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**VIA ELECTRONIC FILING
& FIRST CLASS MAIL**

Oregon Public Utility Commission
Attn: Filing Center
550 Capitol Street N.E., #215
P.O. Box 2148
Salem, Oregon 97308-2148

Re: In the Matter of Northwest Natural Gas Company –
Application for a General Rate Revision
Docket No. UG-221

Dear Filing Center:

Enclosed please find an original and five (5) copies of the Northwest Industrial Gas Users' Prehearing Brief.

Thank you for your assistance, and please do not hesitate to contact our office with any questions.

Very truly yours,



Tommy A. Brooks

TAB:sk
Enclosures

cc: UG 221 Service List

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 221

In the Matter of)	
)	THE NORTHWEST INDUSTRIAL
NORTHWEST NATURAL GAS)	GAS USERS' PREHEARING BRIEF
COMPANY)	
)	
Application for a General Rate Revision)	
)	

Pursuant to ALJ Hardie's Ruling dated March 12, 2012, the Northwest Industrial Gas Users ("NWIGU") submit this Prehearing Brief. This Prehearing Brief describes NWIGU's position with respect to the contested issues that remain in this proceeding.

I. INTRODUCTION

Northwest Natural Gas Company ("NW Natural" or "Company") initially filed this rate case seeking a \$43.7 million increase in base rate charges, along with a request to recover an estimated \$91 million in additional costs and interest related to the environmental remediation of several contaminated sites owned, operated or controlled by NW Natural. At this time, the increase in base rate charges the Company is seeking has been adjusted to \$35.9 million, but the estimate of environmental remediation costs is unchanged. This requested rate increase comes at a time when the Company has been consistently overearning.

NWIGU sponsored the testimony of two witnesses in this proceeding. The direct testimony of Donald W. Schoenbeck addresses rate spread, environmental remediation cost recovery, interruptible service elimination, and industrial rate design. The direct

testimony of Hugh Larkin, Jr.¹ addresses several issues relating to rate base including plant in service/accumulated depreciation, pension, materials and supplies, contributions in aid of construction, customer deposits, and injuries and damages reserve. Mr. Larkin's testimony also addresses several issues relating to the Company's operating income including miscellaneous revenues such as the deferral and recovery of state deferred income taxes, as well as expenses relating to depreciation, injuries and damage, the rate case, association dues, uncollectibles, directors' and officers' insurance, advertising, payroll, payroll tax, medical benefits and workers' compensation, pension, and environmental remediation.

The parties have settled many of the issues addressed in the testimony of NWIGU's expert witnesses. NWIGU urges the Commission to approve those settlements as they are in the public interest and a fair resolution of those issues. If the Commission does approve those settlements, NWIGU will address only the following four issues: 1) Environmental Remediation Expenses; 2) Pension Expenses; 3) Deferral and Recovery of State Tax Expenses; and 4) Prudency issues relating to the Company's Mid-Willamette Valley Feeder Project. NWIGU will also address cost of capital issues. While NWIGU did not sponsor a witness on cost of capital, NWIGU supports Commission Staff's well-reasoned testimony and arguments relating to cost of capital issues.

II. NWIGU'S POSITION ON CONTESTED ISSUES

A. Environmental Remediation Expenses

NW Natural's filing seeks environmental cost recovery related to nine contaminated sites, including the clean-up of the Portland Harbor Superfund Site, which is occurring as the result of more than a century of heavy industrial use along the

¹ NWIGU and the Citizens' Utility Board of Oregon ("CUB") jointly sponsored Mr. Larkin's testimony.

Willamette River. In particular, NW Natural, or its predecessors, owned, operated and profited from manufactured gas plants, and some or all of these sites are now contaminated. The total cleanup cost associated with these sites is at this point unknown.

NW Natural's proposal is to pass 100 percent of these environmental remediation costs onto its customers. It would do so through Schedule 183 Site Remediation Recovery Mechanism and Schedule 184 Special Rate Adjustment Gasco Upland Pumping Station, applying an equal percent of margin increase to all customers.

The record in this proceeding will demonstrate that the Company's proposal is unreasonable and unfair to customers because it attempts to force today's ratepayers to indemnify NW Natural from any liability associated with these sites. First, the proposal does not account for the fact that today's customers did not cause the contamination or benefit from the historic operations associated with the contamination. NW Natural's investors reaped the benefits and took on the risks of the utility's historical operations. For years, the Company and its shareholders received the upside of that risk because the Company incurred no remediation costs for the contamination it caused. Now that there is a significant and quantifiable liability for the years of contamination caused by the Company or its predecessors, the Company proposes that its shareholders be isolated from any of these costs by shifting the entire burden to ratepayers. This proposal seeks to protect the Company's shareholders to the detriment of NW Natural's customers.

Second, NW Natural's proposal gives it no incentive to control costs. At its core, NW Natural is asking for a blank check that will be included in customers' rates for the foreseeable future.

Third, NW Natural is inappropriately seeking to have the environmental remediation tracker excluded from any earnings review. The Company has been consistently earning over its authorized rate of return. NW Natural seeks to have the tracker applied even if its earnings in a given year are excessive, thereby promoting the interests of its shareholders to the detriment of ratepayers.

Finally, even if the Commission determines that today's customers should bear some of those costs, NWIGU recommends that the Commission allow the Company to recover only fifty percent of those costs from ratepayers. This even split will help militate against the fact that today's customers did not cause the contamination or benefit from the historic operations associated with the contamination, will provide an incentive to the Company to aggressively recover insurance proceeds, and will account for the fact that the Company's earnings have been reasonable even in light of these increasing costs. Moreover, the Commission's decision should recognize that the proposed Schedules 183 and 184 inappropriately assign cost responsibility to industrial customers who, according to the Company's own LRIC analysis, are already paying excessive margin charges. Certain Schedule 31 and 32 customers are already paying \$17.2 million in excess of their cost responsibility each and every year. The Company's equal percent of margin approach would assign these same customers almost \$1 million per year under Schedules 183 and 184 assuming a recovery of \$15 million per year. To address the significant rate disparity that exists today, the Schedule 183 and 184 charges should not be applied to industrial customers. By not applying these charges to industrial customers, the Commission will ensure that the existing rate disparities are not exacerbated by the outcome in this proceeding.

B. Pension Expenses

NW Natural proposes to add unrecovered pension plan contributions from investors to rate base. As the record will show, the Company seeks to add nearly \$22 million to rate base in part to recover contributions made to pension funds *prior* to the test year. The recovery of such contributions is improper and constitutes retroactive ratemaking.

NW Natural's proposal to recover pension expenses seeks to shift the risks associated with pension funds to customers. The evidence in the record demonstrates that NW Natural's proposal is unlawful because it seeks to obtain recovery for deferred expenses that the Commission never authorized the Company to defer.

C. Deferral and Recovery of State Deferred Income Taxes

The Company's filing includes a reduction to miscellaneous revenues relating to an incremental change in state tax rates in 2009. The record reflects that this reduction in revenue is improper. Specifically, it is clear that NW Natural never actually paid any increase in state tax as a result of changes in the tax law and that the Company has already recovered its deferred income tax expenses at issue in this adjustment. Moreover, the Company's attempt to amortize the state deferred income tax is both single issue ratemaking and retroactive ratemaking that the Commission should not approve.

D. Prudency Issues Relating to the Mid-Willamette Valley Feeder Project

NW Natural's Mid-Willamette Valley Feeder project is composed of four components: 1) Perrydale to Monmouth; 2) Monmouth Reinforcement; 3) Willamette Crossing; and 4) South of Perrydale Bare Replacement. Although the settlement process addressed some of the ratemaking treatment related to this project, NWIGU disagrees

with the Company with respect to the prudence of the Perrydale to Monmouth and Monmouth Reinforcement components. The record will show that NW Natural has not sufficiently analyzed or demonstrated the need for these project components. Without such an analysis, the Commission should not approve the recovery of any costs related to these project components.

III. NWIGU'S POSITION ON OTHER ISSUES

In addition to the contested issues identified above, NWIGU agrees with the Commission Staff's position on cost of capital as reflected in the testimony of Staff's witnesses. Specifically, NWIGU agrees that the Commission should authorize a Return on Equity of 9.4% with a capital structure that is 50% debt and 50% equity. This proposal is well reasoned and reflects the current capital markets. NWIGU does not have its own witness related to these issues, but reserves the right to make arguments in its post-hearing briefs and during oral argument relating to these issues.

NWIGU reserves the right to address the issues discussed in this prehearing brief in more detail in NWIGU's post hearing brief and during oral argument.

Dated this 20th day of August 2012.

Respectfully submitted,

/s/Chad Stokes

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CERTIFICATE OF SERVICE

I hereby certify that I caused to be served the foregoing *NWIGU'S PREHEARING BRIEF* via electronic mail and, where paper service is not waived, via postage-paid first class mail upon the following parties of record:

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Dated in Portland, Oregon, this 20th day of August 2012.

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