

ORDER NO. 03-236

ENTERED APR 22 2003

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG 152

In the Matter of)	
)	
NORTHWEST NATURAL GAS)	ORDER
COMPANY)	
)	
Application For a General Rate Revision)	
Advice No. 02-19.)	

DISPOSITION: STIPULATION ADOPTED; COOS COUNTY
DISTRIBUTION SYSTEM INVESTMENT APPROVED

Background. On November 29, 2002, Northwest Natural Gas Company (NWN or Company) filed Advice No. 02-19, an application for revised tariff schedules. By Order 02-879, entered December 18, 2002, the tariff sheets were suspended and an investigation was ordered.

At a prehearing conference in this docket held on January 10, 2003, counsel for NWN asked the Commission to bifurcate the proceeding by considering the Company's investment in the construction of the Coos County Distribution System (CCDS) on an expedited schedule. None of the intervening parties objected. The issue of the CCDS was set for expedited consideration and a procedural schedule was adopted.

NWN holds exclusive rights to provide natural gas service in Coos County, with the exception of the City of Bandon. It is currently providing propane service in Coos County. The 1999 Oregon Legislative Assembly approved \$20 million in lottery bond funding for Coos County to construct a gas transmission pipeline to route natural gas from the Williams' pipeline at a point near Roseburg to Coos County. Coos County voters authorized general obligation bonds to cover the balance of the cost of construction. NWN agreed to construct a distribution system and entered into a Transportation Service Agreement with Coos County in order to obtain the gas for its customers. After conducting marketing studies to gauge demand, NWN calculated that there was a shortfall in the revenues necessary to provide an adequate rate of return on the construction of a distribution system in Coos County.¹ NWN would not construct the CCDS unless the shortfall could be recovered from its customers.

¹ NWN Exhibit NWN/500/Henderson/1-3.

At the outset of this proceeding, NWN proposed that residential and small commercial customers in Coos County pick up part of the gas transportation cost via a surcharge and that the remainder of the revenue requirement on the CCDS investment would be made up by a surcharge on residential and commercial customers statewide. Coos County and Northwest Industrial Gas Users' (NWIGU) agreed to this position. Staff and the Citizens' Utility Board (CUB) opposed it holding the view that all potential Coos County customers should make up the shortfall, and non-Coos County customers should not.

Testimony regarding the proposed CCDS investment and the means for recovering the costs associated with it, were filed by the following parties: NWN, Coos County, CUB, NWIGU and the Commission staff (Staff).² NWN, NWIGU and Coos County also filed joint testimony which included a stipulation among those three parties. Neither CUB nor Staff joined in that stipulation.

At a further prehearing conference held March 11, 2003, the parties agreed to modify the CCDS procedural schedule, waiving their rights to a hearing and proceeding directly to oral argument on the issues before the Commission. The revised procedures were adopted and set forth in a Prehearing Conference Report issued March 12, 2003. The oral argument was held before the Commission at a special public meeting on March 20, 2003. On March 26, 2003, the Commissioners issued interrogatories upon the parties with respect to matters argued before them at the special public meeting.

The parties held a settlement conference on April 3, 2003, and in connection therewith, requested several extensions of time in which to file their responses to the Commissioners interrogatories and briefs on the CCDS issues. The extensions were granted by the Administrative Law Judge's (ALJ's) Rulings of April 3 and April 4, 2003. On April 9, 2003, NWN, Coos County and NWIGU withdrew the earlier stipulation and, in its place, a second Stipulation Agreement, this time joined in by CUB and Staff and supported by Joint Testimony, was filed with the Commission. An additional exhibit in support of the Stipulation Agreement, Exhibit 1516, was filed on April 10, 2003. The only question not covered by the Stipulation is the rate spread among Coos County's customers. Staff and CUB have filed briefs asking that it be decided now. NWN wants the issue considered at the time the general rate case is taken up.

Terms of the Stipulation. The Stipulation, affixed to this Order as Appendix A, may be briefly summarized as follows:

- (1) For ratemaking purposes, NWN's investment in the CCDS is capped at \$12 million.

² The following entities were also granted intervenor status in the case, but did not take part in the consideration of the phase of the proceedings concerned with the CCDS: Duke Energy Trading and Marketing, L.L.C. (Duke), NW Energy Coalition (NVEC), Direxx Energy (Direxx), Community Action Directors of Oregon (CADO) and Portland General Electric Company (PGE). Petitions to Intervene filed by Pat Simpson and Denny Powell seeking to participate in the CCDS-related proceedings were denied by Ruling of Administrative Law Judge Allan J. Arlow (the ALJ) on February 4, 2003.

(2) The original calculation under the Schedule X main extension tariff erroneously excluded demand charges in projected revenues. Had it been correctly calculated, \$10 million of the \$12 million would have been included in the Oregon rate base, and Coos County customers would be required to pay only \$2 million in advance. That reduced requirement—the \$2 million “Coos County Share”—is now the amount to be recovered.

(3) To recover this amount, NWN will recognize a Purchased Gas Adjustment credit to its Oregon customers of \$100,000 per year for four years plus carrying charges at the PUC-designated rate of return, yielding a net present value of \$400,000. This credit will reduce the amount of the initial investment in the CCDS to be repaid by Coos County customers.

(4) To recover the remaining balance of the initial investment, NWN will impose a 2 cents per therm surcharge on Coos County Customers during the 20-year Initial Term of the agreement. The charge will first be applied to pay the transportation charges on the Coos County pipeline (see #5, below) and then to repay the Coos County Share. The charge will apply to all sales service customers connected to the CCDS. If the \$2 million has not been repaid by the end of the 20-year Initial Term, the charge will be adjusted. In calculating the carrying charges on the Coos County Share, NW Natural will use its authorized rate of return in effect at the time of the calculation.

(5) The Transportation Service Agreement, Exhibit UG 152/NWN/1501, dated July 30, 2001, between Coos County and NWN currently has a guaranteed minimum payment equal to NWN’s volumetric share of operation and maintenance (O&M) expenses for each Contract Year, estimated at \$202,763. As noted above, the 2 cents per therm surcharge will be applied to that payment first.

(6) Industrial Customers getting transport services from the County, despite their negotiated rate with the County, will reduce NW Natural’s volumetric share of the O&M expense on the pipeline and thereby increase the amount of the 2 cent per therm surcharge which will be available to reduce the Coos County Share. The repayment has a cap: it is not required to exceed 1 cent per therm minus the transporters’ volumetric share of the O&M expense.

(7) If the Coos County Share has not been paid down by the end of the Initial Term, a new schedule to amortize the balance, approved by the Commission, will be established.

Discussion. The Legislature, by its passage of the \$20 million lottery bond issue, has clearly indicated that it is in the public interest to bring natural gas service to Coos County. All of the parties to this proceeding share that view. We are thus left to decide only whether the means agreed to by the parties constitute a fair, just, reasonable and nondiscriminatory method for funding the construction of the CCDS.

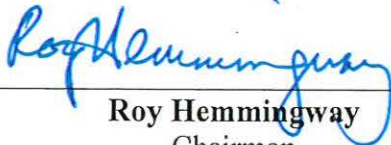
The proposed Stipulation reduces the potential burden upon Oregon ratepayers who do not reside in Coos County when compared to NWN's original proposal. However, as Staff notes in its brief supporting the Stipulation, "a substantial amount of the Coos County Share may remain unpaid upon the expiration of the Initial Term and...accordingly, expeditious repayment may require substantial surcharges on Coos County customers....[I]n twenty years, it is not unlikely that Coos County will still owe approximately two-thirds of the Coos County Share." Coos County has committed to expeditiously pay the amounts due and believes that, with the expiration of the pipeline bonds, the ratepayers will be in a better position to absorb the additional cost.³

Although the terms of the Stipulation are not without risk, we are of the view that, given the broad public support for the investment and the willingness of all parties to abide by its terms, approval of the Stipulation is in the public interest. The spreading of the burden among the ratepayers in a manner that is just, reasonable and nondiscriminatory, will be examined in the latter phase of this proceeding.

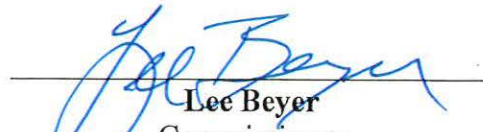
ORDER

The Stipulation set forth in Appendix A is hereby adopted. The Transportation Service Agreement between Coos County Board of Commissioners and Northwest Natural Gas Company shall be modified to reflect the Stipulation. The Northwest Natural Gas Company investment in the Coos County Distribution System is approved for ratemaking purposes in accordance with the terms and conditions of the Stipulation.

Made, entered, and effective APR 22 2003


Roy Hemmingway
Chairman




Lee Beyer
Commissioner


Joan H. Smith
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

³ Staff Brief, pp. 2-4.

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APR 09 2003

Public Utility Commission of Oregon
Administrative Hearings DivisionBEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG 152

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4 In the Matter of NORTHWEST NATURAL
5 GAS COMPANY Application for a General
6 Rate Revision

Second Stipulation Relating to the
Coos County Distribution System

7 This Stipulation ("Second Stipulation") is entered into among Staff of the Oregon
8 Public Utility Commission ("Staff"), Northwest Natural Gas Company ("NW Natural"), the
9 Citizens' Utility Board ("CUB"), the Northwest Industrial Gas Users ("NWIGU"), and Coos
10 County, Oregon ("Coos County") (together, the "Parties"). The purpose of this Second
11 Stipulation is to resolve all issues among the Parties relating to the treatment of NW
12 Natural's investment in a Coos County natural gas distribution system (the "CCDS"), and
13 specifically to address the rate treatment of the investment in the CCDS.

14 Capitalized or abbreviated terms not defined in this Second Stipulation have the
15 definitions set forth in the Transportation Service Agreement Between Coos County Board of
16 Commissioners and Northwest Natural Gas Company, dated as of July 30, 2001 (the
17 "Transportation Agreement").

18 In summary, this Second Stipulation:

- 19 (a) Limits NW Natural's initial investment in the CCDS for ratemaking purposes to \$12
20 million;
- 21 (b) Applies NW Natural's Schedule X main extension tariff and calculates a main
22 extension allowance for the CCDS of \$10 million;
- 23 (c) Provides a NW Natural customer credit adjustment having a net present value of
24 \$400,000, which will be credited to customers over four years through the purchased
25 gas adjustment and will reduce the amount of the initial investment in the CCDS to be
26 repaid by Coos County customers;

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APPENDIX A
PAGE 1 OF 12

- 1 (d) Requires Coos County customers to repay the remaining balance of the initial
2 investment in the CCDS through:
- 3 (i) A charge to Coos County sales customers of \$0.02 per therm to be applied first
4 to pay O&M expenses for transportation services on the Coos County pipeline
5 and second to such repayment;
- 6 (ii) The Application to such repayment of excess Coos County revenues from
7 transportation services for industrial customers; and
- 8 (iii) A recalculation of the charge under clause (i) after 20 years in the event the
9 remaining balance of the initial investment in the CCDS is not fully repaid at
10 that time.

11 The specific terms and conditions of this Second Stipulation are set forth below.

12 The Parties agree as follows:

13 **1. Initial CCDS Investment**

14 NW Natural estimates the total cost of its initial investment in the CCDS at
15 \$12 million. "Initial Investment" includes NW Natural's construction and associated costs
16 incurred during the Initial Construction Period to build mains, service lines, and other
17 distribution facilities and appurtenances in the cities of Coos Bay, North Bend, Coquille, and
18 Myrtle Point, including a pipeline connecting the Coos Bay/North Bend distribution system
19 to the North Spit industrial area. "Initial Construction Period" means the first 15
20 "construction months," or those months of the year during which weather conditions allow
21 active construction to occur, beginning when NW Natural commences construction of the
22 CCDS. The Initial Investment will be subject to audit by the Commission to ensure that only
23 actual, prudently incurred costs are included in rates.

24 **2. Line Extension Policy and Rate Application**

25 The Parties acknowledge that the original cost-sharing ratio (approximately 50/50
26 percent) in the calculation of the main extension allowance under NW Natural's Tariff

1 P.U.C. Or. 22, Schedule X ("Schedule X") did not include demand charges in projected
 2 revenues and that demand charge revenues are includable in the Schedule X calculation. The
 3 Parties stipulate that including demand charge revenues in the calculation produces projected
 4 annual margin revenues of \$2 million for purposes of Schedule X. The Parties agree that the
 5 correct Schedule X main extension allowance, based on projected annual margin revenues of
 6 \$2 million, is \$10 million. Accordingly, assuming an Initial Investment of \$12 million, under
 7 Schedule X Coos County customers would be required to pay an advance of \$2 million and
 8 \$10 million would be included in NW Natural's Oregon rate base.

9 In recognition of the other contributions Coos County and the State of Oregon are
 10 making to the provision of natural gas service in Coos County and the repayment provisions
 11 contained in Sections 4 through 7 of this Second Stipulation, the Parties agree that the
 12 Commission should: (a) allow NW Natural to include in its statewide rates the lesser of
 13 (i) NW Natural's Initial Investment in the CCDS or (ii) the amount of \$12 million; and (b)
 14 provide that Coos County will repay statewide customers, in the manner provided in Sections
 15 4 through 7 of this Second Stipulation, the amount of the advance otherwise required under
 16 Schedule X with respect to the Initial Investment reduced by NW Natural's credit
 17 adjustments of \$400,000 specified in Section 4 of this Second Stipulation (the "Coos County
 18 Share"). For clarification, the Coos County Share is calculated as follows:

19 Coos County Share = (Initial Investment not to exceed \$12 million) - (\$10 million
 20 main extension allowance) - (\$400,000 in NW Natural credit adjustments)

21 Following construction of the Initial Investment, Schedule X or any successor line
 22 extension tariff will govern extensions of natural gas distribution service to potential gas
 23 customers in Coos County.

24 3. Pipeline Transportation Charge

25 (a) The Transportation Agreement provides that, notwithstanding the cents/MMBtu
 26 Transportation Rate specified in the Transportation Agreement, the minimum transportation

1 charge payable by NW Natural for use of the natural gas transmission pipeline owned by
2 Coos County (the "County pipeline") will be equal to NW Natural's volumetric share of
3 O&M expenses for each Contract Year, estimated at \$202,763. NW Natural and Coos
4 County will amend the terms of the Transportation Agreement so that payment of NW
5 Natural's volumetric share of O&M expenses for each Contract Year will fulfill its
6 Transportation Rate obligations during each Contract Year of the Initial Term.¹

7 (b) After collection of the Coos County Charge, defined below, any balance of NW
8 Natural's costs for transportation services on the County pipeline will be recoverable,
9 statewide, as part of NW Natural's annual purchased gas adjustment. Specifically, NW
10 Natural will spread any such balance to all NW Natural's Oregon sales service customers in
11 the same manner as other pipeline demand charges, as set forth in the company's filed Tariff,
12 Schedule 169, "Purchased Gas Cost and Weighted Average Cost of Gas." The Coos County
13 Charge will not apply to transportation customers who do not otherwise pay pipeline demand
14 charges to NW Natural through a tariffed rate.

15 (c) Annually, in the purchased gas adjustment, NW Natural agrees to reassess the Coos
16 County Charge to determine whether it is fully recovering NW Natural's cost of
17 transportation on the County pipeline. At the point any such assessment shows that the Coos
18 County Charge is fully recovering such cost (the "Breakeven Point"), NW Natural agrees to
19 terminate statewide recovery of County pipeline transportation costs from its Oregon sales
20 service customers. Following the Breakeven Point, NW Natural's transportation costs on the
21 County pipeline will be recovered only from Coos County sales service customers, with no
22 further recovery from Oregon customers outside Coos County.

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26 ¹ The Initial Term is 20 years. Specifically, the Initial Term ends on December 31 of
the twentieth year after the year in which the County pipeline becomes operational.

1 4. **NW Natural PGA Credit Adjustments**

2 Commencing in 2004 and continuing for a period of four (4) years, NW Natural
3 agrees to recognize a credit adjustment to its Oregon customers in the amount of \$100,000
4 per year plus the equivalent amount of carrying charges at NW Natural's overall rate of
5 return as established by the Commission from time to time, for a total net present value of
6 \$400,000, which will be refunded to customers through NW Natural's annual purchased gas
7 adjustment. This credit will be allocated generally to the customer classes that are expected
8 to bear the Coos County Share pending repayment.

9 5. **Coos County Charge**

10 NW Natural will impose a surcharge on Coos County natural gas sales customers (the
11 "Coos County Charge") in the amount of \$0.02 per therm during the Initial Term of the
12 Transportation Agreement. The Coos County Charge will be applied first to pay the costs of
13 transportation services on the County pipeline, and second to repay the Coos County Share.
14 The Coos County Charge will apply to all sales service customers connected to the CCDS.
15 NW Natural will refile Rate Schedule 1G, Tariff P.U.C. Or. 23 to incorporate the increase in
16 the per-therm charge. Following the Initial Term, if the Coos County Share has not been
17 fully repaid, the Coos County Charge will be adjusted as provided in Section 7 of this Second
18 Stipulation. For purposes of repayment, the Coos County Share will include carrying
19 charges at NW Natural's authorized overall rate of return as established by the Commission
20 from time to time.

21 6. **Contribution by Industrial Customers in Coos County**

22 Subject to the terms of the Transportation Agreement, Coos County may negotiate
23 transportation rates on the County pipeline for all transporters other than NW Natural,
24 including large industrial customers within the County. Notwithstanding the amount of the
25 negotiated rate, each additional transporter will reduce NW Natural's volumetric share of
26 O&M expense on the County pipeline and thereby increase the amount of the Coos County

1 Charge that becomes available to repay the Coos County Share. Amounts collected by Coos
2 County from transporters other than NW Natural in excess of the transporters' volumetric
3 share of O&M expenses will be paid to NW Natural to repay the Coos County Share;
4 provided, however, that the amount of such repayment is not required to exceed \$0.01 per
5 therm minus the transporters' volumetric share of O&M expenses.

6 **7. Termination/Recalculation of Coos County Charge**

7 The Coos County Charge will terminate when the Coos County Share (including
8 carrying charges) has been repaid. If the Coos County Charge has not terminated by the end
9 of the Initial Term of the Transportation Agreement, within 90 days after the end of the
10 Initial Term NW Natural will calculate the balance of the Coos County Share remaining to be
11 repaid and will recalculate the Coos County Charge to repay such balance (including
12 carrying charges) within a reasonable time. The recalculated Coos County Charge (including
13 the amortization period for repayment) will be subject to approval by the Commission. The
14 recalculated Coos County Charge will be charged to Coos County customers until the Coos
15 County Share has been repaid.

16 **8. General Terms and Conditions**

17 (a) The Parties agree that this Stipulation represents a compromise in the positions of the
18 Parties. As such, conduct, statements, and documents disclosed in the negotiation and
19 discussion phases of this Stipulation shall not be admissible as evidence in any proceeding
20 before the Commission or a court.

21 (b) The Parties agree that with respect to the issues covered in this Stipulation, this
22 Stipulation is in the public interest and all of its terms and conditions are fair, just, and
23 reasonable.

24 (c) The Parties will cooperate in submitting this Stipulation promptly to the Commission
25 for acceptance and will support adoption of this Stipulation in testimony and argument
26 submitted in this proceeding. If a hearing is scheduled for presentation of the Stipulation,

1 each Party must make available a witness in support of this Stipulation. If the Commission
2 rejects all or any material portion of this Stipulation or imposes additional material
3 conditions in approving this Stipulation, any Party disadvantaged by such action has the
4 right, upon written notice to the Commission and all parties to the proceeding within 15 days
5 of the date of the Commission's Order, to withdraw from this Stipulation. If any Party
6 withdraws from this Stipulation as permitted in this subsection, no Party to this Stipulation
7 will be bound or prejudiced by the terms of this Stipulation, and each Party will be entitled to
8 seek any remedy set forth in Oregon Administrative Rule 860-014-0085(6) or other
9 applicable law, rule, or order; and in general to put on such case and pursue such course as it
10 deems appropriate and the law allows.

11 (d) Execution of this Stipulation does not constitute an acknowledgment by any Party of
12 the validity or invalidity of any particular method, theory, or principle of regulation, and no
13 Party may be deemed to have agreed that any method, theory, or principle of regulation
14 employed in arriving at this Stipulation is appropriate for resolving any issue in any other
15 proceeding. No findings of fact or conclusions of law other than those stated in this
16 Stipulation may be deemed to be implicit in this Stipulation.

17 (e) Each of the Parties reserves the right to respond in oral argument, file testimony, or
18 pursue such course of action as it as it deems appropriate on any CCDS issue not covered by
19 this Stipulation or on any other matter in this proceeding.

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ORDER NO

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2 (f) The Parties have negotiated this Stipulation as an integrated document. The Parties
 3 recommend that the Commission adopt this Stipulation in its entirety.

4 DATED: April 9, 2003

5 Staff of the Oregon PUC

Northwest Natural Gas Company

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8 By: Stephanie S. Andrews, Atty
 Its: Counsel

By: _____
 Its: _____

9 Citizens' Utility Board

Northwest Industrial Gas Users

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12 By: _____
 Its: _____

By: _____
 Its: _____

13 Coos County

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16 By: _____
 Its: _____

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7 _____

8 By: _____
9 Its: _____

By: _____
Its: _____

9 Citizens' Utility Board

Northwest Industrial Gas Users

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11 _____

Edward A Finklea

12 By: _____
13 Its: _____

By: *Edward A Finklea*
Its: *Attorney*

13 Coos County

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15 _____

16 By: _____
17 Its: _____

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APPENDIX *A*
PAGE *9* OF *12*

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8 By: _____
 Its: _____

By: _____
 Its: _____

9 Citizens' Utility Board

Northwest Industrial Gas Users

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12 By: _____
 Its: _____

By: _____
 Its: _____

13 Coos County

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16 By: Jay Waldron
 Its: ATTORNEY

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Northwest Natural Gas Company

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8 By: _____
 9 Its: _____

By: C. Alex Miller
 Its: Gen. Mgr., Rates + Reg. Affairs

9 Citizens' Utility Board

Northwest Industrial Gas Users

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12 By: _____
 13 Its: _____

By: _____
 Its: _____

13 Coos County

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16 By: _____
 17 Its: _____

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Northwest Natural Gas Company

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8 By: _____
 Its: _____

By: _____
 Its: _____

9 Citizens' Utility Board

Northwest Industrial Gas Users

10

11 Bob Jenkins

12 By: Bob Jenkins
 Its: Executive Director

By: _____
 Its: _____

13 Coos County

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15

16 By: _____
 Its: _____

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