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August 7, 2013

## VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 1088  
Salem, OR 97308-1088

Re: Docket UM 1635 – Northwest Natural Gas Company's Mechanism for Recovery of  
Environmental Remediation Costs

Attention Filing Center:

Enclosed for filing in the above-captioned docket are an original and five copies of the Joint  
Testimony in Support of Stipulations.

A copy of this filing has been served on all parties to this proceeding as indicated on the  
enclosed Certificate of Service.

Please contact this office with any questions.

Very truly yours,

Handwritten signature of Wendy McIndoo in blue ink.

Wendy McIndoo  
Office Manager

Enclosure

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

**UM 1635**

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW Natural,

Mechanism for Recovery of  
Environmental Remediation Costs.

**STAFF-NW NATURAL-CUB-NWIGU**

**JOINT TESTIMONY IN SUPPORT OF STIPULATIONS**

**WITNESSES: JUDY JOHNSON, ALEX MILLER, BOB JENKS,  
and MICHAEL C. DEEN**

**August 7, 2013**

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

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

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

7 A. Judy Johnson, Alex Miller, Bob Jenks, and Michael C. Deen. Ms. Johnson’s  
8 qualifications are set forth in Staff/101, Mr. Miller’s qualifications are set forth in  
9 NWN/100, Mr. Jenks’ qualifications are set forth in CUB/101, and Mr. Deen’s  
10 qualifications are set forth in NWIGU/101.

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

12 A. This testimony describes and supports the two stipulations that were filed in this case:  
13 (1) the Rate Spread Stipulation executed by the Parties filed on April 10, 2013; and (2)  
14 the Prudence and Earnings Test Stipulation executed by the Parties and filed in this  
15 case on July 11, 2013 (collectively, the “Stipulations”). Together the Stipulations resolve  
16 all issues in this case and our testimony supports all provisions of the Stipulations.

17 **Q. Have all parties in this docket joined in the Partial Stipulations?**

18 A. All active parties to the docket have joined in the Stipulations. Portland General Electric  
19 Company, which has not been an active participant in this docket, is not a party to the  
20 Stipulations.

21

22

### **BACKGROUND**

23 **Q. What is the purpose of this docket?**

24 A. Since 2003 the Company has been deferring expenses associated with environmental  
25 remediation related to the Company’s historical manufactured gas plants (“MGPs”). In  
26 the Company’s last general rate case, Docket UG 221, the Company proposed a  
27 mechanism that would allow the Company to begin recovering these deferred costs

1 through rates. In Order No. 12-437, the final order in UG 221, the Public Utility  
2 Commission of Oregon (“Commission”) adopted a mechanism for recovery of the  
3 Company’s environmental remediation deferrals known as the Site Remediation  
4 Recovery Mechanism (“SRRM”).<sup>1</sup> The Commission found that “[a]n earnings test with a  
5 deadband will be applied” to the SRRM recoveries, but left the determination of the  
6 appropriate deadband and application of the earnings test to a new proceeding.<sup>2</sup> The  
7 Commission also ordered that a prudence review of the expenses NW Natural deferred  
8 would take place in the new proceeding. This docket was opened to address these  
9 issues.

10 On December 10, 2012, Administrative Law Judge (“ALJ”) Hardie issued a  
11 Notice of Prehearing Conference and Memorandum that outlined the issues to be  
12 addressed in this docket as follows: (1) the prudence of NW Natural’s environmental  
13 remediation costs; (2) the appropriate deadband to be applied to recovery of  
14 environmental remediation costs; (3) the appropriate application of the earnings test  
15 ordered in Docket UG 221; and (4) the appropriate rate spread to apply to recoverable  
16 costs.<sup>3</sup>

#### 18 RATE SPREAD STIPULATION

19 **Q. How did the Parties arrive at the Rate Spread Stipulation?**

20 A. The Parties convened a workshop on rate spread issues on February 11, 2013. NW  
21 Natural, Staff, CUB, and NWIGU participated in the workshop. At the workshop, the  
22 parties discussed potential settlement of rate spread and those discussions ultimately

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<sup>1</sup> See *NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-437 at 31 (Nov. 16, 2012).

<sup>2</sup> *Id.*

<sup>3</sup> *Re NW Natural Gas Co. Mechanism for Recovery of Environmental Remediation Costs*, Docket UM 1635, Notice of Prehearing Conference and Memorandum (Dec. 10, 2012).

1 resulted in the Rate Spread Stipulation, which resolves all issues related to rate spread  
2 of any amount included in the SRRM that the Commission approves for rate recovery.

3 **Q. What are the terms of the Rate Spread Stipulation?**

4 A. The Rate Spread Stipulation has three terms. First, the Parties agree that the rate  
5 allocation of the SRRM will be based on an equal percentage of margin basis, reflecting  
6 the final rate allocation from UG 221.<sup>4</sup> Attachment A to the Rate Spread Stipulation  
7 illustrates this agreed upon rate calculation.

8 Second, the Parties agree that the basis for calculating the rate spread will not  
9 change from an equal percent of margin basis during the period over which costs are  
10 collected through the SRRM. The Parties do recognize, however, that the actual  
11 percentages billed may vary from those reflected in Attachment A to the Rate Spread  
12 Stipulation due to variances in usage, numbers of customers, or other such factors, and  
13 due to updates to margin that will be adopted in future rate proceedings.

14 Third, the Parties agree that to the extent insurance proceeds or other third-party  
15 recoveries are refunded to customers through the SRRM the refunds will be allocated  
16 on the same basis as the surcharges. To the extent insurance proceeds or other  
17 recoveries from third parties reduce the amounts charged to customers through the  
18 operation of the SRRM, those receipts will reduce costs to each customer class based  
19 on the same equal percentage of margin basis as well.

20  
21 **PRUDENCE AND EARNINGS TEST STIPULATION**

22 **Q. How did the Parties arrive at the Prudence and Earnings Test Stipulation?**

23 A. Following the filing of the Rate Spread Stipulation and after the filing of testimony by all  
24 the Parties, the Parties convened several settlement conferences in an attempt to reach  
25 an agreement on the remaining issues in this case. As a result of these settlement

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<sup>4</sup> Order No. 12-408 at 11.

1 conferences, the Parties reached a settlement resolving all remaining issues in this  
2 docket, including: (1) the issue of the prudence of NW Natural's environmental  
3 remediation costs deferred to date; (2) the appropriate earnings test to be applied to  
4 recovery of environmental remediation costs through the Company's SRRM; (3) the  
5 appropriate rate treatment for the costs of the Gasco Pumping Station; and (4) the  
6 appropriate state allocation factor to be applied to environmental remediation costs.

7 **Q. Please describe the Prudence and Earnings Test Stipulation's terms related to**  
8 **prudence.**

9 A. The Parties agree that the total net environmental remediation expenses incurred by NW  
10 Natural through December 31, 2012, in the amount of \$97,624,243 (including interest)  
11 were prudently incurred, with the exception of \$33,400 in expenses. In addition, NW  
12 Natural confirms that the amount deferred—\$97,624,243 (including interest)—does not  
13 reflect expenses paid for fines or penalties. NW Natural also agrees that the \$33,400  
14 will not be included in the SRRM. The Parties further agree that the insurance  
15 settlements finalized through December 31, 2012, were prudently executed.

16 **Q. Please explain how the Parties agreed to the disallowance of \$33,400.**

17 A. Staff reviewed the accounting details of the Company's environmental remediation  
18 costs. During that review process, Staff identified a total of \$33,400 in costs that Staff  
19 believed were not adequately supported by the Company's evidence. The other parties  
20 agreed that it would be reasonable to disallow this amount.

21 **Q. Other than the \$33,400, did any Party challenge the prudence of any of the**  
22 **Company's environmental remediation expenses?**

23 A. Staff was the only party that testified regarding the prudence of the Company's  
24 environmental remediation efforts. Other than the amount discussed above, Staff  
25 concluded that all other costs were prudently incurred.

1 **Q. Please describe the Prudence and Earnings Test Stipulation's terms related to the**  
2 **earnings test.**

3 A. The Prudence and Earnings Test Stipulation has four general terms related to the  
4 earnings test. First, the agreement addresses the resolution of the issues related to the  
5 earnings test for amounts that NW Natural deferred prior to January 1, 2013. Second,  
6 the agreement addresses the application of an earnings test to amounts that have been,  
7 or will be, deferred on or after January 1, 2013. Third, the Parties agreed on the  
8 application of insurance proceeds and third-party recoveries to the earnings test.  
9 Fourth, the agreement includes a term related to future reexamination of the SRRM and  
10 earnings test.

11 **Q. Please explain the agreement with respect to amounts deferred prior to January 1,**  
12 **2013.**

13 A. The Parties agree that \$7.0 million of the amounts deferred through December 31, 2012,  
14 will not be included in rates through the SRRM. The remaining deferred amounts will  
15 begin to be amortized through the SRRM on November 1, 2013.

16 Accounting for the prudence disallowance discussed above, the following table  
17 summarizes the agreed-upon treatment of environmental remediation deferrals through  
18 December 31, 2012:

19		
20	Environmental Spend (with interest)	\$97,624,243
21	Insurance receipts	<u>\$40,704,064</u>
22	Net	<u>\$56,920,179</u> balance at 12/31/2012
23	Reduction per prudence review	\$33,400
24	Reduction per settlement	<u>\$7,000,000</u>
25	SRRM amount through 12/31/2012	<u>\$49,886,779</u>

26 Also, attached as Attachment 1 is a spreadsheet that provides an illustration of how the  
27 costs that are collected through the SRRM will be spread into rates beginning  
28 November 1, 2013, in accordance with the rate design stipulation that was agreed to  
29 separately in this docket.

30

1 **Q. How did the parties arrive at the \$7 million figure?**

2 A. The Parties considered the Company's earnings during the period during which the  
3 deferrals were being incurred, as well as the insurance collected to date. In view of  
4 these factors the Parties determined that it would be appropriate for the Company to use  
5 overearnings accrued during the deferral period to pay down \$7 million in environmental  
6 deferrals.

7 The parties recognize that the purpose of the earnings test is to determine the  
8 extent to which a utility should be authorized to recover deferred amounts in light of its  
9 earnings levels. In the case of NW Natural's environmental deferrals, there were several  
10 complex issues that had to be considered to determine an appropriate application of the  
11 earnings test. These included: the fact that significant insurance amounts had been  
12 received and may be received in the future to offset some of the past or future deferred  
13 expenses, that the deferral continued over a long period of time, and that the deferral  
14 was for costs that are recurring in nature. The parties had differing views about the  
15 applicability and relevance of these facts, but considered the various arguments each  
16 party raised in this docket, through formal testimony and through the negotiations, as  
17 well as the earnings test agreed to for amounts deferred on or after January 1, 2013,  
18 and came to the conclusion that a \$7 million disallowance represented a reasonable  
19 resolution of all of those arguments. The Parties support this agreement in its entirety,  
20 with some aspects more and some aspects less favorable than others, which allowed  
21 tradeoffs that result in the entire agreement being fair and reasonable.

22 **Q. While understanding that the Stipulation should be viewed in totality, what does  
23 the \$7 million disallowance represent from the standpoint of an earnings review?**

24 A. As stated above, the parties recognize that the purpose of an earnings test is to  
25 determine the extent to which a utility should be authorized to recover deferred amounts  
26 in light of its earnings levels. And, also as described above, the application of the  
27 earnings test in this case is complicated by several factors. The \$7 million disallowance



1 represents the parties' view of a reasonable amount that should be disallowed from  
2 recovery due to the application of an earnings test under the circumstances in this case.  
3 Although it does not flow from a single specific calculation of a defined earnings test, it  
4 represents a number that falls within the range of results that would flow from the various  
5 earnings test applications for which the individual parties advocated, and represents an  
6 amount upon which all parties were able to agree, in light of the specific arguments  
7 offered in this proceeding, the discussions that were had during negotiations, and the  
8 provisions of this settlement as a whole. The parties believe that the implementation of  
9 a \$7 million disallowance to resolve the application of an earnings test to amounts  
10 deferred prior to 2013 is in the public interest, and results in rates (in light of the  
11 settlement as a whole) that are just and reasonable.

12 **Q. What is the agreement with respect to amounts deferred by NW Natural on or after**  
13 **January 1, 2013?**

14 A. The Parties agree that the earnings test to be applied to environmental remediation  
15 expenses deferred on or after January 1, 2013, will be conducted on an annual basis  
16 according to the following terms:

17 a. If the Company's results of operations ("ROO") for a given year show that  
18 the Company earnings were below 75 basis points below the Company's authorized  
19 return on equity in that year ("Authorized ROE"), the Company will be allowed to collect  
20 all of the prudently-incurred environmental remediation expenses deferred in that year.

21 b. If the Company's ROO for a given year shows that the Company's  
22 earnings are between 75 basis points below Authorized ROE and Authorized ROE (or at  
23 ROE), the Company will credit to the balance of the SRRM, up to the amount deferred  
24 for that year net of insurance proceeds or third-party recoveries allocated to that year  
25 ("Net Amount Deferred"), 10 percent of its earnings between 75 basis points below  
26 Authorized ROE and Authorized ROE.

1           c.       If the Company's ROO for a given year show that the Company's  
2 earnings are above Authorized ROE but less than or equal to 50 basis points above  
3 Authorized ROE, the Company will credit to the balance of the SRRM, up to the Net  
4 Amount Deferred: (1) 80 percent of the Company's earnings between Authorized ROE  
5 and 50 basis points above Authorized ROE; and (2) 10 percent of its earnings between  
6 75 basis points below Authorized ROE and Authorized ROE.

7           d.       If the Company's ROO for a given year shows that the Company's  
8 earnings are more than 50 basis points above Authorized ROE, the Company will credit  
9 to the balance of the SRRM, up to the Net Amount Deferred: (1) 95 percent of its  
10 earnings above 50 basis points above Authorized ROE; (2) 80 percent of its earnings  
11 between Authorized ROE and 50 basis points above Authorized ROE; and (3) 10  
12 percent of its earnings between 75 basis points below Authorized ROE and Authorized  
13 ROE. In no case will the credit to the SRRM in a given year resulting from the above  
14 earnings test be higher than the Net Amount Deferred in that year.

15 **Q.   How did the parties arrive at this treatment for environmental expenses incurred**  
16 **after December 31, 2012?**

17 A.   The Parties attempted to balance two competing principles applicable to the deferred  
18 amounts. First, the Parties agreed that consistent with Commission precedent that  
19 recognizes deferrals as outside the typical ratemaking process, a certain level of  
20 earnings above authorized ROE earned during the deferral period should be considered  
21 for application to the deferral balance. Second, the Parties wished to preserve the  
22 Company's incentives to manage its costs between rate cases, and to achieve WACOG  
23 savings. Given these considerations, the Parties agreed upon the treatment above as a  
24 reasonable compromise of their respective positions.

25 **Q.   Will parties be allowed to review and challenge the timing of the Company's future**  
26 **environmental remediation costs to ensure that the Company does not attempt to**  
27 **time spending to minimize obligations under the earnings review?**

1 A. Yes. The Prudence and Earnings Review Stipulation specifically provides that during  
2 the prudence review of these expenses, the Parties reserve the right to inquire about the  
3 timing of deferred expenses, and to argue that a different timing should be imputed to  
4 the extent the Parties believe the timing was influenced by the Company's anticipated or  
5 calculated earnings in any particular year.

6 **Q. What happens if the Commission approves a change in the Company's Authorized  
7 ROE in the middle of a year?**

8 A. If the Commission approves a change to the Company's authorized ROE that is effective  
9 during a year, the Authorized ROE will be calculated based on a monthly weighted  
10 average of the ROEs authorized in that year.

11 **Q. What happens if the Commission modifies or clarifies the calculation of the  
12 Company's ROE for purposes of the ROO?**

13 A. If that occurs, the modified or clarified calculations will apply to the ROO for purposes of  
14 the settlement.

15 **Q. How does the earnings test account for insurance proceeds and third-party  
16 recoveries?**

17 A. Insurance proceeds and third-party recoveries will be credited to the SRRM as follows:

18 a. The insurance proceeds or third-party recoveries received as of the close  
19 of business December 31, 2012, will be credited against expenses deferred prior to that  
20 period for purposes of rate recovery and the earnings test.

21 b. Any insurance proceeds or third-party recoveries received after close of  
22 business December 31, 2012, will be credited against the amounts approved for  
23 amortization in the SRRM in equal amounts per year over the 10-year period following  
24 NW Natural's receipt of the funds, for purposes of rate recovery and the earnings test.

25 c. The Parties agree that once insurance proceeds or third-party recoveries  
26 are received by the Company, those amounts will incur interest, until credited to  
27 customers in accordance with the above provisions of this section 13, at a rate

1 calculated as the weighted average of the 5-year Treasury Bill rate plus 100 basis  
2 points, at a 4/5<sup>th</sup> weighting, and the Modified Blended Treasury Rate, at a 1/5<sup>th</sup>  
3 weighting.

4 **Q. Why did the parties agree to spread the insurance credit over a 10 year period?**

5 A. Insurance proceeds tend to be received in lump sums that will not necessarily match the  
6 environmental remediation costs, which will be expended on a year-to-year basis with  
7 less variance between years. As a general matter, the Parties agree that spreading the  
8 insurance proceeds over many years, rather than crediting them all to the year the  
9 proceeds were received, better matches the benefits with the burdens. The Parties  
10 specifically agreed that ten years represented a reasonable number of years over which  
11 to spread the insurance credit.

12 **Q. How did the Parties arrive at the interest rate to be applied to insurance proceeds  
13 and third-party recoveries held by the Company before they are credited to  
14 customers through the SRRM?**

15 A. The Parties agree in principle that there should be a matching of the interest rate earned  
16 by customers on these amounts and the interest rate earned by the Company on  
17 deferral balances. In UG 221, the Commission adopted different interest rates to be  
18 earned on deferral balances during three different time periods as follows: prior to an  
19 earnings review, deferral balances will earn interest at the authorized rate of return; after  
20 a prudence review but before amortization, deferrals will earn interest at the five year  
21 Treasury Bill Rate plus 100 basis points; and during amortization, the deferral balances  
22 will earn interest at the Modified Blended Treasury Rate. After considering the 10-  
23 payout period agreed to by the Parties for insurance payments and other third-party  
24 recoveries, the Parties believe that the weighted interest rate described above will  
25 reasonably reflect the interest rate paid by customers on deferral balances.  
26

1 **Q. What is the Parties' agreement with respect to future reexamination of the SRRM**  
2 **and earnings test?**

3 A. The Parties agree that after the sooner of: (1) the date on which the amount collected  
4 from customers through the SRRM reaches \$250 million, or (2) 10 years elapses after  
5 the SRRM's adoption, any party may petition the Commission to change the SRRM,  
6 including advocating for its elimination or a new construct. The Parties agree that the  
7 SRRM as adopted in UG 221 and in this case will remain in place until altered by  
8 Commission decision.

9 **Q. Why did the Parties include this "reexamination provision"?**

10 A. NW Natural expects that future environmental remediation costs will be substantial and  
11 will continue for many years into the future. Given these facts, the Company desires  
12 certainty as to how its environmental remediation costs will be recovered over time.  
13 However, it is also true that after the adopted mechanism is applied to substantial  
14 amounts *or* over a lengthy time period, circumstances could suggest to any party that a  
15 change should be made. The Parties believe that the agreed-upon provision reflects a  
16 fair balance of these interests.

17 **Q. Please describe the Prudence and Earnings Test Stipulation's terms related to the**  
18 **appropriate rate treatment for the costs of the Gasco Pumping Station.**

19 A. The capital costs associated with the Gasco Pumping Station will be evaluated for  
20 prudence following its completion, expected by the end of the third quarter of 2013. If  
21 the Commission determines that the capital costs associated with the Gasco Pumping  
22 Station were prudently incurred, those costs will be included in base rates at the time of  
23 the first subsequent Purchased Gas Adjustment. The Parties also agree to work  
24 collaboratively to determine the extent to which any insurance amounts received in the  
25 future should be applied against the amounts of rate base included in base rates for the  
26 Gasco Pumping Station.

27

1 **Q. Please describe the Prudence and Earnings Test Stipulation's terms related to the**  
2 **appropriate state allocation factor to be applied to environmental.**

3 A. The parties agree that 96.68 percent of the deferred costs amortized through the SRRM  
4 will be allocated to Oregon customers.

5 **Q. What is the basis of this allocation factor?**

6 A. The Company proposed this allocation factor, which is NW Natural's best estimate of the  
7 percentage of gas from the Gasco facility that was sold to Washington customers during  
8 the period between 1913 (when the Company began serving Washington customers  
9 with gas from Gasco) and 1956 (when Gasco operations ceased).

10

11

**OTHER STIPULATION TERMS**

12 **Q. Do the terms of the Stipulations apply to other cases?**

13 A. No, the Stipulations represent a compromise in the positions of the Parties made for this  
14 case only. By entering into the Stipulations, no Party shall be deemed to have  
15 approved, admitted, or consented to the facts, principles, methods, or theories employed  
16 by any other Party in arriving at the terms of the Stipulations, other than as specifically  
17 identified in the body of the Stipulations. No Party shall be deemed to have agreed that  
18 any provision of the Stipulations is appropriate for resolving issues in any other  
19 proceeding, except as specifically identified in the Stipulations. The parties specifically  
20 agree that the complex nature and specific facts of this case make the agreement  
21 reached in this case regarding the appropriate earnings test likely inapplicable to other  
22 cases or scenarios.

23 **Q. If the Commission rejects any part of the Stipulations, are the Parties entitled to**  
24 **reconsider their participation in the Stipulations?**

25 A. Yes. Each stipulation has a term that provides that if the Commission rejects all or any  
26 material portion of the stipulation or imposes additional material conditions in approving  
27 this stipulation, any Party shall have the right to withdraw from the stipulation, along with

1 any other rights provided in OAR 860-001-0350(9), including the right to present  
2 evidence and argument on the record in support of the stipulation, and shall be entitled  
3 to seek reconsideration pursuant to OAR 860-001-0720.  
4

5 **REASONABLENESS OF THE STIPULATIONS**

6 **Q. Have the Parties evaluated the overall fairness of the Stipulations?**

7 A. Yes. It is our understanding that the Commission will approve a stipulation if it is an  
8 appropriate resolution of the issues in a case<sup>5</sup> and results in just and reasonable rates.<sup>6</sup>  
9 Here, each Party has reviewed all of the terms contained in the Stipulations, along with  
10 the costs resulting from the application of the terms of the Stipulations. The Parties  
11 agree that the terms of the Stipulations will result in fair, just, and reasonable rates and  
12 that the terms of the Stipulations fall within the “range of reasonableness” for resolution  
13 of these issues.<sup>7</sup>

14 **Q. What do the Parties recommend?**

15 A. The Parties recommend that the Commission approve the Stipulations.

16 **Q. Does this conclude your testimony in support of the Stipulations?**

17 A. Yes.

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<sup>5</sup> See *Re PacifiCorp's 2010 Transition Adjustment Mechanism*, Docket UE 207, Order No. 09-432 at 6 (Oct. 30, 2009) (“The Commission concludes that the Stipulation is an appropriate resolution of all primary issues in this docket.”); See *Re PacifiCorp Request for a General Rate Revision*, Docket UE 210, Order No. 10-022 at 6 (Jan. 26, 2010) (“When considering a stipulation, we have the statutory duty to make an independent judgment as to whether any given settlement constitutes a reasonable resolution of the issues.”).

<sup>6</sup> See *Re. PacifiCorp Request for a General Rate*, Docket UE 217, Order No. 10-473 at 7 (Dec. 14, 2010) (“We have reviewed the Stipulation, and find that it will result in rates that are fair, just, and reasonable.”).

<sup>7</sup> See *Re US West*, Docket UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).

**Docket UM 1635**

**Attachment 1**

**to**

**Joint Testimony in Support of Stipulations**

**August 7, 2013**



# ATTACHMENT 1

## NW Natural Rates & Regulatory Affairs SRBM Illustration of Rate Allocation Calculation of Increments Allocated on the EQUAL PERCENTAGE OF MARGIN BASIS ALL VOLUMES IN THERMS

Line	Description	Compliance Filing:		Customer & Volumetric Margin	Customer Charge	Volumetric Margin	C = A * B	UG 221 Customer & Volumetric Margin	Proposed Amount: Revenue Sensitive Multiplier: Amount to Amortize:	1/5 EXAMPLE Balance at 10/31/13	
		UG 221 Volumes	UG 221 Margin Rate							Multiplier G	H
1	Schedule	A	B	E	D	C = A * B		F			
2	Intentionally blank										
3	Intentionally blank										
4	2R	352,929,222	\$0.41161	557,495	\$8.00	\$4,452,609,485		1,198	\$15,901,065	\$9,000,000	2.86% revenue sensitive
5	3C Firm Sales	150,619,378	\$0.32998	56,859	\$15.00	\$49,701,382		6	\$77,205	\$9,265,551	to all classes and schedules
6	Intentionally blank										
7	3T Firm Sales	4,184,174	\$0.32950	285	\$15.00	\$1,362,367		0	\$0		
8	2TR	0	\$0.30871	0	\$0.00	\$0		0	\$0		
9	Intentionally blank										
10	31C Firm Sales	34,769,382	\$0.19539	1,198	\$325.00	\$11,229,025		1,198	\$15,901,065		
11	31C Firm Sales	35,640,719	\$0.17838								
12	31C Firm Sales	44,572	\$0.16551	6	\$75.00	\$35,805		6	\$77,205		
13	Intentionally blank										
14	Intentionally blank										
15	31I Firm Sales	4,447,875	\$0.15781	225	\$325.00	\$2,507,852		225	\$3,385,352		
16	31I Firm Sales	12,665,213	\$0.14259								
17	31I Firm Sales	97,558	\$0.15611	8	\$575.00	\$118,233		8	\$173,433		
18	Intentionally blank										
19	Intentionally blank										
20	Intentionally blank										
21	Intentionally blank										
22	32C Firm Sales	5,059,321	\$0.09048	53	\$675.00	\$910,974		53	\$1,340,274		
23	Block 1	4,834,146	\$0.07692								
24	Block 2	1,397,725	\$0.06431								
25	Block 3	172,093	\$0.03169								
26	Block 4	0	\$0.01812								
27	Block 5	0	\$0.00906								
28	32I Firm Sales	4,284,027	\$0.09080	45	\$675.00	\$906,789		45	\$1,271,289		
29	Block 1	5,123,215	\$0.07748								
30	Block 2	2,033,143	\$0.05449								
31	Block 3	365,005	\$0.03179								
32	Block 4	0	\$0.01816								
33	Block 5	0	\$0.00912								
34	32I Firm Sales	6,123,208	\$0.09269	65	\$925.00	\$2,530,812		65	\$3,252,312		
35	Block 1	9,627,749	\$0.07876								
36	Block 2	6,499,238	\$0.05562								
37	Block 3	1,333,852	\$0.02445								
38	Block 4	3,179,647	\$0.01677								
39	Block 5	0	\$0.00830								
40	32C Interr Sales	5,553,826	\$0.09412	64	\$675.00	\$1,368,094		64	\$1,886,494		
41	Block 1	5,441,419	\$0.08001								
42	Block 2	3,043,549	\$0.05647								
43	Block 3	5,715,124	\$0.03295								
44	Block 4	2,648,468	\$0.01881								
45	Block 5	0	\$0.00944								
46	32I Interr Sales	7,108,023	\$0.09415	73	\$675.00	\$2,008,494		73	\$2,599,794		
47	Block 1	8,656,598	\$0.08003								
48	Block 2	4,763,986	\$0.05649								
49	Block 3	8,983,218	\$0.03296								
50	Block 4	4,316,607	\$0.01883								
51	Block 5	0	\$0.00943								
52	32I Interr Trans	8,025,070	\$0.09426	89	\$925.00	\$5,516,279		89	\$6,504,179		
53	Block 1	13,347,959	\$0.08012								
54	Block 2	10,296,468	\$0.05657								
55	Block 3	32,663,184	\$0.03300								
56	Block 4	65,455,540	\$0.01886								
57	Block 5	84,185,134	\$0.00945								
58	Intentionally blank										
59	33	0	\$0.00541	0	\$39,900.00	\$0		0	\$0		
60	TOTALS	939,286,751				\$223,465,591			\$296,529,972	9,265,551	100.00%

**Notes:**  
1. Allocation to rate schedules or blocks with zero volumes is calculated on an overall margin percentage change basis.  
2. When expenditures are amortized, this calculation will reflect the PGA values and customers of the PGA filing in which this rate increment is included.  
3. The calculations above are consistent with prior PGA calculations for increments allocated on equal percentage of margin basis

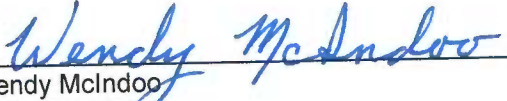
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**CERTIFICATE OF SERVICE**

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1635 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

- |  |   |
|--|---|
| Chad M. Stokes<br>Cable Huston Benedict Haagensen & Lloyd<br>cstokes@cablehuston.com | Tommy A. Brooks<br>Cable Huston Benedict Haagensen & Lloyd<br>tbrooks@cablehuston.com |
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| Jay Tinker<br>Portland General Electric<br>Pge.opuc.filings@pgn.com                  | Richard George<br>Portland General Electric<br>Richard.george@pgn.com                 |
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DATED: August 7, 2013

  
\_\_\_\_\_  
Wendy McIndoo  
Office Manager