



DEPARTMENT OF JUSTICE  
GENERAL COUNSEL DIVISION

May 18, 2012

PUC Filing Center  
Public Utility Commission of Oregon  
550 Capitol St NE Suite 215  
Salem, OR 97301-2552

Re: UG 221 - NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL  
Staff Errata Filing

Dear UG 221 Parties:

The Public Utility Commission of Oregon Staff (Staff) corrects mistakes with this errata filing. A summary of the corrections to Staff's testimony are as follows:

I. Revenue Requirements Model (Staff/102)

1. Staff Adjustment S-21 was corrected (Staff102/Goodwin/10 at 4). The original (incorrect) entry was \$888. The amended, corrected entry is \$658. This changes the revenue requirement effect of Staff Adjustment S-21. The original (incorrect) revenue requirement effect was -\$916. The amended, corrected revenue requirement effect is -\$677.

This change is also made in Staff/100 (see part II below). The correction is necessary to incorporate the change made by Paul Rossow, the Staff Witness actually sponsoring the adjustment.

2. Staff Adjustment S-14 was corrected by adding 9,266 dollars of accumulated deferred taxes into the adjustment page. The original (incorrect) revenue requirement was \$7,104. The corrected revenue requirement was \$6,091.

II. Opening Testimony-Amended (Staff/100)

1. Staff Exhibit100/Goodwin/12 at 19 was corrected. The original (incorrect) revenue requirement effect was \$916. The amended, corrected revenue requirement effect is \$677.
2. Staff/100/Goodwin/8 at 1 was corrected in four places: Staff Adjustment S-21 Revenue Requirement Effect, amended from (916) to (677), "rounding" amended from (2) to (3), "Total Staff Proposed Adjustments" amended from (\$54,419) to (\$54,181), and "Staff Calculated Revenue Requirements Change" amended from (\$10,737) to (\$10,499).

3. Staff/100Goodwin/8 in four places: Staff Adjustment S-14 Revenue Requirement Effect, amended from (7,104) to (6,091), "rounding" amended from (3) to (2), "Total Staff Proposed Adjustments" amended from (\$54,181) to (\$53,167), and "Staff Calculated Revenue Requirements Change" amended from (\$10,499) to (\$9,485).

III. Revenue Requirements Model (Staff/ 102)

1. Staff/102/Goodwin/10 – Adjustments, this is the page where the actual correcting entries to S-21 & S-14 were made.
2. Staff/102/Goodwin/6 – Income Tax Calculation; it changes slightly as a result of the correction to Adjustment S-21 & S-14.
3. Staff/102/Goodwin/5 – Summary Sheet; it changes because of the change to S-21 & S-14 and the tax effect.
4. Staff/102/Goodwin/2- 3 – Narrative; page 2 changes to reflect the corrected revenue requirement effect of correcting Adjustment S-21; page 3 changes because the total revenue requirement effect changes.

IV. Opening Testimony-Amended (Staff 100)

1. Staff/100Goodwin/8 and Staff100/Goodwin/12 (see section II above).

V. Opening Testimony-Amended (Staff/200)

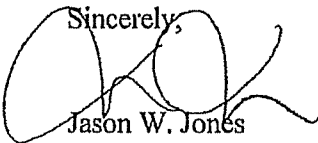
1. Staff/200, Johnson/2 at 4 reflects total revenue requirement number changes as a result of this errata filing.

VI. Opening Testimony – Amended (Staff/500)

1. The table in Staff/500/Garcia/2, at 15 was updated to correct errors.

VII. Opening Testimony – Amended (Staff/900)

1. Staff/902/Cimmiyotti/1 was changed to add 9,266 of Accumulated Deferred Taxes.

Sincerely,  
  
Jason W. Jones  
Assistant Attorney General  
Business Activities Section

CERTIFICATE OF SERVICE

UG 221

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 18th day of May, 2012 at Salem, Oregon



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Kay Barnes  
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Regulatory Operations  
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**UG 221  
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<b>S-13</b>	<b>BB</b>	<b>Various Customer Service, A&amp;G Expenses</b>	<b>(2,041)</b>
Removes 50% of Books & Magazines, Conference Travel, Dealer Relations, Education, Employee Awards, Meals & Entertainment, and Miscellaneous. Removes 100% of Donations, Dues/Memberships, Corporate Identity, Laundry, Non Employee Gifts & Refreshments.			
<b>S-14</b>	<b>NC</b>	<b>Pensions</b>	<b>(6,091)</b>
Removes \$21.9 million from rate base for the Company's "out of test-period" cash contributions in excess of the amount authorized in UG 152. Remove \$4.6 million from amortizable expenses, representing one-eighth of the \$36.5 million prior period cash contributions.			
<b>S-15</b>	<b>NC</b>	<b>Research &amp; Development</b>	<b>(7)</b>
Adjusted to .01% of test year gross sales, per the 2007 American Gas Foundation Study.			
<b>S-16</b>	<b>DG</b>	<b>Miscellaneous Labor</b>	<b>(8,461)</b>
Adjustment is based on a series of adjustments in multiple accounts related to compensation. Payroll taxes and O&M depreciation are adjusted accordingly.			
<b>S-17</b>	<b>DG</b>	<b>Miscellaneous Revenue -- Taxes</b>	<b>(923)</b>
Reverses the reduction to Miscellaneous Revenues related to the change in the Oregon State Tax rate for Tax Year 2009			
<b>S-18</b>		<b>blank</b>	
<b>S-19</b>	<b>LG</b>	<b>Advertising</b>	<b>(956)</b>
Adjusts Category A advertising expenditures per OAR 860-026-0022(3)(a). Category B advertising expenditures for 2010 are escalated using a 3-year average of CPI.			
<b>S-20</b>		<b>blank</b>	
<b>S-21</b>	<b>PR</b>	<b>Miscellaneous Revenue</b>	<b>(677)</b>
Adjusts Miscellaneous Revenue categories to a 3-year average using calendar years 2009, 2010, and 2011.			
<b>S-22</b>		<b>blank</b>	
<b>S-23</b>		<b>blank</b>	
<b>S-24</b>	<b>IP</b>	<b>Revenue Adjustments</b>	<b>(5,356)</b>
Corrects test year normalized revenues from sales of gas and transportation schedules, it also adjusts gas costs components			
<b>S*</b>		<b>Rounding</b>	<b>(2)</b>

**Total Staff-Proposed Adjustments (Base Rates):** (54,181)

**Staff-Calculated Revenue Requirements Change (Base Rates):** (\$9,485)

1 The revenue requirement effect of proposed Staff Adjustments S-16 and  
2 S-17 is **-\$9,384**.

3 **Q. PLEASE IDENTIFY THE STAFF WITNESS FOR STAFF ADJUSTMENT**  
4 **S-19.**

5 A. In **Staff Exhibit 700**, Staff witness **Lisa Gorsuch** provides evidence in support  
6 of Staff Adjustment S-19.

7 Staff Adjustment S-19 relates to Advertising. Staff adjusts Category A  
8 advertising expenses in accordance with Oregon Administrative Rule (OAR)  
9 860-026-0022(3)(a). Staff escalates Category B advertising expenditures for  
10 2010 using a three-year average of the Consumer Price Index (CPI).

11 The revenue requirement effect of proposed Staff Adjustment S-19 is **-\$956**.

12 **Q. PLEASE IDENTIFY THE STAFF WITNESS FOR STAFF ADJUSTMENT**  
13 **S-21.**

14 A. In **Staff Exhibit 600**, Staff witness **Paul Rossow** provides evidence in support  
15 of Staff Adjustment S-21.

16 Staff Adjustment S-21 relates to Miscellaneous Revenue. Staff adjusted  
17 Miscellaneous Revenue categories to a three-year average using calendar  
18 years 2009, 2010, and 2011.

19 The revenue requirement effect of proposed Staff Adjustment S-19 is **-\$677**.

20 **Q. PLEASE IDENTIFY THE STAFF WITNESS FOR STAFF ADJUSTMENT**  
21 **S-24.**

22 A. In **Staff Exhibit 400**, Staff witness **Irina Phillips** provides evidence in support  
23 of Staff Adjustment S-24.

Revenue  
Requirement  
Effect

Item Staff

Issue

**Revenue Requirement on the Company's Filed Results**

\$43,682

**Proposed Staff Adjustments**

Item	Staff	Issue	Revenue Requirement Effect
S-0	SS/MM	Rate of Return Based on 50% Debt, 50% Equity, 5.924% cost of debt and 9.2% cost of equity	(11,012)
S-1	KZ	Remove Working Gas Inventory Staff proposes to remove working gas inventory from storage inventory in the company's proposed rate base; cost per therm is not changed	(3,863)
S-2	KZ	Corvallis Reinforcement Bidding anticipated but not begun at the time of the filing; no firm in-service date, 757.355	(1,936)
S-3	KZ	Monmouth Reinforcement Insufficient information to support that the project is prudent; see MS testimony.	(884)
S-4	KZ	Nertec Replacement Project still in planning phase; no contract signed for work – 757.355	(229)
S-5	KZ	Parkrose Retrofit Adjusted to regional average cost per sq. ft., \$180	(69)
S-6	KZ	Perrydale to Monmouth 757.355, timeline indicates will not be in-service by 10/31/12; Insufficient information to support that the project is prudent; see MS testimony	(1,982)
S-7	KZ	Tualatin replacement, training facility & land 757.355, timeline indicates not in-service till 4 Qtr. 2013	(2,175)
S-8	KZ	Unified Communication Phase 1 (PBX Switch) Project still in planning phase; no contract yet signed for the work.	(353)
S-9	KZ	Westside Transmission Re-Rate No in-service date that satisfies 757.355	(218)
S-10	BB	Directors and Officers Insurance Staff proposes 50% sharing between Company and customers of excess layers of D&O insurance consistent with Commission precedent per Order 09-020 at 19-20	(279)



S-11	BB	<b>Incentive Compensation</b> Remove 100% of officer bonuses, 75% of performance based non-officer bonuses, and 50% merit based non-officer bonuses consistent with Commission precedent in Order No. 99-033 at page 62, Order No. 97-171 at page 74-76, and Order No. 99-697 at 44-45.	(3,532)
S-12	BB	<b>Medical Benefits &amp; Workers Comp</b> Staff adjusted medical benefits and workers compensation by the same percentage that Deborah Garcia adjusted FTEs. Staff also adjusted medical benefits and workers compensation by 1.78% to account for non-utility employees.	(2,121)
S-13	BB	<b>Various Customer Service, General &amp; Administrative Expenses</b> Staff removed 50% of Books & Magazines, Conference Travel, Dealer Relations, Education, Employee Awards, Meals & Entertainment, and Miscellaneous. Staff removed 100% of Donations, Dues/Memberships, Corporate Identity, Laundry, Non Employee Gifts & Refreshments.	(2,041)
S-14	NC	<b>Pensions</b> Remove \$21.9 million from rate base for the Company's "out of test-period" cash contributions in excess of the amount authorized in UG 152. Remove \$4.6 million from amortizable expenses, representing one-eighth of the \$36.5 million prior period cash contributions.	(6,091)
S-15	NC	<b>Research &amp; Development</b> Adjusted to .01% of test year gross sales, per the 2007 American Gas Foundation Study.	(7)
S-16	DG	<b>Miscellaneous Labor</b> Staff's adjustment is based on a series of adjustments in multiple accounts related to compensation. Payroll taxes and O&M depreciation expense are adjusted accordingly.	(8,461)
S-17	DG	<b>Miscellaneous Revenue – Taxes</b> Reverse the reduction to Miscellaneous Revenues related to the change in the Oregon State Tax rate for Tax Year 2009	(923)
S-18		blank	0
S-19	LG	<b>Advertising</b> Category A advertising expenditures were adjusted per OAR 860-026-0022(3)(a). Category B advertising expenditures for 2010 are escalated using a 3-year average of CPI.	(956)
S-20		blank	0
S-21	PR	<b>Miscellaneous Revenue</b> Increased Miscellaneous Revenue by \$657; also removed state tax change (\$895) and set each category to a three-year average using calendar years 2009, 2010, and 2011.	(677)

S-22		blank	0
S-23		blank	0
S-24	IP	Revenue Adjustments This adjustment corrects test year normalized revenues from sales of gas and transportation schedules, it also adjusts gas costs components	(5,356)
			0
S*		Rounding	(2)

**Total Staff-Proposed Adjustments (Base Rates):** (53,167)

**Staff-Calculated Revenue Requirements Change (Base Rates):** (\$9,485)

## List of Staff Adjustments and Contact Information

S-0	Cost of Capital	SS/MM	Steve Storm / Matt Muldoon	503-378-5264 / 503-378-6164
S-1	Working Gas Inventory	KZ	Ken Zimmerman	503-373-1583
S-2	Corvallis Reinforcement	KZ	Ken Zimmerman	503-373-1583
S-3	Monmouth Reinforcement	KZ	Ken Zimmerman	503-373-1583
S-4	Nertec Replacement	KZ	Ken Zimmerman	503-373-1583
S-5	Parkrose Retrofit	KZ	Ken Zimmerman	503-373-1583
S-6	Perrydale to Monmouth	KZ	Ken Zimmerman	503-373-1583
S-7	Tualatin replacement, training facility & land	KZ	Ken Zimmerman	503-373-1583
S-8	Unified Communication Phase 1 (PBX Switch)	KZ	Ken Zimmerman	503-373-1583
S-9	Westside Transmission Re-Rate	KZ	Ken Zimmerman	503-373-1583
S-10	D&O Insurance	BB	Brian Bahr	503-378-4362
S-11	Incentive Compensation	BB	Brian Bahr	503-378-4362
S-12	Medical & Workers Comp	BB	Brian Bahr	503-378-4362
S-13	Various A&G Expenses	BB	Brian Bahr	503-378-4362
S-14	Pensions	NC	Nick Cimmiyotti	503-373-7867
S-15	R&D	NC	Nick Cimmiyotti	503-373-7867
S-16	Miscellaneous Labor	DG	Deborah Garcia	503-378-6688
S-17	Miscellaneous Revenue -- Taxes	DG	Deborah Garcia	503-378-6688
S-18	blank			
S-19	Advertising	LG	Lisa Gorsuch	503-378-3778
S-20	blank			
S-21	Miscellaneous Revenue	PR	Paul Rossow	503-378-6917
S-22	blank			
S-23	blank			
S-24	Revenue Adjustments	IP	Irina Phillips	503-378-6436

	October 2013 Results Per Company Filing (1)	Adjustments (2)	October 2013 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
<b>SUMMARY SHEET</b>					
1	Operating Revenues				
2	General Business	\$9,370	\$692,366	(\$9,485)	\$682,881
3	Transportation	0	12,871	0	12,871
4	Other Revenues	1,554	4,983	0	4,983
5	<b>Total Operating Revenues</b>	<b>\$10,924</b>	<b>\$710,220</b>	<b>(\$9,485)</b>	<b>\$700,735</b>
6	Operating Expenses				
7	Gas Purchased	\$4,171	\$399,210	\$0	\$399,210
8	Uncollectible Accrual for Gas Sales	0	2,110	121	2,231
9	Other O & M Expenses	(15,948)	102,271	0	102,271
10	<b>Total Operation &amp; Maintenance</b>	<b>(\$11,777)</b>	<b>\$503,581</b>	<b>\$121</b>	<b>\$503,712</b>
11	Depreciation & Amortization	(4,655)	55,439	0	55,439
12	PENSIONS	0	0	0	0
13	Taxes Other than Income	(528)	42,399	(247)	42,152
14	Income Taxes	12,593	35,505	(3,738)	31,767
15	Miscellaneous Revenue and Expense	0	0	0	0
16	<b>Total Operating Expenses</b>	<b>(\$4,367)</b>	<b>\$636,934</b>	<b>(\$3,864)</b>	<b>\$633,070</b>
17	Net Operating Revenues	<b>\$15,291</b>	<b>\$73,286</b>	<b>(\$8,189)</b>	<b>\$65,097</b>
18					
19	Average Rate Base				
20	Gas Plant in Service	\$2,227,108	\$2,152,251	\$0	\$2,152,251
21	Less: Accumulated Depreciation & Amortization	(990,862)	(990,862)	0	(990,862)
22	Accumulated Deferred Income Taxes	(329,082)	(319,816)	0	(319,816)
23	Accumulated Deferred Inv. Tax Credit	0	0	0	0
24	<b>Net Utility Plant</b>	<b>\$907,164</b>	<b>\$841,573</b>	<b>\$0</b>	<b>\$841,573</b>
25	Plant Held for Future Use	\$0	\$0	\$0	\$0
26	PENSIONS	21,930	0	0	0
27	Working Capital	0	0	0	0
28	Gas Inventory	48,008	12,690	0	12,690
29	Materials & Supplies	7,422	7,422	0	7,422
30	Customer Advances for Construction	(1,994)	(1,994)	0	(1,994)
31	Leasehold Improvements	1,155	1,155	0	1,155
32	Prepayments	0	0	0	0
33	Misc. Deferred Debits	0	0	0	0
34	Misc. Rate Base Additions/(Deductions)	0	0	0	0
35	<b>Total Average Rate Base</b>	<b>\$983,685</b>	<b>\$860,846</b>	<b>\$0</b>	<b>\$860,846</b>
36	Rate of Return	5.90%	8.51%		7.56%
37	Implied Return on Equity	5.87%	11.10%		0.092

Income Tax Calculation

Income Tax Calculations	October 2013 Per Company Filing (1)	Adjustments (2)	October 2013 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
1 Book Revenues	\$699,296	\$10,924	\$710,220	(\$9,485)	\$700,735
2 Book Expenses Other than Depreciation	558,295	(12,305)	545,990	(126)	545,864
3 State Tax Depreciation	60,094	(4,655)	55,439	0	55,439
4 Interest	29,137	(3,639)	25,498	0	25,498
5 PLUS: Schedule M Differences (Perm)	6,084	0	6,084	0	6,084
6 State Taxable Income	\$57,854	\$31,523	\$89,377	(\$9,359)	\$80,018
7 Add OR Depletion Adjustment	\$0				
8 Total State Taxable Income	\$57,854			(\$9,359)	
9 State Income Tax @ 7.60%	\$4,397	\$2,397	\$6,794	(\$711)	\$6,083
10 State Tax Credits	0	0	0	0	0
11 Net State Income Tax	\$4,397	\$2,397	\$6,794	(\$711)	\$6,083
12 Additional Tax Depreciation	0	0	0	0	0
13 Plus: Other Schedule M Differences	0	0	0	0	0
14 Federal Taxable Income	\$53,457	\$29,126	\$82,583	(\$8,648)	\$73,935
15 Federal Tax @ 35%	18,710	10,196	28,906	(3,027)	25,879
16 Federal Tax Credits	0	0	0	0	0
17 Current Federal Tax	\$18,710	\$10,196	\$28,906	(\$3,027)	\$25,879
18 ITC Adjustment					
19 Deferral	(197)	0	(197)	0	(197)
20 Less: Amortization	0	0	0	0	0
21 Total ITC Adjustment	(\$197)	\$0	(\$197)	\$0	(\$197)
22 Provision for Deferred Taxes	\$0	\$0	\$0	\$0	\$0
23 Total Income Tax	\$22,912	\$12,593	\$35,505	(\$3,738)	\$31,767

Capital Structure Calculation

INPUT ASSUMPTIONS

COST OF CAPITAL - STAFF	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	50.00%	5.924%	2.962%
Preferred Stock	0.00%		0.000%
Common Equity	50.00%	9.200%	4.600%
OVERALL RATE OF RETURN	100.00%		7.562%

REVENUE SENSITIVE COSTS	
Revenues	1.00000
Operating Revenue Deductions	
Uncollectible Accounts	0.00308
Taxes Other - Franchise	0.02358
- Other	0.00250
- Resource supplier	
State Taxable Income	0.97084
State Income Tax @ 7.6%	0.07378
Federal Taxable Income	0.89706
Federal Income Tax @ 35%	0.31397
ITC	
Current FIT	0.31397
Other	
Total Excise Taxes	0.38775
Total Revenue Sensitive Costs	0.41691
Utility Operating Income	0.58309
Net-to-Gross Factor	1.71501

Input: STATERATE (Income Tax Rate)  
WORKINGCAP

7.600%

Input:

	Remove Working Gas Inventory (S-1)	Convalis Reinforcement (S-2)	Monmouth Reinforcement (S-3)	Nertec Replacement (S-4)	Parkrose Retrofit (S-5)	Perrydale to Monmouth (S-6)	Tualatin Replacement (S-7)	Unified Communications Phase 1 (S-8)	Westside Transmission Rerate (S-9)	D&O Insurance (S-10)	Incentive Compensation (S-11)
<b>Staff Adjustments</b>											
<b>Operating Revenues</b>											
1 General Business	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2 Transportation	0	0	0	0	0	0	0	0	0	0	0
3 Other Revenues	0	0	0	0	0	0	0	0	0	0	0
4 Total Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Operating Expenses</b>											
6 Gas Purchased	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0
7 Uncollectible Accrual for Gas Sales	0	0	0	0	0	0	0	0	0	0	0
8 Other O & M Expenses	0	0	0	0	0	0	0	0	0	(272)	(3,430)
9 Total Operation & Maintenance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$272)	(\$3,430)
10											
11											
12 Depreciation and Amortization	0	0	0	0	0	0	0	0	0	0	0
13 PENSIONS	0	0	0	0	0	0	0	0	0	0	0
14 Taxes Other than Income	0	0	0	0	0	0	0	0	0	0	0
15 Income Taxes	418	210	96	25	7	215	235	38	24	109	1,370
16 Miscellaneous Revenue and Expense	\$418	\$210	\$96	\$25	\$7	\$215	\$235	\$38	\$24	(\$163)	(\$2,060)
17 Total Operating Expenses	(\$418)	(\$210)	(\$96)	(\$25)	(\$7)	(\$215)	(\$235)	(\$38)	(\$24)	\$163	\$2,060
18 Net Operating Revenues											
19 Average Rate Base											
20 Gas Plant in Service	0	(17,703)	(8,087)	(2,100)	(621)	(18,131)	(19,880)	(3,220)	(2,000)	0	0
21 Accumulated Depreciation & Amortization	0	0	0	0	0	0	0	0	0	0	0
22 Accumulated Deferred Income Taxes	0	0	0	0	0	0	0	0	0	0	0
23 Accumulated Deferred Inv. Tax Credit	0	0	0	0	0	0	0	0	0	0	0
24 Net Utility Plant	\$0	(\$17,703)	(\$8,087)	(\$2,100)	(\$621)	(\$18,131)	(\$19,880)	(\$3,220)	(\$2,000)	\$0	\$0
25 Plant Held for Future Use	0	0	0	0	0	0	0	0	0	0	0
26 PENSIONS	0	0	0	0	0	0	0	0	0	0	0
27 Working Capital	0	0	0	0	0	0	0	0	0	0	0
28 Gas Inventory	(35,318)	0	0	0	0	0	0	0	0	0	0
29 Materials & Supplies	0	0	0	0	0	0	0	0	0	0	0
30 Customer Advances for Construction	0	0	0	0	0	0	0	0	0	0	0
31 Leasehold Improvements	0	0	0	0	0	0	0	0	0	0	0
32 Prepayments	0	0	0	0	0	0	0	0	0	0	0
33 Misc. Deferred Debits	0	0	0	0	0	0	0	0	0	0	0
34 Misc. Rate Base Additions/(Deductions)	0	0	0	0	0	0	0	0	0	0	0
35 Total Average Rate Base	(\$35,318)	(\$17,703)	(\$8,087)	(\$2,100)	(\$621)	(\$18,131)	(\$19,880)	(\$3,220)	(\$2,000)	\$0	\$0
36 Revenue Requirement Effect	(\$3,863)	(\$1,936)	(\$884)	(\$229)	(\$69)	(\$1,982)	(\$2,175)	(\$353)	(\$218)	(\$279)	(\$3,532)



Adjustments

	Med Benefits & Workers Comp (S-12)	Various A&G (S-13)	Pensions (S-14)	R&D (S-15)	Misc Labor (S-16)	Misc Revs Taxes (S-17)	Advertising (S-19)	blank (S-20)	Misc Rev (S-21)	blank (S-22)
<b>Staff Adjustments</b>										
1										
2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	0	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	896	0	0	658	0
5	\$0	\$0	\$0	\$0	\$0	\$896	\$0	\$0	\$658	\$0
6										
7	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	0	0	0	0	0	0	0	0	0	0
9	(2,059)	(1,982)	0	(6)	(7,270)	0	(930)	0	0	0
10	(\$2,059)	(\$1,982)	\$0	(\$6)	(\$7,270)	\$0	(\$930)	\$0	\$0	\$0
11										
12	0	0	(4,569)	0	(86)	0	0	0	0	0
13	0	0	0	0	0	0	0	0	0	0
14	0	0	0	0	(528)	0	0	0	0	0
15	822	792	1,975	2	3,186	358	372	0	263	0
16										
17	(\$1,237)	(\$1,190)	(\$2,594)	(\$4)	(\$4,698)	\$358	(\$558)	\$0	\$263	\$0
18	\$1,237	\$1,190	\$2,594	\$4	\$4,698	\$538	\$558	\$0	\$395	\$0
19										
20	0	0	0	0	(3,116)	0	0	0	0	0
21	0	0	0	0	0	0	0	0	0	0
22	0	0	9,266	0	0	0	0	0	0	0
23	0	0	0	0	0	0	0	0	0	0
24	\$0	\$0	\$9,266	\$0	(\$3,116)	\$0	\$0	\$0	\$0	\$0
25										
26	0	0	(21,930)	0	0	0	0	0	0	0
27	0	0	0	0	0	0	0	0	0	0
28	0	0	0	0	0	0	0	0	0	0
29	0	0	0	0	0	0	0	0	0	0
30	0	0	0	0	0	0	0	0	0	0
31	0	0	0	0	0	0	0	0	0	0
32	0	0	0	0	0	0	0	0	0	0
33	0	0	0	0	0	0	0	0	0	0
34	0	0	0	0	0	0	0	0	0	0
35	\$0	\$0	(\$12,664)	\$0	(\$3,116)	\$0	\$0	\$0	\$0	\$0
36	(\$2,121)	(\$2,041)	(\$5,091)	(\$7)	(\$8,461)	(\$923)	(\$956)	\$0	(\$677)	\$0

Adjustments

	blank (S-23)	Revenue Adjustment (S-24)	(S-25)	(S-26)	(S-27)	(P-1)	(S-31,I-5)	(I-7,C-1)	(I-8)	Total Adjustments (Base Rates)
<b>Staff Adjustments</b>										
1										
2										
3										
4										
5										
6										
7										
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9										
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34										
35										
36										

Income Tax Calculations for Adjustments

	Remove Working Gas Inventory (S-1)	Corvallis Reinforcement 0 (S-2)	Monmouth Reinforcement 0 (S-3)	Nertec Replacement 0 (S-4)	Parkrose Retrofit 0 (S-5)	Perrydale to Monmouth (S-6)	Tualatin Replacement 0 (S-7)	Unified Communications Phase 1 (S-8)
1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	0	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0
4	(1,046)	(524)	(240)	(62)	(18)	(537)	(589)	(95)
5	0	0	0	0	0	0	0	0
6	\$1,046	\$524	\$240	\$62	\$18	\$537	\$589	\$95
7	0	0	0	0	0	0	0	0
8	\$1,046	\$524	\$240	\$62	\$18	\$537	\$589	\$95
9	\$80	\$40	\$18	\$5	\$1	\$41	\$45	\$7
10	0	0	0	0	0	0	0	0
11	\$80	\$40	\$18	\$5	\$1	\$41	\$45	\$7
12	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0
14	\$966	\$484	\$222	\$57	\$17	\$496	\$544	\$88
15	338	170	78	20	6	174	190	31
16	0	0	0	0	0	0	0	0
17	\$338	\$170	\$78	\$20	\$6	\$174	\$190	\$31
18								
19	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0
21	0	0	0	0	0	0	0	0
22	0	0	0	0	0	0	0	0
23	\$418	\$210	\$96	\$25	\$7	\$215	\$235	\$38

**REVENUE REQUIREMENTS  
EFFECTS OF ADJUSTMENTS**

Revenues and Expenses Rate Base Total
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Remove Working Gas Inventory (S-1)	Corvallis Reinforcement 0 (S-2)	Monmouth Reinforcement 0 (S-3)	Nertec Replacement 0 (S-4)	Parkrose Retrofit 0 (S-5)	Perrydale to Monmouth (S-6)	Tualatin Replacement 0 (S-7)	Unified Communications Phase 1 (S-8)
\$717	\$360	\$165	\$43	\$12	\$369	\$403	\$65
(4580)	(2296)	(1049)	(272)	(81)	(2351)	(2578)	(418)
(\$3,863)	(\$1,936)	(\$884)	(\$229)	(\$69)	(\$1,982)	(\$2,175)	(\$353)

Income Tax Calculations for Adjustments

	Income Tax Calculations	Transmission Rerate (S-9)	D&O Insurance (S-10)	Incentive Compensation (S-11)	Med Benefits & Workers Comp (S-12)	Various A&G (S-13)	Pensions (S-14)	R&D (S-15)	Misc Labor (S-16)	Misc Revs Taxes (S-17)
1	Book Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$896
2	Book Expenses Other than Depreciation	0	(272)	(3,430)	(2,059)	(1,982)	0	(6)	(7,798)	0
3	State Tax Depreciation	0	0	0	0	0	(4,569)	0	(86)	0
4	Interest	(59)	0	0	0	0	(375)	0	(92)	0
5	Schedule M Differences	0	0	0	0	0	0	0	0	0
6	State Taxable Income	\$59	\$272	\$3,430	\$2,059	\$1,982	\$4,944	\$6	\$7,976	\$896
7	Add OR Depletion Adjustment-Net	0	0	0	0	0	0	0	0	0
8	Total State Taxable Income	\$59	\$272	\$3,430	\$2,059	\$1,982	\$4,944	\$6	\$7,976	\$896
9	State Income Tax	\$5	\$21	\$261	\$156	\$151	\$376	\$0	\$606	\$68
10	State Tax Credits	0	0	0	0	0	0	0	0	0
11	Net State Income Tax	\$5	\$21	\$261	\$156	\$151	\$376	\$0	\$606	\$68
12	Additional Tax Depreciation	0	0	0	0	0	0	0	0	0
13	Other Schedule M Differences	0	0	0	0	0	0	0	0	0
14	Federal Taxable Income	\$54	\$251	\$3,169	\$1,903	\$1,831	\$4,568	\$6	\$7,370	\$828
15	Federal Tax @ 35%	19	88	1,109	666	641	1,599	2	2,580	290
16	Federal Tax Credits	0	0	0	0	0	0	0	0	0
17	Current Federal Tax	\$19	\$88	\$1,109	\$666	\$641	\$1,599	\$2	\$2,580	\$290
18	ITC Adjustment									
19	Deferral	0	0	0	0	0	0	0	0	0
20	Restoration	0	0	0	0	0	0	0	0	0
21	Total ITC Adjustment	0	0	0	0	0	0	0	0	0
22	Provision for Deferred Taxes	0	0	0	0	0	0	0	0	0
23	Total Income Tax	\$24	\$109	\$1,370	\$822	\$792	\$1,975	\$2	\$3,186	\$358

**REVENUE REQUIREMENTS  
EFFECTS OF ADJUSTMENTS**

Revenues and Expenses Rate Base
Total

Transmission Rerate 0 (S-9)	D&O Insurance 0 (S-10)	Incentive Compensation 0 (S-11)	Med Benefits & Workers Comp 0 (S-12)	Various A&G 0 (S-13)	Pensions 0 (S-14)	R&D 0 (S-15)	Misc Labor 0 (S-16)	Misc Revs Taxes 0 (S-17)
\$41	(\$279)	(\$3,532)	(\$2,121)	(\$2,041)	(\$4,449)	(\$7)	(\$8,057)	(\$923)
(259)	0	0	0	0	(1642)	0	(404)	0
(\$218)	(\$279)	(\$3,532)	(\$2,121)	(\$2,041)	(\$6,091)	(\$7)	(\$8,461)	(\$923)

Income Tax Calculations for Adjustments

	Income Tax Calculations	blank 0 0 (S-18)	Advertising 0 0 (S-19)	blank 0 0 (S-20)	Misc Rev 0 0 (S-21)	blank 0 0 (S-22)	blank 0 0 (S-23)
1	Book Revenues	\$0	\$0	\$0	\$658	\$0	\$0
2	Book Expenses Other than Depreciation	0	(930)	0	0	0	0
3	State Tax Depreciation	0	0	0	0	0	0
4	Interest	0	0	0	0	0	0
5	Schedule M Differences	0	0	0	0	0	0
6	State Taxable Income	\$0	\$930	\$0	\$658	\$0	\$0
7	Add OR Depletion Adjustment-Net	0	0	0	0	0	0
8	Total State Taxable Income	\$0	\$930	\$0	\$658	\$0	\$0
9	State Income Tax	\$0	\$71	\$0	\$50	\$0	\$0
10	State Tax Credits	0	0	0	0	0	0
11	Net State Income Tax	\$0	\$71	\$0	\$50	\$0	\$0
12	Additional Tax Depreciation	0	0	0	0	0	0
13	Other Schedule M Differences	0	0	0	0	0	0
14	Federal Taxable Income	\$0	\$859	\$0	\$608	\$0	\$0
15	Federal Tax @ 35%	0	301	0	213	0	0
16	Federal Tax Credits	0	0	0	0	0	0
17	Current Federal Tax	\$0	\$301	\$0	\$213	\$0	\$0
18	ITC Adjustment						
19	Deferral	0	0	0	0	0	0
20	Restoration	0	0	0	0	0	0
21	Total ITC Adjustment	0	0	0	0	0	0
22	Provision for Deferred Taxes	0	0	0	0	0	0
23	Total Income Tax	\$0	\$372	\$0	\$263	\$0	\$0

Income Tax Calculations for Adjustments

**REVENUE REQUIREMENTS  
EFFECTS OF ADJUSTMENTS**

Revenues and Expenses
Rate Base
Total

blank (S-18)	Advertising (S-19)	blank (S-20)	Misc Rev (S-21)	blank (S-22)	blank (S-23)
0	0	0	0	0	0
0	0	0	0	0	0
\$0	(\$956)	\$0	(\$677)	\$0	\$0
0	0	0	0	0	0
\$0	(\$956)	\$0	(\$677)	\$0	\$0



Income Tax Calculations for Adjustments

	Revenue Adjustment (S-24)	(S-25)	(S-26)	(S-27)	(P-1)	(S-31,1-5)	(I-7,C-1)	(I-8)	Total Adjustments (Base Rates)
<b>Income Tax Calculations</b>									
1	\$9,370	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,924
2	4,171	0	0	0	0	0	0	0	(\$12,305)
3	0	0	0	0	0	0	0	0	(\$4,655)
4	0	0	0	0	0	0	0	0	(\$3,639)
5	0	0	0	0	0	0	0	0	\$0
6	\$5,199	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$31,523
7	0	0	0	0	0	0	0	0	\$0
8	\$5,199	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$31,523
9	\$395		\$0	\$0	\$0	\$0	\$0	\$0	\$2,397
10	0	0	0	0	0	0	0	0	\$0
11	\$395	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,397
12	0	0	0	0	0	0	0	0	\$0
13	0	0	0	0	0	0	0	0	\$0
14	\$4,804	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$29,126
15	1,681		0	0	0	0	0	0	\$10,196
16	0	0	0	0	0	0	0	0	\$0
17	\$1,681	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,196
18									\$0
19	0	0	0	0	0	0	0	0	\$0
20	0	0	0	0	0	0	0	0	\$0
21	0	0	0	0	0	0	0	0	\$0
22	0	0	0	0	0	0	0	0	\$0
23	\$2,076	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$12,593



1        **ISSUE 1, ----- REASONABLENESS OF STAFF'S REVENUE REQUIREMENT**

2        **Q. WHAT IS STAFF'S RECOMMENDED CHANGE IN REVENUE**

3        **REQUIREMENT?**

4        A. Staff's Revenue Requirement is \$(9,485) million from current rates.

5        **Q. WHEN WAS NW NATURAL'S LAST GENERAL RATE CASE?**

6        A. NW Natural has not participated in a rate case since 2002. Since that time, the  
7        Company sought and was granted various mechanisms to recover costs  
8        without requiring the Company to file a general rate case. During the time  
9        period between NW Natural's last rate case and the currently filed rate case,  
10       NW Natural has generally demonstrated strong financials and earnings.

11       **Q. IF NW NATURAL HAS GENERALLY DEMONSTRATED STRONG**  
12       **FINANCIALS AND EARNINGS SINCE THE LAST RATE CASE, WHY**  
13       **MAY HAVE DRIVEN IT TO FILE A GENERAL RATE CASE AT THIS**  
14       **TIME?**

15       A. In Docket No. UG 152, Order No. 03-507, the WARM Mechanism was initiated  
16       and set to expire in September 2008. In Docket No. UG 163, Order No. 05-  
17       934, the Decoupling Mechanism was initiated and set to expire in September  
18       2009. Dockets UG 152 and UG 163 were combined and Order No. 07-426,  
19       extended the WARM and Decoupling expiration date to October 30, 2012.  
20       These mechanisms are set to expire unless the mechanisms or some variant  
21       of them are re-authorized in a new general rate case. Based upon Staff's  
22       review of the revenue requirement needs of NW Natural in this case, it is my

**ISSUE 1, MISCELLANEOUS LABOR ADJUSTMENT**

**Q. PLEASE SUMMARIZE THIS ADJUSTMENT.**

A. The Miscellaneous Labor Adjustment is a series of adjustments in multiple accounts related to compensation. First, Wages and Salaries (W&S) are adjusted using Staff's three-year W&S model (Model). Second, the number of full-time equivalent employees (FTE) is adjusted based on actual calendar year 2011 FTE levels, minus the FTE associated with unregulated activities that should be excluded from rates. I then add back the FTE related to NWN's proposal to create four-hour service windows. Third, overtime is adjusted by applying the same principles used in the Model. Finally, Payroll taxes and, Operations and Maintenance (O&M) depreciation expense are adjusted to align with the prior adjustments.

**Q. PLEASE PROVIDE A TABLE OF YOUR PROPOSED OREGON-ALLOCATED ADJUSTMENTS.**

A.

<i>Miscellaneous Labor Adjustment Oregon –Allocated (000s)</i>		
	(O&M)	Rate Base
Wages & Salaries	(904)	(387)
FTE Adjustment	(6,364)	(2,728)
Overtime	(2)	(1)
Payroll Taxes	(528)	
Depreciation Expense	(86)	
Totals	(7,884)	(3,116)

**Northwest Natural UG 221**  
**Test Year Ending October 31, 2013**  
**000's of Dollars**

The first pension adjustments removes approximately \$21.9 million from rate base, which represents the Company's "out of test-period" cash contributions, made from 2003, through 2011, to their defined benefits plans, which were in excess of the amount authorized in the Commission's rate order on NW Natural's UG 152 general rate case request. The second pension adjustment removes \$4.6 million from amortizable expenses. It represents one-eighth of the \$36.5 million, "return of" prior period cash contributions made the Company's defined benefit plan since 2004. Since 1987, in establishing the appropriate level of pension related costs(benefits) in rates, the Commission as relied on the Financial Accounting Standards Board's (FASB's) Statement of Financial Accounting Standards No. 87, which establishes an accrual based periodic pension cost(benefit) level to include in rates. The Deferred Tax adjustment reverses a double addition of (\$9,266,000) in accumulated deferred income taxes that was corrected by the Company in their pro-forma adjustment to workpaper "2011 11 16 REVISED Build-up in deferred taxes-truncated omit other M-1s not in rates.xls" and brought to the attention of staff in the Company's response to Staff DR-365.

<b>Description/ Account No.</b>	<b>Company Filing</b>	<b>Staff</b>	<b>Adjustment</b>
Pension Rate Base "return of" Adjustment	\$21,930	\$0	(\$21,930)
Amortization of Pension Contributions	\$4,569	\$0	(\$4,569)
Accumulated Defered Income Tax Correction (1)	\$0	\$9,266	\$9,266

**Staff Initiator:**

**Nick Cimmiyotti**