

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

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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.<sup>1</sup> NWN would not construct the CCDS unless the shortfall could be recovered from its customers.

<sup>1</sup> 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).<sup>2</sup> 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.

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<sup>2</sup> 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.<sup>3</sup>

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 \_\_\_\_\_.

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**Roy Hemmingway**  
Chairman

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**Lee Beyer**  
Commissioner

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**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.

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<sup>3</sup> Staff Brief, pp. 2-4.