

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UM 903/AR 357

In the Matter of	)	
	)	ORDER
NORTHWEST NATURAL	)	
	)	
2005 Spring Earnings Review.	)	

**DISPOSITION: NO EARNINGS SHARED**

On April 29, 2005, Northwest Natural Gas Company (NW Natural) filed its 2004 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending December 31, 2004. NW Natural represented that the report was developed in a manner consistent with Order No. 99-272, and reflects applicable adjustments per Order No. 03-507 for its general rate filing, UG 152.

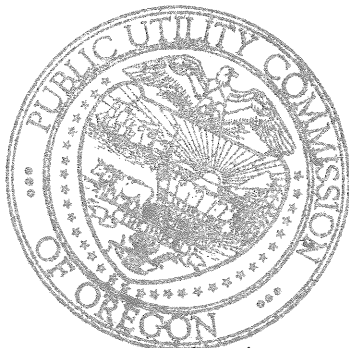
At its Public Meeting on July 12, 2005, the Commission adopted Staff's recommendation, which is attached as Appendix A and is incorporated by reference. Based on Staff's review of the earnings report and the Commission's records, the Commission finds that the adjusted earnings fall below the earnings threshold designated in UM 903, resulting in no shared earnings.

**ORDER**

IT IS ORDERED that Staff's recommendation as stated in Appendix A is adopted.

Made, entered, and effective       JUL 18 2005      .

BY THE COMMISSION:



*Becky L. Beier*  
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**Becky L. Beier**  
 Commission Secretary

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.

**PUBLIC UTILITY COMMISSION OF OREGON**  
**STAFF REPORT**  
**PUBLIC MEETING DATE: July 12, 2005**

**REGULAR** \_\_\_\_\_ **CONSENT**   X   **EFFECTIVE DATE** \_\_\_\_\_   N/A  

**DATE:** June 20, 2005

**TO:** Public Utility Commission

**FROM:** Ed Durrenberger

**THROUGH:** Lee Sparling, Ed Busch and Judy Johnson

**SUBJECT:** NORTHWEST NATURAL: (Docket No. UM 903/AR 357) 2005 Spring Earnings Review.

**STAFF RECOMMENDATION:**

I recommend the Commission accept Staff's finding that Northwest Natural's 2004 earnings are below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

**DISCUSSION:**

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies – Northwest Natural (NW Natural), Cascade Natural Gas Corporation, and Avista Corp. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were scheduled to sunset in 2002, but in Order No. 03-198 (AR 449) the Commission extended these earnings reviews through 2006.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to through a Statement of Stipulated Issues. On issues where no agreement was reached, the Commission ordered various resolutions. The Commission's findings, as they apply to earnings reviews, are summarized below:

- Relationship of Earnings Review to PGA Filings: Starting in 1999, a general earnings review will be held each spring; if earnings are found to be above a specified return on equity (ROE) level a portion of those revenues will be booked to a deferred account.
- Structure of Earnings Reviews: By May 1 the Local Distribution Company (LDC) will file results of operations for the twelve months ended the prior December 31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1, and the Commission would issue its decision on unresolved issues by September 15. Starting in 2001, the LDCs will file annual gas cost tracking filings by August 15, for rate changes to take place on October 1. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.
- Effective Date of Rate Adjustment: Amount of over-earnings to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
- The ROE Earning Threshold: Based on Commission Order 04-203, the earning threshold for NW Natural for 2005 is 13.20 percent plus, starting in 2005, an adjustment for inflation as specified in the order. This year the total adjusted earnings threshold is 13.28 percent.
- Earnings Adjustments: Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. NW Natural made a one-time election to include a weather normalization adjustment in its spring 1999 earnings review filing and each subsequent annual filing.
- Earnings Performance: If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold level will be shared with customers.
- Changes to PGA Mechanism: For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism there will be no earnings test in the fall prior to amortizing deferrals. For LDCs with an 80-20 sharing mechanism, an earnings test will be applied prior to amortizing deferrals. NW Natural has adopted a 67-33 percent sharing mechanism for commodity cost differences.

#### NW Natural's Earnings Review

On April 29, 2005, NW Natural submitted its 2004 earnings report for the twelve months ending December 31, 2004. The company states that its report was developed in a manner consistent with

Commission Order No. 99-272 and reflects applicable adjustments per Commission Order No. 03-507 for its general rate filing, UG 152. The company calculates its ROE as 9.48 percent after application of its Type 1 adjustments, which is below the 13.28 percent threshold authorized by the Commission.

Staff has examined the company's filed earnings report. Staff believes that the company's WACOG Equalization Adjustment (part of the Gas Cost Adjustment) is not a Type 1 adjustment and should be excluded from the Adjusted Test Year Results. Staff has also made an adjustment to the Common Stock Issuance expense. All of the 2004 Capital Stock Expenses were removed. Stock issuance expenses should be rolled into the cost of equity and not included as a deduction in the results of operation. Taking into consideration these changes, NW Natural's adjusted ROE is 9.82 percent. Because NW Natural's adjusted ROE is below the Commission authorized 13.28 percent threshold, there should be no sharing of earnings with customers.

As required by OAR 860-022-0070(6), Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments.

**PROPOSED COMMISSION MOTION:**

The Commission accept Staff's finding that NW Natural's 2004 earnings are below the earnings threshold designated in UM 903 and that there should be no earnings shared in this filing.

NW Natural UM 903 2005