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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1148/UP 205

In the Matters of)	
)	
NORTHWEST NATURAL GAS COMPANY)	
)	
Application for an Order Authorizing the Sale)	
of Utility Property to the Port of Portland,)	
(UP 205))	ORDER
)	
and)	
)	
Investigation of the Utility Relationship with)	
Fish Block Associates, LLC, and Related)	
Transactions. (UM 1148))	

DISPOSITION: STIPULATION ADOPTED

On August 13, 2003, Northwest Natural Gas Company (NW Natural) filed an application with the Public Utility Commission of Oregon (Commission) for authorization to sell a block of land (Port Block) adjacent to its headquarters (One Pacific Square or OPS), which NW Natural sold in 1999. The application, docketed as UP 205, was filed in response to an audit finding in NW Natural's recently completed rate case.

During the investigation in docket UP 205, the Commission Staff (Staff) identified other NW Natural property transactions that warranted further review. Consequently, on April 27, 2004, the Commission opened another docket, UM 1148, to investigate NW Natural's relationship with Fish Block Associates, LLC and related transactions. On May 11, 2004, the dockets for the application and the investigation were consolidated. On July 14, 2004, NW Natural, Staff, the Northwest Industrial Gas Users (NWIGU), and the Citizens' Utility Board (CUB) filed a Stipulation addressing issues raised in the consolidated proceedings. The Stipulation is attached as Appendix A, and incorporated by reference.

The stipulation resolves all issues related to three property transactions. The first involved the Port Block, a piece of property adjacent to NW Natural's headquarters that the company had used for employee parking. NW Natural mistakenly believed that no Commission authorization for the sale was required, and used the gain from the sale to offset

employee parking costs rather than returning it to customers. The second transaction involved the purchase of a former fish operating plant (Fish Block). NW Natural and Mr. Brian McCarl formed a limited liability company called Fish Block Associates (FBA) and, through the limited liability company, bought the property as equal partners. FBA then leased the land to another limited liability company owned by Mr. McCarl, which, in turn, entered into a parking lease agreement with NW Natural. The third transaction involved a piece of property (Chinese Garden Block) that NW Natural leased to the City of Portland in 1999, but continued to include a portion of the property costs in customer rates.

In the stipulation, NW Natural agrees to credit its customers \$1.285 million through its Purchased Gas Adjustment filing to be effective October 1, 2004. NW Natural also agrees to eliminate parking costs incurred in downtown Portland from Oregon retail rates, at least through September 1, 2013. After August 31, 2013, NW Natural may seek recovery in a future rate case for prospective parking costs only, and parking costs beginning September 1, 2003, through August 31, 2013, are not eligible for any tracking or deferred accounting recovery from NW Natural customers.

The stipulation further provides that NW Natural will eliminate from the rate base the remaining investment in Port Block, Fish Block, and Chinese Garden Block and eliminate the parking cost levels for a parking lot known as the Truck Block and OPS Parking.¹ The removal of these costs will result in a reduction in permanent rates of \$331,162. Finally, NW Natural shareholders will pay for an audit, the scope of which will be determined by Staff with input from other stipulating parties.

The Commission has examined the Stipulation and the supporting testimony submitted by Staff, NW Natural, NWIGU, and CUB. The Commission concludes that the Stipulation is the appropriate resolution in this consolidated docket. The Stipulation is in the public interest and results in an overall fair, just and reasonable outcome.

In entering this decision, the Commission appreciates the efforts of all stipulating parties in resolving these dockets. The Stipulation will begin the process of returning public confidence in how NW Natural conducts business. The Commission expects NW Natural to be more careful about following rules related to affiliated interests and keeping its unregulated activities separate from regulated accounts.

¹ The Truck Block property will remain in rate base to assure that Oregon NW Natural customers will retain the right to any gain realized from sale of the Truck Block property. The rates will still be adjusted to eliminate the Truck Block parking revenue requirement through August 31, 2013.

ORDER

IT IS ORDERED that the Stipulation between Northwest Natural Gas Company, the Staff of Public Utility Commission, Northwest Industrial Gas Users, and Citizens' Utility Board, is adopted. Northwest Natural Gas Company shall take all steps necessary to implement the terms of the Stipulation.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.