ORDER NO. 03-507

ENTERED AUG 22 2003

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 152

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

DISPOSITION: STIPULATIONS ADOPTED; APPLICATION FOR GENERAL RATE REVISION APPROVED AS REVISED

I. 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 No. 02-879, entered December 18, 2002, the tariff sheets were suspended and an investigation was ordered.

At the request of NWN, the Commission bifurcated this proceeding by considering the Company's investment in the construction of the Coos County Distribution System (CCDS) on an expedited schedule. After submission of numerous briefs and oral argument before the Commission, the parties entered into a Stipulation and, by Order No. 03-236, entered April 22, 2003, (CCDS Order) the Commission approved NWN's investment in the Coos County Distribution System for ratemaking purposes in accordance with the terms and conditions of the Stipulation.

The Commission adopted a procedural schedule to examine the remaining issues of revenue requirement and rate design (including the setting of rates to recover costs for the Commission-authorized CCDS investment), as well as numerous practical questions and policy issues arising out of various provisions of the Company's proposed tariffs. In addition to the Company, the parties who have been most actively involved in this second phase of the proceeding are the Commission staff (Staff), the Northwest Industrial Gas Users (NWIGU) and the Citizens' Utility Board (CUB).

Following a series of settlement discussions, the parties filed a total of four stipulations to resolve all remaining issues. The stipulations and supporting testimony were entered into the record of evidence pursuant to OAR 860-014-0085. We address each stipulation below.

II. THE PARTIAL REVENUE REQUIREMENT STIPULATION

Issues resolved by the Partial Revenue Requirement Stipulation. The Partial Revenue Requirement Stipulation executed by the Company, Staff, NWIGU and CUB and attached as Appendix A, relates to Staff issues S-2 through S-11, S-13 through S-18, and S-20 through S-23.[1] These changes constitute a series of adjustments to revenues, expenses, or rate base, because the revenue requirement impact of certain adjustments depends on the final cost of capital and capital structure. The revenue requirement effect of the adjustments is set forth in Apendix E. For some of the issues, the parties agreed to a general method or approach to resolution, rather than a numeric adjustment.[2] The parties also agreed that no change in the cost of preferred stock should be made to the filed case.

The issues resolved are summarized as follows:

Issue S-2: Miscellaneous Revenues. Revenues were increased by $612,000 to reflect Staff's calculation that greater revenues from late payment fees would be collected by the Company.[3]

Issue S-3: Uncollectible Expenses. Uncollectible expenses were reduced by $243,000, to account for the effect of the Company's low-income bill payment assistance program.[4]

Issue S-4: Call Center Staffing. Operations and maintenance (O & M) expenses were reduced by $57,000 to disallow one full-time equivalent employee (FTE) in the call center. The disallowance takes into account the use of additional call center FTEs who answer phones only part of the time.[5]

Issue S-5: Energy Efficiency Staffing. O & M expenses were reduced by $310,000 to disallow staffing costs as internal energy efficiency programs are transferred to the Energy Trust of Oregon.[6]

Issue S-6: Energy Assistance Staffing. One FTE was disallowed, reducing the Company's O & M expenses by $58,000. As a result, the Oregon Low Income Gas Assistance (OLGA) program remains staffed at a level comparable to that of the Low Income Energy Assistance Plan (LIEAP), the Company's other payment assistance program.[7]

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[1] Partial Stipulation, Exhibit 100, p. 2.
[2] *Id.* pp. 1-2.
[3] *Id.* and Partial Stipulation, Exhibit 100, p. 2, Exhibit 109.
[4] *Id.*
[5] Partial Stipulation, Exhibit 100, p. 3, Exhibit 109.
[6] *Id.*
[7] Partial Stipulation, Exhibit 100, p. 3, Exhibit 109.

Issue S-7: Consumer Relations and Events. The Company agreed to Staff's adjustment, resulting in a $74,000 reduction in O & M expenses.[8]

Issue S-8: Safety Programs. O & M expenses were reduced by $335,000 to reflect a decrease of four FTEs intended to provide staffing to meet safety requirements imposed by new law. The Company will optimize use of fewer staff to meet the new requirements.[9]

Issue S-9: Corporate Governance. The Company agreed to Staff's adjustment to reflect a decrease of one FTE, resulting in a $147,000 reduction in O & M expenses.[10]

Issue S-10: Wage and Salary Expense. The Company accepted the Staff's final assessment of the appropriate wage level for the test period, resulting in a $1,265,000 reduction in O&M expense, a $477,000 reduction in Utility Plant in Service and a $161,000 reduction in other taxes.[11]

Issue S-11: Incentives and Bonus Pay. The adjustment included a decrease in both O & M expenses of $1,725,000 and Utility Plant in Service of $821,000 that correspond to a decreased estimate of the percentage of maximum potential payout, as well as a sharing of expenses between ratepayers and shareholders.[12]

Issue S-13: Pension Expense. The parties agreed that pension expense would remain at the level in the Company's filed case, but that deferred accounting will be implemented if actual expenses are lower. In addition, the parties agreed to consider implementation of deferred accounting if pension expenses increase.[13]

Issue S-14: Executive Retirement Benefits. The Company accepted the Staff's adjustment, resulting in a $787,000 reduction in O & M expenses.[14]

Issue S-15: Advertising. The adjustment agreed to among the parties reflects a disallowance of $576,000 in advertising expense. Approved Category A advertising expense is based on a calculated amount of $2.19 per customer. Category B expense levels allow for additional safety advertising requirements.[15]

Issue S-16: Marketing and Customer Relations. The parties agreed to adjustments reflecting disallowances in several areas of marketing and customer relations expense, resulting in an overall decrease in O & M expenses of $844,000.[16]

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[8] *Id.*
[9] *Id.*
[10] Partial Stipulation, Exhibit 100, p. 4 and Exhibit 109.
[11] *Id.*
[12] *Id.*
[13] *Id.*
[14] Partial Stipulation, Exhibit 100, p. 4 and 109.
[15] Partial Stipulation, Exhibit 100, pp. 4-5.
[16] Partial Stipulation, Exhibit 100, p. 5, Exhibit 109.

Issue S-17: Administrative and General Expenses. This adjustment reflected disallowances of certain costs in FERC Accounts 921, 923, 924, 930, 931 and 935, resulting in an overall decrease in O & M expenses of $1,226,000. The parties also agreed that Gas Technology Institute (GTI) costs booked to Account 930 would support GTI's Research and Deployment division. It was further agreed that GTI reports provided to the Company would be made available upon request to the parties, including members of NWIGU who are customers of the Company.[17]

Issue S-18: Capitalization Policy. The adjustments agreed upon by the parties included the following: a $3,163,000 decrease in O&M expense, a $115,000 increase in depreciation expense, a $3,202,000 increase in Utility Plant in Service, a $57,000 increase in Accumulated Depreciation and a $376,000 increase in deferred taxes (credit).[18]

Issue S-20: Income and Excise Taxes. The parties agreed that final income and excise tax amounts would be established after resolution of all issues affecting revenues, expenses, rate base, and cost of capital.[19]

Issue S-21: South Mist Pipeline Extension (SMPE). The parties agreed that SMPE expense will remain at the level in the Company's case as filed, but that the same true-ups and deferred accounting procedures would be followed for SMPE expense as previously applied to Mist III. The procedure provides for the use of an estimated final cost for purposes of initial ratemaking, with true-ups allowed for final cost variances using deferred accounting and revised rate determination.[20]

Issue S-22: Bare Steel. The Company agreed to Staff's proposed adjustment to decrease depreciation expense by $5,000, decrease Utility Plant in Service by $179,000, decrease Accumulated Depreciation by $13,000 and decrease deferred taxes (credit) by $20,000.[21]

Issue S-23: Miscellaneous Rate Base. The Company accepted Staff's adjustment, resulting in a $196,000 reduction to Utility Plant in Service.[22]

Issue S-24: Rate Design. The parties agreed with the Company's concept proposal to simplify and condense the industrial schedules.[23]

Discussion of the Partial Revenue Requirement Stipulation. The Commission encourages parties to resolve issues and narrow the scope of the proceedings to the extent that such actions further the public interest. In this instance, there has been participation and

[17] *Id.*
[18] Partial Stipulation, Exhibit 100, p. 5, Exhibit 110.
[19] Partial Stipulation, Exhibit 100, p. 6, Exhibit 110.
[20] *Id.*
[21] *Id.*
[22] *Id.*
[23] *Id.*

agreement by parties representing a broad range of interests and no persons have interposed any objections to the Partial Stipulation. Stipulations reduce the burdens of the parties and the Commission and facilitate the prompt completion of matters brought before the Commission for its consideration. We find the changes adopted by the Partial Revenue Requirement Stipulation to be in furtherance of our policies and objectives and approve the Partial Revenue Requirement Stipulation without modification.

III. THE MEDICAL BENEFITS STIPULATION

The Medical Benefits Stipulation, attached as Appendix B, was executed by the Company, Staff and NWIGU and relates to Staff issue S-12. In the Medical Benefits Stipulation, these parties agreed that the Company would reduce its O&M expense by $441,000 and Utility Plant in Service by $267,000. At paragraph 7 of the Medical Benefits Stipulation, the parties noted that "[b]ecause the rate of return and certain other issues have not been determined in this Docket, the amount by which this Stipulation will reduce the Company's revenue requirement may change pending the resolution of such issues."

Unlike the Partial Revenue Requirement Stipulation, CUB did not sign the Medical Benefits Stipulation. Nevertheless, as part of the overall settlement of this docket, discussed *infra*, CUB has withdrawn its objections to the Medical Benefits Stipulation that it voiced to the Commission in testimony filed April 24, 2003.[24] CUB originally opposed the Medical Benefits Stipulation on several grounds and we discuss them here because, while we disagreed with its formerly proposed remedy, now withdrawn, many of its concerns are, in our view, well-founded. CUB asserted that the Company's health insurance costs per employee are significantly greater than those of the typical American employer and are more than for most other utilities.[25] CUB found particular fault with the Medical Benefits Stipulation because it failed to offer the Company any incentive to control these costs or bring them into line with the competitive business world. While the Medical Benefits Stipulation assumed that the Company's negotiations with its bargaining unit are "arm's length" and will result in prudent costs (which customers will be required to pick up), there remains in place a "policy" that requires customers to pay for 100% of the costs regardless of how high or out of line with other companies' practices.

CUB faulted the Medical Benefits Stipulation for failing to get at the underlying problem:

> "The health insurance stipulation between the Company and the Staff fails to bring health insurance costs under control and does not represent a 'fair and reasonable' compromise of that issue. The Company's health

[24] UG152/CUB/300 and Exhibits 301-320. CUB has signed the Third Stipulation as part of the overall settlement; it includes the medical benefits adjustment in paragraph 10 which is identical to the language contained in the Medical Benefits Stipulation. *See* UG 152/NWN/2900, Johnson-Miller-Jenks-Schoenbeck/3.

[25] CUB cites a study performed for NWN by Hewitt Associates indicating that NWN pays 82% of employee health care costs compared to an industry average of 75%. NWN employees pay less out-of-pocket as well as making smaller contributions than their industry counterparts. UG 152/CUB/300, Jenks/6.

insurance costs are out of control, and are out of line when compared to other business. It is vital that this case provide an incentive to the Company to control these costs."[26]

In CUB's view, the Commission should determine whether there should be a cap on the amounts included in rates and whether Company employees should be required to make a greater contribution to their health insurance costs.[27]

In light of the Hewitt Associates study indicating that NWN was picking up 82% of the health insurance costs, CUB had recommended that the cost of health insurance picked up by customers should be capped at 82%. CUB asserted that this sharing percentage would reduce O&M costs by $1,309,572 and reduce rate base by $818,060.[28]

Discussion of the Medical Benefits Stipulation. Burgeoning health care costs have become a major issue for individuals and institutions alike. Adequate health care coverage is considered by many people to be one of the most important benefits of any job, sometimes eclipsing the importance of the wage or salary of the job itself. Efforts at containing such costs, either by imposing limitations on benefits or changing the balance of contributions, invariably cause conflicts among those providing healthcare services, those who receive them and those who pay the bills.

When health care benefits are being provided by a regulated utility to its employees, the prudently incurred costs for the provision of those benefits are usually considered to be "above the line," (i.e., part of the utility's revenue requirement). Such expenses are therefore subject to recovery through rates for the provision of service to the utility's customers. In essence, the utility's customers pay for the medical coverage provided to the utility's employees.

CUB has raised a legitimate concern: if, in the future, customers continue to carry the increasing burden of health costs, the Company does not have a strong incentive to contain those costs. Neither the Company's management nor its shareholders will be at risk for failing to exert their best efforts at healthcare cost containment. This lack of incentive may have already been manifest. According to the survey conducted for NWN by Hewitt and Associates, the Company picks up a significantly larger percentage of medical plan costs (82%) than the industry average (75%).[29] Thus, the Company is atypically generous with respect to the contribution it makes to meeting its employees' health care costs.

There is now an overall agreement among the parties that the costs and investments incurred by the Company during the test year with respect to medical benefits were legitimate. On that basis, and that basis only, we accept the Medical Benefits Stipulation language now contained in the Third Partial Stipulation and it is adopted as part of the overall

[26] UG 152/CUB/300, Jenks/1-2.
[27] UG 152/CUB/300, Jenks/3-4.
[28] UG 152/CUB/300, Jenks/6-7.
[29] UG 152/CUB/304, Jenks/3.

resolution of this case. In so doing, we do not in any way affirm or condone an open-ended policy of allowing the costs for providing medical benefits to inflate the Company's revenue requirement. Quite to the contrary, should the Company seek additional rate increases in the future based in whole or in part and the rising costs of providing medical benefits to its employees, it shall bear the burden to show that such costs were incurred only after extensive efforts at cost containment and burden sharing with employees were undertaken.

IV. THE FINAL SETTLEMENT STIPULATIONS

A hearing was held on August 5, 2003. Two Stipulations—the WARM Stipulation and the Third Partial Stipulation—and their supporting testimony were submitted at the hearing and each is discussed in turn below.

The WARM[30] Stipulation. This stipulation, attached as Appendix C, relates to Staff issue S-25. The parties to the stipulation—the Company, Staff, CUB, NWIGU and the Northwest Energy Coalition (NWEC)—agreed to the terms set forth in the Company's filed case, but subject to certain conditions and implementation details.

The WARM is a weather-normalization concept proposed by the Company in its initially filed case. The Company noted that fixed costs are recovered through volumetric (per therm) charges, which means that, while those costs remain fairly constant, the revenues to recover those costs vary widely; colder than normal winters boost Company revenues at the expense of customers grappling with higher bills, while milder winters reduce Company earnings. This exposes both customers and the Company to weather-related risks for fixed costs recovery; risks over which there is no control. The WARM mechanism seeks to modify the rate structure to recognize the need to separately identify and collect the revenues to cover the fixed costs from the revenues which cover the truly usage-related costs, and to do so in a way that immediately benefits both customers and the Company.[31] The parties to the WARM Stipulation agreed with the Company's proposal under the condition that there be provisions which allow a customer to opt-out of the program and that there is both a reporting requirement and a five-year sunset provision. With those additions, all parties believe that the WARM is beneficial to both ratepayers and the Company.

Discussion of the WARM Stipulation. We believe that the Company's WARM plan, with the agreed-upon conditions contained in the WARM Stipulation, reduces the weather-related financial risks for both customers and Company alike. We therefore approve the WARM Stipulation as being in the public interest.

The Third Partial Stipulation. The Third Partial Stipulation, attached as Appendix D, included settlement language of Staff issue S-12 Medical Benefits, (which we approve, as discussed above), to reflect CUB's acceptance of the settlement of the issue as part of the overall settlement of the case.

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[30] This is an acronym for "Weather Adjusted Rate Mechanism."

[31] UG 152/NWN/1607, Miller/2-10.

The revenue requirement issues, which constitute the balance of the Third Partial Stipulation, relate to Staff issues S-0, S-1, S-19 and S-24 and the overall settlement of the case. Specifically, these issues include rate of return, the sales revenue forecast, stock issuance costs, rate spread, rate design and ratemaking for the Coos County Distribution System (CCDS), whose construction we had authorized in Order No. 03-236, as noted above.

The parties filed several rounds of testimony on these issues, supporting a range of outcomes that were considered. Ultimately, they gave the following reasons for reaching the overall settlement:

> "The parties reached the agreements contained in the Third Stipulation based on their individual and collective evaluation of the positions expressed in testimony, the risk of decisions by the Commission adverse to their positions, and the advantages of a global settlement of the case.... [T]he overall terms of the Third Stipulation, when considered with the Previous Stipulations and the WARM Stipulation are acceptable. The parties also believe the stipulations taken together balance the interests of the utility investor and the consumer as required under the public utility statutes."[32]

Staff Issue S-0: Cost of Capital. Company and Staff both filed substantial testimony on this issue, with the Company seeking to raise the rate of return on equity by seventy-five basis points from the presently authorized 10.25 percent to 11.00 percent and the Staff arguing that it should be reduced seventy-five basis points to 9.50 percent. The parties agreed on a reduction of five basis points, providing a ROE of 10.20 percent. The parties also agreed upon a long-term debt cost of 7.066 percent and a preferred stock interest rate of 7.16 percent. The capital structure agreed upon had a ratio of 49.5 percent common equity, 49.82 percent long-term debt and 0.68 percent preferred stock.

Staff Issue S-1: Sales Revenues Forecast. The adjustment contained in this settlement increases the Company's forecast of residential, commercial and industrial sales revenues, with a corresponding increase in cost of gas.

Staff Issue S-19: Stock Issuance Costs. The parties agreed that the settled cost of common equity includes the Company's stock issuance expense.

Staff Issue S-24, Part 1: Rate Spread. The issue of rate spread arose in two distinct areas: First, how the proposed general rate increase would be spread across the customer base, and: Second, how the cost burden of the CCDS would be allocated among customer groups.[33] The Stipulation proposes the adoption of the Company's position with respect to the general rate increase and the Staff's proposal with respect to the CCDS.

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[32] *Id.*, p. 4.

[33] "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." CCDS Order, p. 5.

For the general rate spread, the Company proposed an equal percent of margin increase to Schedules 1, 2 and 3, where margin was defined as revenue less commodity and demand charges. The proposed adjustments were only applied to schedules with rates below the levels consistent with Long Run Incremental Cost (LRIC) estimates. The Company did not seek to further step up the pace toward LRIC levels, allowing that the phase in of increases could occur in future annual filings.[34]

With respect to the CCDS, the parties to the Stipulation adopted the Staff's rate spread proposal. In its testimony,[35] Staff took the position that the revenue requirement should be spread on an equal percentage of margin across all rate classes, including the industrial customers for whose benefit the 1999 Legislative Assembly determined the natural gas pipeline was necessary.

Discussion. We adopt the Stipulation's Rate Spread provisions. The Company's general rate spread proposals move rates in consumers' schedules closer to LRIC without undue rate shock. The Staff's CCDS proposal meets our requirements for just, reasonable and nondiscriminatory rates to recover the costs of the CCDS investment.

Staff Issue S-24, Part 2: Rate Design. Throughout this case, the parties continually sought to find common ground and this effort was often reflected in revisions to positions that were reflected in the rebuttal and surrebuttal testimony submissions. Thus, in its Rebuttal Testimony,[36] the Company proposed to replace Schedules 4, 5, 6, 10, 21, 23, 55, 90 and 91 with new Schedules 31, 32 and 33. The plan to implement the changeover from the previous schedules was described in the testimony of Tamy S. Linver.[37] According to the Company's direct testimony, the new rate structure will make it easier for customers to understand and choose the best schedule for their needs and to receive rational price signals to encourage efficient usage. As proposed by the Company, the changes would be revenue-neutral and not adversely affect any customer group.[38] However, as part of the overall settlement, the parties agreed that the introduction of New Rate Schedule 32 would yield total marginal revenues of $4 million less than the revenues generated on existing rate schedules and that this shortfall or margin shift would be applied to Rate Schedules 1, 2 and 3 on an equal percentage of margin basis. The Company agreed not to seek to recover from any customer class now or in the future, the $275,028 marginal revenue loss from the elimination of Rate Schedule 55.[39]

Although the rate redesign moves toward a simpler rate structure, the practical impact on the customers in transition is significant. The implementation plan requires internal revisions to Customer Information Systems, new and revised business rules and employee training and external requirements for customer communications, new equipment needs,

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[34] UG152/NWN/1400, Ferguson-Linver-Henderson/1-3.
[35] UG152/Staff/100, Tatom/1-4.
[36] UG152/NWN/2301, Ferguson/1-9.
[37] UG152/NWN/2302, Linver.
[38] UG152/NWN/1402, Ferguson/1-2.
[39] Third Partial Stipulation, p. 4.

assistance with rate analysis and rate schedule transitions. For example, certain customers will require automated meter reading devices with active and continuous telephone service to the meter and it will be necessary for those customers to schedule their installation.[40]

Discussion. We find that the goals of the Company's proposed rate redesign serve the public interest. We adopt the new rate schedules and the rate transition implementation plan offered in the Company's Rebuttal Testimony and agreed upon by the parties. In adopting this significant redesign of the Company's rates, we also note that the conclusion of this proceeding ahead of schedule calls for a modification of the effective date of the schedules and activities related to their implementation. Accordingly, in making the new rates under this order effective on September 1, 2003, the implementation plan transferring industrial customers to the new rate schedules also becomes effective on September 1, 2003.

Miscellaneous Adjustments and Issues. As part of the overall settlement of the case, there were miscellaneous adjustments to the revenue requirement and decision on operational activities. Among the adjustments was the removal of both South Mist Pipeline Extension (SMPE) and CCDS investments in the test year to adjust for the delay in the in-service dates. The parties agreed not to oppose the Company in the event it applied for deferred accounting treatment to recover the revenue requirement associated with the SMPE and CCDS investments and that they would be placed in permanent rates when those facilities are used and useful, or at the next available filing.

NWIGU's issue with respect to geohazard risk mitigation was also settled in the Third Partial Stipulation, where it was agreed that the Company's geohazard cost tracking mechanism would continue in effect on its current terms through its expiration at the end of 2006, subject to the Commission's continuing jurisdiction. Consistent with that, the parties agreed to reserve the rights to raise issues in the future concerning the Company's cost tracking mechanism.

Discussion. We find the resolution of these miscellaneous items to be consistent with the public interest and adopt them as an integral part of our acceptance of the Third Partial Stipulation.

V. CONCLUSION

The stipulations submitted by NWN, CUB, NWIGU, NWEC and Staff produce a just and reasonable result and should be adopted in their entirety. In so doing, we note that the effect of our decision is to cause a rate increase of $6.2 million to go into effect September 1, 2003. After the SMPE and CCDS adjustments go into effect, the overall increase will rise to $13.9 million. An Issues Summary setting forth the adjustments to the Company's Filed Results on the Test Year Revenue Requirement is attached as Appendix E.

[40] *Id.*, pp. 2-3.

ORDER

IT IS ORDERED that:

1. The stipulations submitted by Northwest Natural Gas Company, Citizens' Utility Board, Northwest Industrial Gas Users, Northwest Energy Coalition and Commission Staff, attached as Appendices A, B, C and D are adopted in their entirety.

2. Advice No. 02-19, filed by Northwest Natural Gas Company on November 29, 2002, is permanently suspended.

3. Northwest Natural Gas Company shall file tariffs consistent with the findings and conclusions contained in this order by August 27, 2003, to be effective no later than September 1, 2003.

Made, entered, and effective AUG 22 2003.

Roy Hemmingway
Chairman

Lee Beyer
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.

ORDER NO. 03-507

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 152

In the Matter of the Application of Northwest Natural Gas Company for a General Rate Revision	**PARTIAL STIPULATION REGARDING REVENUE REQUIREMENT**

This Stipulation is entered into for the purpose of resolving specified adjustments to Northwest Natural Gas Company's ("NW Natural" or the "Company") requested revenue requirement in this Docket. This Stipulation represents a partial settlement of revenue requirement issues because it does not incorporate proposed adjustments with respect to the Company's sales revenues forecast or most cost of capital issues, including adjustments relating to costs of debt and common equity, capital structure, and stock issuance costs. Also, this Stipulation does not pertain to most rate spread or rate design issues, to NW Natural's WARM proposal, to the use of trackers with respect to pipeline safety cost recovery or geohazard expenses, or to the Company's medical benefits costs.

PARTIES

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board, and the Northwest Industrial Gas Users (each, a "Party"; collectively, the "Parties").

BACKGROUND

2. On November 29, 2002, NW Natural filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $38.1 million, or 6.6 percent, in its annual revenues. The Company based its filing on the 12-month test period ending September 30, 2004. The filing was suspended by the Commission at its December 17, 2002 public meeting.

3. On March 19, 2003, Staff served on all of the Parties its report of issues and proposed adjustments to NW Natural's revenue requirement filing. Staff's report was provided for settlement purposes only.

4. Pursuant to Administrative Law Judge Allan Arlow's Prehearing Conference Memorandum of January 14, 2003 and the Company's Notice of Settlement Conference filed on March 31, 2003, settlement conferences on revenue requirement issues were held on March 26 though March 28, 2003 and on April 3, 2003. The settlement conferences were open to all parties in this Docket.

5. As a result of the settlement conferences, the Parties have agreed to a reduction in NW Natural's requested revenue requirement with respect to specified adjustments.

Additionally, the Parties have agreed that they will not support further adjustments to the Company's proposed revenue requirement increase with respect to issues settled by the specified adjustments. The Parties submit this Stipulation to the Commission and request that the Commission approve the settlement as presented.

AGREEMENT

6. The Parties agree that NW Natural will reduce its revenue requirement request to reflect the adjustments listed on Attachment A to this Stipulation. Moreover, the Parties agree that these adjustments to revenue, expense, and rate base items should be incorporated into the Commission's determination of the Company's revenue requirement in this Docket. In summary, the adjustments listed on Attachment A amount to an approximately $12.2 million reduction in NW Natural's revenue requirement request from the amount supported by the Company's filing. This Stipulation does not represent a settlement of all revenue requirement issues in this case. Specifically, unless and only to the extent otherwise noted, this Stipulation does not pertain to the following unsettled items:

a. Particular issues relating to the Company's cost of capital, including adjustments for costs of debt and common equity, capital structure, and stock issuance costs; however, the Parties agree that no change in cost of preferred stock should be made to the filed case.

b. Issues regarding the Company's sales revenues forecast.

c. Rate spread or rate design issues, except that the Parties agree to support NW Natural's basic proposed rate redesign, which simplifies and condenses industrial schedules.

d. NW Natural's WARM proposal.

e. The use of trackers with respect to pipeline safety cost recovery or geohazard expenses.

f. Issues regarding the Company's medical benefits costs; the proposed adjustment to medical benefits is further explained in paragraph 8 below.

Because of the relationship between the rate of return and certain adjusted items on Attachment A, the amount by which this Stipulation will reduce the Company's revenue requirement may change pending the resolution of the unsettled items. While reserving all rights to litigate or reach further agreement on the unsettled issues in this case, the Parties recommend that the Commission approve a revenue requirement incorporating the stipulated adjustments listed on Attachment A attached hereto.

7. This Stipulation does not address NW Natural's investment in a Coos County Distribution System; the rate treatment of that investment is the subject of a separate stipulation submitted to the Commission for approval on April 9, 2003.

8. This Stipulation also does not address the adjustment to revenue requirement for medical benefits (S-12). That adjustment is the subject of a separate stipulation, the Second Partial Stipulation Regarding Revenue Requirement (Medical Benefits), between Staff, NW Natural, and NWIGU.

9. The Parties agree to support the stipulated adjustments to the Company's proposed revenue requirement listed on Attachment A attached hereto. Furthermore, the Parties agree that they will not support further adjustments to NW Natural's proposed revenue requirement increase other than to those items identified in paragraph 6 as unsettled.

10. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just, and reasonable outcome.

11. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

12. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation at the hearing, and recommend that the Commission issue an order adopting the settlements contained herein.

13. If this Stipulation is challenged by any other party to this proceeding, the Parties to this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights. the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

14. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

15. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: April 28, 2003.

NORTHWEST NATURAL
GAS COMPANY

By: C.A. MM

Date: 4/28/03

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: ____________________

Date: ____________________

NORTHWEST INDUSTRIAL
GAS USERS

By: ____________________

Date: ____________________

CITIZENS' UTILITY BOARD

By: ____________________

Date: ____________________

ORDER NO. 03-507

DATED: April 28, 2003.

NORTHWEST NATURAL
GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: Michael T. [illegible]

Date: 4/25/03

NORTHWEST INDUSTRIAL
GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: April 28, 2003.

NORTHWEST NATURAL
GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL
GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: Lowrey Eisdorfer

Date: April 25, 2003

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: April 28, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ____________________

Date: ____________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ____________________

Date: ____________________

NORTHWEST INDUSTRIAL GAS USERS

By: Edward A Finklea

Date: 4-25-03

CITIZENS' UTILITY BOARD

By: ____________________

Date: ____________________

APPENDIX A
PAGE 7 OF 9

Settled Rate Case Issues

S-2 **Miscellaneous Revenues** – Adjust to *increase* revenues by $612,000.

S-3 **Uncollectible Expenses** – Adjust to *decrease* uncollectible expenses by $243,000.

S-4 **Call Center Staffing** – Adjust to *decrease* O&M expense by $57,000.

S-5 **Energy Efficiency Staffing** – Adjust to *decrease* O&M expense by $310,000.

S-6 **Energy Assistance Staffing (OLGA)** – Adjust to *decrease* O&M expense by $58,000.

S-7 **Consumer Relations and Events** – Adjust to *decrease* O&M expense by $74,000.

S-8 **Safety Programs** – Adjust to *decrease* O&M expense by $335,000.

S-9 **Corporate Governance** – Adjust to *decrease* O&M expense by $147,000.

S-10 **Wage and Salary** – Adjust to *decrease* O&M expense by $1,265,000, *decrease* Utility Plant in Service by $477.000. and *decrease* Other Taxes by $161,000.

S-11 **Bonuses and Incentive Pay** – Adjust to *decrease* O&M expense by $1,725,000 and *decrease* Utility Plant in Service by $821,000.

S-13 **Pension** – Agreement that no change in expense should be made to filed case. Deferred accounting will be implemented to provide customer credits in the event that actual pension expenses are less than those included in the filed case. Agreement that the Parties will consider implementation of deferred accounting if pension costs increase above the stipulated amount in future years.

S-14 **ESRIP** – Adjust to *decrease* O&M expense by $787,000.

S-15 **Advertising** – Adjust to *decrease* O&M expense by $576,000.

S-16 **Marketing and Customer Relations** – Adjust to *decrease* O&M expense by $844,000.

S-17 **Non-Labor A&G** – Adjust to *decrease* O&M expense by $1,226,000. Agreement that marketing costs with respect to the Gas Technology Institute ("GTI") will relate to supporting GTI's Research and Deployment division, rather than GTI generally. Agreement that reports provided to NW Natural by GTI will be made available to the Parties upon request, including to customer members of NWIGU.

S-18 **Capitalization Policy** – Adjust to *decrease* O&M expense by $3,163,000, *increase* depreciation expense by $115,000, *increase* Utility Plant in Service by $3,202,000, *increase* Accumulated Depreciation by $57,000, and *increase* deferred taxes (credit) by $376,000.

S-20 **Income and Excise Taxes** – Agreement that final Income and Excise Taxes will be corrected for all changes to filed case such that taxes are consistent with revenues, expenses, rate base, and cost of capital as finally determined.

S-21 **South Mist Pipeline Extension** – Agreement that no change in expense should be made to filed case. Agreement that elements of the procedure applied to Mist III would be followed for purposes of the Mist project included in the case. The procedure provided for the use of an estimated final cost for purposes of initial rate making, with true-ups allowed for final cost variances using deferred accounting and revised rate determination.

S-22 **Bare Steel** – Adjust to *decrease* depreciation expense by $5,000, *decrease* Utility Plant in Service by $179,000, *decrease* Accumulated Depreciation by $13,000, and de*crease* deferred taxes (credit) by $20,000.

S-23 **Miscellaneous Rate Base** – Adjust to *decrease* Utility Plant in Service by $196,000.

S-24 **Rate Redesign** – Agreement with the redesign concept proposed by NW Natural to simplify and condense industrial schedules.

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 152

In the Matter of the Application of Northwest Natural Gas Company for a General Rate Revision	**SECOND PARTIAL STIPULATION REGARDING REVENUE REQUIREMENT (MEDICAL BENEFITS)**

This Stipulation is entered into for the purpose of resolving the adjustment to Northwest Natural Gas Company's ("NW Natural" or the "Company") requested revenue requirement for medical benefits expenses. This Stipulation represents a partial settlement of revenue requirement issues because it addresses only the issue of medical benefits expense.

PARTIES

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon ("Staff"), and the Northwest Industrial Gas Users ("NWIGU") (each, a "Party"; collectively, the "Parties").

BACKGROUND

2. On November 29, 2002, NW Natural filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $38.1 million, or 6.6 in its annual revenues. The Company based its filing on the 12-month test period ending September 30. 2004. The filing was suspended by the Commission at its December 17, 2002 public meeting.

3. On March 19, 2003, Staff served on all of the Parties its report of issues and proposed adjustments to NW Natural's revenue requirement filing. Staff's report was provided for settlement purposes only.

4. Pursuant to Administrative Law Judge Allan Arlow's Prehearing Conference Memorandum of January 14, 2003 and the Company's Notice of Settlement Conference filed on March 31, 2003, settlement conferences on revenue requirement issues were held on March 26 though March 28, 2003 and on April 3. 2003. The settlement conferences were open to all parties in this Docket.

5. As a result of the settlement conferences, the Parties have agreed to a reduction in NW Natural's requested revenue requirement with respect to the adjustment to medical benefits costs. Additionally, the Parties have agreed that they will not support further adjustments to the Company's proposed revenue requirement increase with respect to the medical benefits issue. The Parties submit this Stipulation to the Commission and request that the Commission approve the settlement as presented.

AGREEMENT

6. The Parties agree that NW Natural will reduce its revenue requirement request to reflect the following adjustment to medical benefits, designated by Staff as issue S-12:

S-12 **Medical Benefits** – Adjust to *decrease* O&M expense by $441,000 and *decrease* Utility Plant in Service by $267,000.

7. The Parties agree that this adjustment should be incorporated into the Commission's determination of the Company's revenue requirement in this Docket. Because the rate of return and certain other issues have not been determined in this Docket, the amount by which this Stipulation will reduce the Company's revenue requirement may change pending the resolution of such issues. While reserving all rights to litigate or reach further agreement on the unsettled issues in this case, the Parties recommend that the Commission approve a revenue requirement incorporating the stipulated adjustment listed in paragraph 6 above.

8. This Stipulation does not address adjustments to revenue requirement besides the adjustment to medical benefits. However, other adjustments are the subject of a separate stipulation, the Partial Stipulation Regarding Revenue Requirement, between Staff, NW Natural, the Citizens' Utility Board, and NWIGU.

9. The Parties agree to support the stipulated adjustment to the Company's proposed revenue requirement listed in paragraph 6 above. Furthermore, the Parties agree that they will not support further adjustments to NW Natural's proposed revenue requirement increase for medical benefits.

10. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just, and reasonable outcome.

11. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

12. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation at the hearing, and recommend that the Commission issue an order adopting the settlement contained herein.

13. If this Stipulation is challenged by any other party to this proceeding, the Parties to this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlement embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

14. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

15. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: April 28, 2003.

NORTHWEST NATURAL
GAS COMPANY

By: [signature]

Date: 4/28/03

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL
GAS USERS

By: ______________________

Date: ______________________

14. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

15. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: April __, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ________________

Date: ________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ________________

Date: ________________

NORTHWEST INDUSTRIAL GAS USERS

By: Edward A Finklea

Date: 4-28-03

14. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

15. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

16. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: April 28th, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: Michael T. [signature]

Date: 4/28/03

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

EXHIBIT UG 152/NWN 2901

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 152

In the Matter of the Application of Northwest Natural Gas Company for a General Rate Revision	**PARTIAL STIPULATION REGARDING THE WEATHER-ADJUSTED RATE MECHANISM (WARM)**

This Stipulation is entered into for the purpose of resolving certain issues in this Docket, an application for a general rate revision filed by Northwest Natural Gas Company ("NW Natural" or the "Company"). This Stipulation represents a partial settlement because it concerns only the issue of the Company's proposal for a weather-adjusted rate mechanism ("WARM").

PARTIES

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board ("CUB"), the Northwest Industrial Gas Users ("NWIGU"), and the Northwest Energy Coalition (each, a "Party"; collectively, the "Parties").

BACKGROUND

2. On November 29, 2002, NW Natural filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $38.1 million, or 6.6 percent, in its annual revenues. The Company based its filing on the 12-month test period ending September 30, 2004. The filing was suspended by the Commission at its December 17, 2002 public meeting.

3. Settlement conferences in this Docket were held on March 26 though March 28, 2003 and on April 3, 2003. As a result of the settlement conferences, parties to this Docket entered into three separate stipulations: (a) NW Natural, Staff, CUB, NWIGU, and Coos County entered into a Second Stipulation Relating to the Coos County Distribution System, which was filed with the Commission on April 9, 2003; (b) NW Natural, Staff, CUB, and NWIGU entered into a Partial Stipulation Regarding Revenue Requirement, which was filed with the Commission on April 28, 2003; and (c) NW Natural, Staff, and NWIGU entered into a Second Partial Stipulation Regarding Revenue Requirement (Medical Benefits), which was also filed with the Commission on April 28, 2003.

4. Pursuant to the Company's Notice of Settlement Conference filed on June 13, 2003, an additional settlement conference was held on June 26, 2003. As a result of this

conference, the Parties have agreed to a resolution of the issue of NW Natural's WARM proposal.

5. The Parties submit this Stipulation to the Commission and request that the Commission approve the settlement as presented.

AGREEMENT

6. **WARM (S-25)**. The Parties agree that NW Natural will implement WARM according to the terms set forth in the Company's filed case, but subject to the following conditions and in accordance with the following implementation details:

(a) Customer Opt-Out. The Company will permit customers to elect not to participate in WARM — that is, to "opt out" of the program, as follows.

(i) *Opt-Out Notice*. The Company will communicate the opt-out option to customers annually through a bill insert (the "Opt-Out Notice"). The Opt-Out Notice will appear in customers' bills during each July billing cycle; provided, however, that during the first year (2003-04) of the WARM program, the Opt-Out Notice will appear during the September billing cycle, or as soon thereafter as the Commission decision in this Docket, and Staff approval of the Opt-Out Notice, will allow. During each August and September billing cycle (or during the two billing cycles following the initial September or later notice in 2003-04), the Company may communicate the opt-out option to customers through a bill message rather than a bill insert. The Company will submit the form of Opt-Out Notice to Staff for review and approval before providing it initially to customers in 2003-04. At its election, the Company may submit the form of Opt-Out Notice to Staff before this Stipulation is approved by the Commission. Staff will approve, disapprove, or approve with modifications, the form of Opt-Out Notice within 10 business days of receipt and will not unreasonably withhold its approval. In the event the Opt-Out Notice is disapproved or approved with modifications, the Company will resubmit its revised Opt-Out Notice to Staff within 10 business days.

(ii) *Opt-Out/Op-In Timing*. Customers who elect to opt out (or to opt back in) will be permitted to do so at any time, but customers who opt out or in after September 15 will not be removed from or reenrolled in the program until September 15 of the following year; provided, however, that the opt-out deadline for 2003-04 will be December 31. Customers electing to opt out will not be reenrolled in the program unless they request to change their opt-out status. Customers' status in the WARM program will be linked to their account numbers; that is, customers retain their enrolled or nonenrolled status regardless of a change of address.

(iii) *Customer Information.* Each customer bill will indicate whether or not the customer is enrolled in the WARM program. Any customer may request that the Company calculate what their billed amounts would have been without a WARM adjustment (for enrolled customers) or with a WARM adjustment (for nonenrolled customers). The Company will calculate such amounts with the greatest feasible accuracy.

(iv) *New Customers*. New customers will have the same opt-out rights and deadlines as all other customers, except that customers who initiate service following August 15 of any year may elect to opt-out at any time from the initiation of service until 30 days after the Company mails the new customer packet to the customer, or by September 15 of that year, whichever is later. New customers will be enrolled in the WARM program until they opt out, and any opt-out election by a new customer will be prospective rather than retroactive. For purposes of this provision, "new customer" means a customer who has not had an active gas service account with the Company within the preceding one-year period. All new customer packets will contain information about WARM and how to opt out of the WARM program.

(b) Reports and Duration. WARM will continue for a five-year term on substantially the terms set forth in the Company's initial filing and as provided in this paragraph 6. The Company may make minor adjustments, refinements, or improvements to WARM, but the Company may not make any material adjustments, refinements, or improvements until after approval by the Commission. At least 30 days prior to implementing any minor adjustments, refinements, or improvements to WARM, the Company will submit to Staff a detailed report describing each proposed change. Staff will review the report and determine whether it agrees that each proposed change is minor. In the event of disagreement over the materiality of a proposed change, the Company agrees to seek Commission approval prior to implementing the disputed changes. During the five-year term, the Parties will not propose or support elimination of the opt-out customer option. Two years following WARM implementation, by September 30, 2005, the Company will submit to the Commission a report on the functioning of WARM, including any proposed refinements to the program. The Company will consult with Staff and the other Parties concerning the contents of this report. Four years following WARM implementation, by September 28, 2007, the Company may submit to the Commission a second such report on the functioning of WARM, together with a request to continue the program.

7. This Stipulation does not address certain cost-of-capital issues, certain ratemaking issues, the Company's forecast of sales revenues, or rate spread and rate design. Those issues are the subject of a separate stipulation, the Third Partial Stipulation, which the Company expects to file shortly.

8. While reserving all rights to litigate or reach further agreement on the unsettled issues in this case, the Parties recommend that the Commission approve the stipulated resolution of issues listed in paragraph 6 above. The Parties agree to support the stipulated resolution of issues listed in paragraph 6 above and will not support any changes to the WARM proposal that are inconsistent with such resolution.

9. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just, and reasonable outcome.

10. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

11. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. Each Party agrees to (a) support this Stipulation throughout this proceeding and any appeal, (b) provide, at the hearing, either a witness to sponsor this Stipulation, or a representative authorized to respond to the Commission's questions on such Party's position, and (c) recommend that the Commission issue an order adopting the settlements contained herein.

12. If this Stipulation is challenged by any other party to this proceeding, the Parties to this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

13. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

14. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

15. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: [signature]

Date: 8/5/03

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: ______________________

Date: ______________________

APPENDIX a
PAGE 6 OF 10

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: Mike [signature]

Date: 8/1/03

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: ______________________

Date: ______________________

APPENDIX C
PAGE 7 OF 10

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By:

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: 8-1-03

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: ______________________

Date: ______________________

APPENDIX C
PAGE 8 OF 10

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: Robert Jenks
Robert Jenks

Date: Aug 4, 2003

NORTHWEST ENERGY COALITION

By: ______________________

Date: ______________________

APPENDIX C
PAGE 9 OF 10

ORDER NO. 03-507

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 4, 2003.

NORTHWEST NATURAL GAS COMPANY

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

NORTHWEST ENERGY COALITION

By: Steven D. Weiss

Date: 8/1/03

Post-it™ brand fax transmittal memo 7671	# of pages ▸ 1
To Jennie Bricker	From
Co.	Co.
Dept.	Phone #
Fax #	Fax #

APPENDIX C
PAGE 10 OF 10

EXHIBIT 2900
UG152/NWN 2900

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 152

In the Matter of the Application of Northwest Natural Gas Company for a General Rate Revision	**THIRD PARTIAL STIPULATION**

This Stipulation is entered into for the purpose of resolving all outstanding issues in this Docket, an application for a general rate revision filed by Northwest Natural Gas Company ("NW Natural" or the "Company"). This Stipulation concerns the following issues: (1) the Company's cost of capital, (2) the Company's stock issuance costs, (3) the Company's sales revenues forecast, (4) the Company's medical costs, (5) rate spread, (6) rate design, and (7) various ratemaking issues.

PARTIES

1. The parties to this Stipulation are NW Natural, the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (each, a "Party"; collectively, the "Parties").

BACKGROUND

2. On November 29, 2002, NW Natural filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $38.1 million, or 6.6 percent, in its annual revenues. The Company based its filing on the 12-month test period ending September 30, 2004. The filing was suspended by the Commission at its December 17, 2002 public meeting.

3. Settlement conferences in this Docket were held on March 26 though March 28, 2003 and on April 3, 2003. As a result of the settlement conferences, parties to this Docket entered into three separate stipulations: (a) NW Natural, Staff, CUB, NWIGU, and Coos County entered into a Second Stipulation Relating to the Coos County Distribution System, which was filed with the Commission on April 9, 2003; (b) NW Natural, Staff, CUB, and NWIGU entered into a Partial Stipulation Regarding Revenue Requirement, which was filed with the Commission on April 28, 2003; and (c) NW Natural, Staff, and NWIGU entered into a Second Partial Stipulation Regarding Revenue Requirement (Medical Benefits), which was also filed with the Commission on April 28, 2003.

4. An additional settlement conference was held on June 26, 2003. As a result of this conference, NW Natural, Staff, CUB, NWIGU, and the Northwest Energy Coalition

entered into a Partial Stipulation Regarding the Weather-Adjusted Rate Mechanism (WARM), which is being filed with the Commission along with this Stipulation.

5. Also as a result of the June 26, 2003 settlement conference and additional settlement conferences held on July 8 and July 25, 2003, the Parties have agreed to a resolution of issues and adjustments to NW Natural's requested revenue requirement with respect to cost of capital issues, stock issuance costs, sales revenues forecasts, medical costs, rate spread, rate design, and ratemaking issues associated with construction delays for the South Mist Pipeline Extension and the Coos County Distribution System.

6. The Parties submit this Stipulation to the Commission and request that the Commission approve the settlement as presented.

AGREEMENT

7. **Cost of Capital Issues (S-0).** The Parties agree on a long-term cost of debt of 7.066 percent, a return on common equity of 10.2 percent, and a ratio of 49.5 percent common equity, 0.68 percent preferred stock, and 49.82 percent long-term debt in the Company's capital structure. Specifically, the Parties agree to the following costs of capital and capital structure:

Capital Component	Cost	Ratio
Long-Term Debt	7.066%	49.82%
Preferred Stock	7.16%	0.68%
Common Equity	10.2%	49.50%

8. **Stock Issuance Costs (S-19).** The Parties agree that the Company's cost of common equity delineated in paragraph 7 above includes the Company's stock issuance expense.

9. **Sales Revenues Forecast (S-1).** The Parties accept the Company's forecast of sales revenues as filed, with the following adjustments: The Parties agree to *increase* sales of gas revenues by $4,590,000, *increase* industrial revenues by $153,778, and *increase* cost of gas by $2,767,000.

10. **Medical Benefits (S-12).** The Parties agree to *decrease* O&M expense by $441,000 and *decrease* utility plant in service by $267,000, as specified in the Partial Stipulation Regarding Revenue Requirement filed on April 28, 2003.

11. **Geohazard Tracker.** The Parties agree that the Company's geohazard cost tracking mechanism will continue in effect on its current terms, through its expiration on December 31, 2006, subject to the Commission's continuing jurisdiction. Consistent with the above, the Parties reserve all rights to raise issues in the future concerning the Company's cost tracking mechanism.

12. **Rate Spread (S-24).** The Parties accept the Company's proposed rate spread as filed for all revenue requirement except that associated with the system-allocated Coos County Distribution System (the "CCDS") costs, as set forth in *UG 152/NWN/1400-1401, Ferguson-Linver-Henderson*. The Parties accept Staff's proposed rate spread, based on an equal percent of margin, for the system-allocated CCDS revenue requirement. *See UG 152/Staff/100, Tatom.*

13. **Rate Design (S-24).** The Parties agree that the Company's rate redesign will be implemented, as set forth in *UG 152/NWN/2300-2301, Ferguson* and in *UG 152/NWN/2302-2303, Linver*, and that the Company's new tariff schedules will take effect as filed, but subject to the following modifications and conditions:

(a) The Parties agree to resolve all issues concerning the level of charges to be established for New Rate Schedule 32 as follows:

SCHEDULE 32 Firm Sales and Transportation	
Customer Charge per Month	$675.00
Energy Charge 1st 10,000 therms	$0.10000
Energy Charge Next 20,000 therms	$0.08500
Energy Charge Next 20,000 therms	$0.06000
Energy Charge Next 100,000 therms	$0.03500
Energy Charge Next 600,000 therms	$0.02000
Energy Charge all consumption over 750,000 therms	$0.01000
Capacity Charge for 32 FS, 32 IS, 32 FT	$0.15748 per peak daily therm per month
Storage for Sales on a cent/per therm basis	0
Storage Charge for 32 FS and 32 IS Sales on a mddv basis	$0.20415
SCHEDULE 32 Interruptible Transportation	
Customer Charge Monthly	$675.00
Energy Charge 1st 10,000 therms	$0.10000
Energy Charge Next 20,000 therms	$0.08500
Energy Charge Next 20,000 therms	$0.06000
Energy Charge Next 100,000 therms	$0.03500
Energy Charge Next 600,000 therms	$0.02000
Energy Charge all consumption over 750,000 therms	$0.01000

APPENDIX D
PAGE 3 OF 7

(b) The rates resulting from the introduction of New Rate Schedule 32, as set forth in paragraph 13(a) above, would yield total margin revenues of $4 million less than revenues generated on existing rate schedules. The Parties agree that this shortfall, or margin shift, will be applied to Rate Schedules 1, 2, and 3 on an equal percentage of margin basis. However, for the $275,028 margin loss to NW Natural resulting from the elimination of Rate Schedule 55 and other changes, NW Natural agrees not to seek recovery from any class of customer in this or any other proceeding. The rates for New Rate Schedules 31, 32, and 33 will go into effect on September 1, 2003 with the other rate changes that occur as a result of the settlement of this Docket.

(c) NWIGU agrees that in exchange for the resolution of the rates and blockings for New Rate Schedule 32, as set forth in paragraph 13(a) above, that NWIGU will not support any issues regarding shifting current distribution margins from Schedules 31, 32, or 33 to other schedules for further long-run incremental cost realignment in any Purchased Gas Adjustment proceedings filed by the Company prior to the filing made by the Company to be effective in the fall of 2006. The Parties agree that this limitation does not apply in the context of a new NW Natural general rate case proceeding initiated during this time frame.

(d) The Parties agree that New Rate Schedule 32 as set forth in paragraph 13(a) above will increase in accordance with an equal percent of margin allocation of the rate increase associated with the CCDS investment as it is reflected in NW Natural's permanent rates after September 1, 2003. No other allocations of revenue requirement or investments resolved in UG 152 shall be allocated to New Rate Schedule 32, including but not limited to the South Mist Pipeline Extension (the "SMPE"), but the Parties acknowledge that margin adjustments in the future arising from factors not addressed in UG 152 may affect the rates listed in New Rate Schedule 32 as set forth in paragraph 13(a) above.

(e) The Parties agree to supplement this Stipulation with tables, similar to the table in paragraph 13(a), showing new rates for Rate Schedules 1, 2, 3, 31, and 33. This supplement will be filed by August 8, 2003.

14. **Ratemaking Issues**. The Parties agree to the following adjustments and accounting associated with the Company's investments in the SMPE and the CCDS.

(a) To adjust for delays in the in-service dates of the SMPE, the Parties agree to *decrease* O&M expense by $24,000; to *decrease* property taxes by $689,000; to *decrease* depreciation expense by $861,000; to *decrease* utility plant in service by $46,566,000; to *decrease* accumulated depreciation by $431,000; and to *decrease* deferred taxes by $5,960,000.

(b) To adjust for delays in the in-service dates of the CCDS, the Parties agree to *decrease* revenues by $2,262,000; to *decrease* cost of gas by $1,249,000; to *decrease* O&M expense by $418,000; to *decrease* property taxes by $191,000; to *decrease* depreciation expense by $420,000; to *decrease* utility plant in service by $12,000,000; to *decrease* accumulated depreciation by $630,000; and to *decrease* deferred taxes by $1,490,000.

(c) The Company may apply for deferred accounting treatment to recover revenue requirement associated with the SMPE and CCDS investments as proposed in this Docket. The Parties agree not to oppose the Company's deferred accounting applications for such treatment. The Parties further agree that the revenue requirement associated with the SMPE and CCDS investments may be placed in permanent rates when the SMPE and CCDS facilities are used and useful or at the next available filing, with an amortization in rates of the remaining deferred balances at the time of the 2004 Purchased Gas Adjustment.

15. The Parties acknowledge and intend that this Stipulation, together with the stipulations referred to and described in paragraphs 3 and 4 above, represents a complete settlement of issues in this Docket. The Parties recommend that the Commission resolve all issues in this Docket, and approve a revenue requirement incorporating the stipulated adjustments, all as set forth in this Stipulation, in the stipulations referred to and described in paragraphs 3 and 4 above, and in the Company's case as filed. The Parties agree to support the stipulated resolution of issues set forth in this Stipulation, in the stipulations referred to and described in paragraphs 3 and 4 above, and in the Company's case as filed.

16. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just, and reasonable outcome.

17. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding.

18. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. Each Party agrees to (a) support this Stipulation throughout this proceeding and any appeal, (b) provide, at the hearing, either a witness to sponsor this Stipulation, or a representative authorized to respond to the Commission's questions on such Party's position, and (c) recommend that the Commission issue an order adopting the settlements contained herein.

19. If this Stipulation is challenged by any other party to this proceeding, the Parties to this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlements embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

20. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

21. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

22. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED: August 5, 2003.

NORTHWEST NATURAL GAS COMPANY

By: [signature]

Date: 8/5/03

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: [signature]

Date: 8/5/03

NORTHWEST INDUSTRIAL GAS USERS

By: Edward A Finklea

Date: August 5, 2003

CITIZENS' UTILITY BOARD

By: [signature]

Date: August 5, 2003

APPENDIX D
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ORDER NO. 03-507

NW NATURAL
UG 152
Issues Summary
Twelve Months Ended September 30, 2004
($000)

Item	Issue	Revenue Requirement Effect 2003/2004
	Revenue Requirement on the Company's Filed Results	$38,142
	Adjustments (Base Rates)	
S-0	Rate of Return	(9,342)
S-1	Sales Forecast Adjustment	(1,894)
S-2	Miscellaneous Revenues	(631)
S-3	Uncollectible Expense Adjustment	(251)
S-4	Call Center Staffing	(58)
S-5	Energy Efficiency Staffing	(319)
S-6	Energy Assistance Staffing	(59)
S-7	Consumer Relations & Events Adjustment	(76)
S-8	Safety Programs Adjustment	(344)
S-9	Corporate Governance Adjustment	(151)
S-10	Wage & Salary Adjustment	(1,527)
S-11	Bonuses and Incentive Pay	(1,877)
S-12	Medical Benefit Adjustment	(487)
S-13	Pension Adjustment	0
S-14	ESRIP Adjustment	(811)
S-15	Advertising Adjustment	(594)
S-16	Marketing & Customer Relations Adjustment	(868)
S-17	Non-Labor Administrative & General Expense	(1,262)
S-18	Capitalization Policy	(2,799)
S-19	Stock Issuance Expense	(951)
S-20	Federal Income & State Excise Tax	263
S-21	South Mist Pipeline Extension	0
S-22	Bare Steel Double-Counting Adjustment	(23)
S-23	Miscellaneous Rate Base Adjustment	(25)
STIP3-1	Remove Mist Pipeline Adjustment	(6,573)
STIP3-2	Remove CCDS Adjustment	(1,229)
*	Reflects rounding	(14)
	Total Adjustments (Base Rates)	(31,902)
	Total Revenue Requirements Change (Base Rates)	**$6,240**

NW Natural
Results of Operations - UG 152
Twelve Months Ended September 30, 2004
($000)

		Test Year Results (a)	Adjustments (b)	Adjusted Results (c)	Required Change for Reasonable Return (d)	Results at Reasonable Return (e)
1	**Operating Revenues**				1.1%	
2	Sale of Gas	$554,249	$2,482	$556,731	$6,240	$562,971
3	Revenue & Technical Adjustments	0	0	0		6,240
3	Transportation	20,672	0	20,672		20,672
4	Miscellaneous Revenues	2,906	612	3,518		3,518
5	**Total Operating Revenues**	$577,827	$3,094	$580,921	$6,240	$587,161
6	**Operating Revenue Deductions**					
7	Gas Purchases	$320,591	$1,518	$322,109		$322,109
8	Uncollectible Accrual	2,827	(220)	2,607	31	2,638
9	Other O&M Expenses	99,875	(11,999)	87,876		87,876
10	**Total O&M Expenses**	$423,293	($10,701)	$412,592	$31	$412,623
11	Federal Income Taxes	12,420	5,718	18,138	1,989	20,127
12	State Excise Taxes	2,643	1,156	3,799	378	4,177
13	Property Taxes	13,619	(880)	12,739		12,739
14	Other Taxes	18,068	(60)	18,008	149	18,157
15	Depreciation & Amortization	51,257	(1,193)	50,064		50,064
16	**Total Operating Rev. Deductions**	$521,300	($5,960)	$515,340	$2,547	$517,887
17	**Net Operating Revenues**	$56,527	$9,054	$65,581	$3,679	$69,274
18	**Average Rate Base**		0			
19	Utility Plant in Service	$1,466,708	($57,304)	$1,409,404	$0	$1,409,404
20	Accumulated Depreciation & Amortization	(560,563)	1,017	(559,546)		(559,546)
21	**Net Utility Plant**	$906,145	($56,287)	$849,858	$0	$849,858
22	Aid in Advance Construction	(2,015)	0	(2,015)		(2,015)
23	Materials & Supplies	45,336	0	45,336		45,336
24	Water Heater Program	0	0	0		0
25	Leasehold Improvements	678	0	678		678
26	Accumulated Deferred Income Taxes	(97,281)	7,094	(90,187)		(90,187)
27	**Total Average Rate Base**	$852,863	($49,193)	$803,670	$0	$803,670
28	**Rate of Return**	6.63%		8.16%		8.62%
29	**Implied Return on Equity**	6.18%		9.28%		10.20%

APPENDIX E
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ORDER NO. 03-507

NW Natural
Results of Operations - UG 152
Twelve months ended September 30, 2004
($000)

	Income Tax Calculations	Taxes Per Company Filing (1)	Adjustments (2)	Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
1	Book Revenues		$3,094	$3,094	$6,240	$9,334
2	Book Expenses Other than Depreciation		(11,641)	(11,641)	180	(11,461)
3	State Tax Depreciation		(1,193)	(1,193)		(1,193)
4	Interest		(1,732)	(1,732)	0	(1,732)
5	Book-Tax (Schedule M) Differences		0	0		0
6	State Taxable Income		$17,660	$17,660	$6,060	$23,720
7	**State Income Tax @ 6.6%**	$2,643	$1,156	$3,799	$378	$4,177
8	Net State Income Tax	**$2,643**	**$1,156**	**$3,799**	**$378**	**$4,177**
9	Additional Tax Depreciation	0	0	0	0	0
10	Other Schedule M Differences	0	0	0	0	0
11	Federal Taxable Income	($2,643)	$16,504 0	$13,861	$5,682	$19,543
12	**Current Federal Tax @ 35%**	**$12,420**	**$5,718**	**$18,138**	**$1,989**	**$20,127**
13	**Provision for Deferred Taxes**	**$0**	**$0**	**$0**	**$0**	**$0**
14	**Total Income Tax**	**$15,063**	**$6,874**	**$21,937**	**$2,367**	**$24,304**

APPENDIX E
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ORDER NO. 03-507

NW NATURAL
Results of Operations - UG 152
Twelve months ended 9/30/04

INPUT ASSUMPTIONS

COST OF CAPITAL - 12 months ending 9/30/04	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	49.82%	7.066%	3.520%
Preferred Stock	0.68%	7.160%	0.049%
Common Equity	49.50%	10.200%	5.049%
Total	100.00%		8.618%

REVENUE SENSITIVE COSTS	
Revenues	1.00000
Operating Revenue Deductions	
Uncollectible Accounts	0.00490
Taxes Other - Franchise	0.02140
- OPUC fee	0.00250
State Taxable Income	0.97120
State Income Tax @ 6.60%	**0.06410**
Federal Taxable Income	0.90710
Federal Income Tax @ 35%	0.31749
ITC	0.00000
Current FIT	**0.31749**
Total Excise Taxes	**0.38158**
Total Revenue Sensitive Costs	**0.41038**
Utility Operating Income	0.58962
Net-to-Gross Factor	**1.69602**

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ORDER NO. 05-507

NW NATURAL
Adjustments to Results of Operations - UG 152
Twelve Months ended September 30, 2004
($000)

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		Sales Forecast Adjustment (S-1)	Miscellaneous Revenues Adjustment (S-2)	Uncollectible Adjustment (S-3)	Call Center Staffing Adjustment (S-4)	Energy Efficiency Adjustment (S-5)	Energy Assistance Staffing Adjustment (S-6)	Consumer Relations & Events Adjustment (S-7)
1	**Operating Revenues**							
2	Sale of Gas	$4,744	$0	$0	$0	$0	$0	$0
3	Revenue & Technical Adjustments							
3	Transportation							
4	Miscellaneous Revenues		612					
5	**Total Operating Revenues**	$4,744	$612	$0	$0	$0	$0	$0
6	**Operating Revenue Deductions**							
7	Gas Purchases	2,767						
8	Uncollectible Accrual	23		(243)				
9	Other O&M Expenses	12			(57)	(310)	(58)	(74)
10	**Total O&M Expenses**	$2,802	$0	($243)	($57)	($310)	($58)	($74)
11	Federal Income Taxes	602	200	79	19	102	19	24
12	State Excise Taxes	122	40	16	4	20	4	5
13	Property Taxes							
14	Other Taxes	101						
15	Depreciation & Amortization							
16	**Total Operating Rev. Deductions**	3,627	240	(148)	(34)	(188)	(35)	(45)
17	**Net Operating Revenues**	**$1,117**	**$372**	**$148**	**$34**	**$188**	**$35**	**$45**
18	**Average Rate Base**							
19	Utility Plant in Service							
20	Accumulated Depreciation & Amortization							
21	**Net Utility Plant**	$0	$0	$0	$0	$0	$0	$0
22	Aid in Advance Construction							
23	Materials & Supplies							
24	Water Heater Program							
25	Leasehold Improvements							
26	Accumulated Deferred Income Taxes							
27	**Total Average Rate Base**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
	Revenue Requirement Effect	($1,894)	($631)	($251)	($58)	($319)	($59)	($76)

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ORDER NO. 03-1507

NW NATURAL
Adjustments to Results of Operations - UG 152
Twelve Months ended September 30, 2004
($000)

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		Safety Programs Adjustment (S-8)	Corporate Governance Adjustment (S-9)	Wage & Salary Adjustment (S-10)	Bonuses & Incentive Pay Adjustment (S-11)	Medical Benefit Adjustment (S-12)	Pension Adjustment (S-13)	ESRIP Adjustment (S-14)
1	**Operating Revenues**							
2	Sale of Gas	$0	$0	$0	$0	$0	$0	$0
3	Revenue & Technical Adjustments							
3	Transportation							
4	Miscellaneous Revenues							
5	**Total Operating Revenues**	$0	$0	$0	$0	$0	$0	$0
6	**Operating Revenue Deductions**							
7	Gas Purchases							
8	Uncollectible Accrual							
9	Other O&M Expenses	(335)	(147)	(1,265)	(1,725)	(441)		(787)
10	**Total O&M Expenses**	($335)	($147)	($1,265)	($1,725)	($441)	$0	($787)
11	Federal Income Taxes	110	48	472	573	147	0	257
12	State Excise Taxes	22	10	95	116	30	0	52
13	Property Taxes							
14	Other Taxes			(161)				
15	Depreciation & Amortization							
16	**Total Operating Rev. Deductions**	(203)	(89)	(859)	(1,036)	(264)	0	(478)
17	**Net Operating Revenues**	**$203**	**$89**	**$859**	**$1,036**	**$264**	**$0**	**$478**
18	**Average Rate Base**							
19	Utility Plant in Service			($477)	($821)	($267)	$0	$0
20	Accumulated Depreciation & Amortization							
21	**Net Utility Plant**	$0	$0	($477)	($821)	($267)	$0	$0
22	Aid in Advance Construction							
23	Materials & Supplies							
24	Water Heater Program							
25	Leasehold Improvements							
26	Accumulated Deferred Income Taxes							
27	**Total Average Rate Base**	**$0**	**$0**	**($477)**	**($821)**	**($267)**	**$0**	**$0**
	Revenue Requirement Effect	($344)	($151)	($1,527)	($1,877)	($487)	$0	($811)

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ORDER NO. 03-507

NW NATURAL
Adjustments to Results of Operations - UG 152
Twelve Months ended September 30, 2004
($000)

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		Advertising Adjustment (S-15)	Marketing & Customer Relations Adjustment (S-16)	Non-Labor A&G Adjustment (S-17)	Capitalization Policy Adjustment (S-18)	Stock Issuance Adjustment (S-19)	FIT & SIT Adjustment (S-20)	South Mist Pipeline Adjustment (S-21)
1	**Operating Revenues**							
2	Sale of Gas	$0	$0	$0	$0	$0	$0	$0
3	Revenue & Technical Adjustments							
3	Transportation							
4	Miscellaneous Revenues							
5	**Total Operating Revenues**	$0	$0	$0	$0	$0	$0	$0
6	**Operating Revenue Deductions**							
7	Gas Purchases							
8	Uncollectible Accrual							
9	Other O&M Expenses	(576)	(844)	(1,226)	(3,163)	(561)		
10	**Total O&M Expenses**	($576)	($844)	($1,226)	($3,163)	($561)	$0	$0
11	Federal Income Taxes	188	276	401	964	0	129	0
12	State Excise Taxes	38	56	81	195	0	26	0
13	Property Taxes							
14	Other Taxes							
15	Depreciation & Amortization				115			
16	**Total Operating Rev. Deductions**	(350)	(512)	(744)	(1,889)	(561)	155	0
17	**Net Operating Revenues**	**$350**	**$512**	**$744**	**$1,889**	**$561**	**($155)**	**$0**
18	**Average Rate Base**							
19	Utility Plant in Service	$0	$0	$0	$3,202	$0		$0
20	Accumulated Depreciation & Amortization				(57)			
21	**Net Utility Plant**	$0	$0	$0	$3,145	$0	$0	$0
22	Aid in Advance Construction							
23	Materials & Supplies							
24	Water Heater Program							
25	Leasehold Improvements							
26	Accumulated Deferred Income Taxes				(376)			
27	**Total Average Rate Base**	**$0**	**$0**	**$0**	**$2,769**	**$0**	**$0**	**$0**
	Revenue Requirement Effect	($594)	($868)	($1,262)	($2,799)	($951)	$263	$0

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ORDER NO. 05-507

NW NATURAL
Adjustments to Results of Operations - UG 152
Twelve Months ended September 30, 2004
($000)

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		Bare Steel Adjustment (S-22)	Miscellaneous Rate Base Adjustment (S-23)	Remove Mist Pipeline Adjustment (STIP3-1)	Remove CCDS Adjustment (STIP3-2)	**Total Adjustments**
1	**Operating Revenues**					
2	Sale of Gas	$0	$0	$0	($2,262)	$2,482
3	Revenue & Technical Adjustments					0
3	Transportation					0
4	Miscellaneous Revenues					612
5	**Total Operating Revenues**	$0	$0	$0	($2,262)	$3,094
6	**Operating Revenue Deductions**					
7	Gas Purchases				-1249	1,518
8	Uncollectible Accrual					(220)
9	Other O&M Expenses			(24)	(418)	(11,999)
10	**Total O&M Expenses**	$0	$0	($24)	($1,667)	($10,701)
11	Federal Income Taxes	3	2	984	119	5,718
12	State Excise Taxes	1	0	199	24	1,156
13	Property Taxes			(689)	(191)	(880)
14	Other Taxes					(60)
15	Depreciation & Amortization	(5)		(883)	(420)	(1,193)
16	**Total Operating Rev. Deductions**	(1)	2	(413)	(2,135)	($5,960)
17	**Net Operating Revenues**	**$1**	**($2)**	**$413**	**($127)**	**$9,054**
18	**Average Rate Base**					
19	Utility Plant in Service	($179)	($196)	($46,566)	($12,000)	($57,304)
20	Accumulated Depreciation & Amortization	13		431	630	1,017
21	**Net Utility Plant**	($166)	($196)	($46,135)	($11,370)	($56,287)
22	Aid in Advance Construction					0
23	Materials & Supplies					0
24	Water Heater Program					0
25	Leasehold Improvements					0
26	Accumulated Deferred Income Taxes	20		5,960	1,490	7,094
27	**Total Average Rate Base**	**($146)**	**($196)**	**($40,175)**	**($9,880)**	**($49,193)**
	Revenue Requirement Effect	($23)	($25)	($6,573)	($1,229)	($22,546)

APPENDIX 4
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ORDER NO. 03-507