDRESS: 550 Capitol Street NE Suite 215
Salem, Oregon 97301-2115.

EDUCATION: Professional Accounting Degree
Trend College of Business 1983

EXPERIENCE: I have been employed by the Public Utility Commission of Oregon since April of 2001. I am the Senior Utility Analyst for revenue requirement for the Rates and Regulation Division of the Utility Program. Current responsibilities include leading research and providing technical support on a wide range of policy issues for electric, telecommunications, and gas utilities.

From September 1994 to April 2001, I worked for the Oregon Department of Revenue as a Senior Industrial/Utility Appraiser. I was responsible for the valuation of large industrial properties as well as utility companies throughout the State of Oregon.

I have testified on behalf of the Public Utility Commission in Docket Nos. UE 180, UM 1234, UE 167, UE 180, UE 188, UM 1234, UM 1261, UM 1271 and UG 171.

OTHER EXPERIENCE: I received my certification from the National Association of State Boards of Accountancy in the Principles of Public Utilities Operations and Management in March of 1997. I have attended the Institute of Public Utilities sponsored by the National Association of Regulatory Utility Commissioners at Michigan State University in August of 2002 and the College of Business Administration and Economics at New Mexico State University's Center for Public Utilities in May of 2004.

WITNESS QUALIFICATION STATEMENT

NAME: Dustin Ball

EMPLOYER: Public Utility Commission Of Oregon

TITLE: Senior Financial Analyst, Economic Research & Financial Analysis Division

ADDRESS: 550 Capitol Street NE suite 215
Salem, Oregon 97301-2115.

EDUCATION: Bachelor of Science, Business focusing in Accounting,
Western Oregon University (2003)

EXPERIENCE: Employed with the Oregon Public Utility Commission since August 2007. I am a Senior Financial Analyst for the Economic Research & Financial Analysis Division.

Employed by the Oregon Real Estate Agency as a Financial Investigator in the Regulations Division from January 2006 to August 2007.

Employed by the Oregon Department of Revenue as an Income Tax Auditor, in the Personal Tax and Compliance Section from January 2004 to January 2007.
Licensed Tax Consultant in the State of Oregon.

WITNESS QUALIFICATIONS STATEMENT

NAME: Deborah A. Garcia
EMPLOYER: Public Utility Commission Of Oregon
TITLE: Senior Revenue Requirement Analyst
ADDRESS: 550 Capitol St Ne Suite 215,
Salem, Oregon 97301-2551

EDUCATION:

- o Western Utility Rate School, San Diego, California. (2002)
- o The Center For Public Utilities at New Mexico University and the National Association of Regulatory Commissioners' Annual Regulatory Studies Program. (2000)
- o National Association of Regulatory Utility Commissioners' Annual Regulatory Studies Program at Michigan State University. (2000)
- o Certificate in Mediation Training (1994)
- o College-level coursework in financial accounting, business law, business management, and economics.

WORK EXPERIENCE:

- o Sr Revenue Requirement Analyst --Public Utility Commission of Oregon Lead accounting witness for revenue requirement in various proceedings. (2007 - present)
- o Utility Analyst -- Public Utility Commission of Oregon Focus on utility policies, natural gas purchased gas adjustment issues, utility territory allocation issues, consumer issues, tariff review, promotional concessions, rate case review & witness, and rulemakings. (2002 - 2007)
- o Research Analyst -- Public Utility Commission of Oregon Focus on SB 1149 implementation, rulemaking, various utility and electric service supplier policies, including certification of electric service suppliers, tariff review, rate case review & witness. (2000 -2002)
- o Compliance Specialist -- Public Utility Commission of Oregon--Handled consumer complaints, liaison between the public, regulated utilities and various Commission staff, reviewed proposed tariffs, administrative rules, and policies with an emphasis on potential impact to consumers. Identified trends, services, and policies where no statute, rule or precedent applied and recommended appropriate action. (1992 - 2000)

WITNESS QUALIFICATION STATEMENT

NAME: Linda Deckard

EMPLOYER: Northwest Natural Gas Company ("NW Natural")

TITLE: Tax Manager

ADDRESS: 220 NW Second Avenue
Portland OR 97209

EDUCATION: B.S., California State University at Fullerton; Major: Psychology
Certificate in Accounting from Portland State University

EXPERIENCE: I first joined NW Natural in 1999 as an SEC/Tax Analyst. In this position, I was responsible for preparation of the Company's quarterly 10-Q and annual 10-K filings with the Securities and Exchange Commission, in addition to handling all income tax matters relevant to the Company. In 2005, I transitioned my SEC responsibilities to another employee of NW Natural in order to function full time as the Company's Tax Manager.

Prior to joining NW Natural, I was employed by Perkins & Company, PC for a period of ten years. During my term with Perkins & Company, I received my CPA designation in 1991, functioned in both audit and tax and advanced to a Tax Manager position.

I received my BS degree in Psychology from California State University at Fullerton and later a Certificate in Accounting from Portland State University.

WITNESS QUALIFICATION STATEMENT

Paula E. Pyron

Paula Pyron is the Executive Director of the Northwest Industrial Gas Users (“NWIGU”), with its business address at 4113 Wolf Berry Court, Lake Oswego, OR 97035-1827. NWIGU is a nonprofit association of 38 large end-users of natural gas with facilities in Oregon, Washington and Idaho. The association represents its members’ interests in distributor and pipeline rate cases, tariff filings and regulatory policy issues in the three states and at the Federal Energy Regulatory Commission. Ms. Pyron accepted this representation of NWIGU effective September 2000.

Ms. Pyron has been a lawyer since 1983, hailing from the oil patch in Tulsa, Oklahoma for the first several years of her business-focused practice with the law firm of Boesche, McDermott & Eskridge. She began private practice in Portland, Oregon in 1991 with an emphasis in energy regulation and contract negotiation. She represented Northwest Industrial Gas Users from 1991 to 1999 as one of its outside counsel, most recently as a partner at Energy Advocates LLP, and prior to that firm’s founding was a partner at Ball Janik LLP. Immediately prior to her engagement as NWIGU’s executive director, from 1999 to 2000, she managed the legal department in Portland as Assistant General Counsel for PG&E Gas Transmission, Northwest Corporation.

Ms. Pyron is admitted to practice in the state bars of Oregon and Oklahoma and numerous federal courts. She is a 1983 graduate of the University of Tulsa, College of Law and has a BS in Economics, *summa cum laude* from the University of Texas at Dallas. She has testified on energy regulatory and legislative matters in Oregon and Washington before the Oregon Public Utility Commission (OPUC), the Washington Utilities and Transportation Commission (WUTC), and state legislative committees. She has appeared on numerous occasions before the WUTC, the OPUC and the Idaho Public Utility Commission as executive director of NWIGU.

WITNESS QUALIFICATION STATEMENT

Bob Jenks

My name is Bob Jenks. I am the Executive Director of the Citizens' Utility Board ("CUB"). My business address is 610 SW Broadway, Suite 308, Portland, OR 97205. I am a graduate of Willamette University with a Bachelor of Science Degree in Economics.

I have provided testimony and comments in a variety of PUC dockets. Between 1982 and 1991, I worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Group and the Fund for Public Interest Research on a variety of public policy issues.

As Executive Director, my responsibilities include the review of all utility and telecom filings in Oregon and in this particular docket the representation of customers concerns that have arisen from this Docket.



CERTIFICATE OF SERVICE

I hereby certify that on the 25th day of January, 2010, I served the foregoing NORTHWEST NATURAL'S STIPULATION AND JOINT TESTIMONY IN SUPPORT OF THE STIPULATION in Docket No. UG 170(3) upon each party listed below, by e-mail and, where paper service is not waived, by first-class U.S. Mail, postage prepaid.

/s/ Kelley C. Miller
 Kelley C. Miller, Staff Assistant
 Rates & Regulatory Affairs
 NW NATURAL
 220 NW Second Avenue
 Portland, Oregon 97209-3991
 1.503.226.4211, extension 3589

OPUC DOCKET NO. UG 170

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