

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1293

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY,)	
dba NW NATURAL)	ORDER
)	
Application for an Accounting Order)	
Regarding Treatment of Accumulated Other)	
Comprehensive Income for Funded Status of)	
Pension and Other Postretirement Benefit)	
Obligations.)	

DISPOSITION: APPLICATION APPROVED

On December 22, 2006, Northwest Natural Gas Company (NW Natural) filed an application for an accounting order that would authorize the company to record on an ongoing basis, as a regulatory asset or liability, an amount equal to the after-tax charge or credit to common equity that would otherwise be necessitated by the recognition of a balance sheet adjustment to the company’s Accumulated Other Comprehensive Income pursuant to new accounting pronouncement FAS 158 “Employers’ Accounting for Defined Benefit Pensions and Other Postretirement Plans”. The application was filed pursuant to ORS 757.120 and ORS 757.125. A description of the requirements is detailed in Staff’s Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on January 23, 2007, the Commission adopted Staff’s recommendation for an accounting order authorizing the company to record and maintain, as a regulatory asset or liability, the company’s Accumulated Other Comprehensive Income pursuant to new accounting requirements under FAS 158.

ORDER

IT IS ORDERED that:

- 1) Northwest Natural Gas Company's application requesting an accounting order authorizing the company to record and maintain, as a regulatory asset or liability, the company’s Accumulated Other Comprehensive Income, pursuant to new accounting requirements under FAS 158, is approved.

- 2) This approval is for accounting purposes only, and does not constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

Made, entered and effective JAN 29 2007.

BY THE COMMISSION:



Becky L. Beier

Becky L. Beier
 Commission Secretary

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA2

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 23, 2007**

REGULAR CONSENT EFFECTIVE DATE December 22, 2006

DATE: January 17, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: ^W Lee Sparling, ^{EJB} Ed Busch and ^{JJ} Judy Johnson

SUBJECT: NORTHWEST NATURAL (Docket No. UM 1293) Application for an Accounting Order Regarding Treatment of Accumulated Other Comprehensive Income for Funded Status of Pension and Other Postretirement Benefit Obligations.

STAFF RECOMMENDATION:

I recommend that the Commission approve Northwest Natural's (NW Natural or company) application for an accounting order authorizing the company to record and maintain, as a regulatory asset or liability, the company's Accumulated Other Comprehensive Income (AOCI) pursuant to new accounting requirements under Statement of Financial Accounting Standards (FAS) No. 158. Approval is for accounting purposes only and does not impact the level of pension expenses included in the company's cost of service or net income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

DISCUSSION:

On December 22, 2006, NW Natural filed an application for an accounting order that would authorize the company to record on an ongoing basis, as a regulatory asset or liability, an amount equal to the after-tax charge or credit to common equity that would otherwise be necessitated by the recognition of a balance sheet adjustment to the company's AOCI pursuant to new accounting pronouncement FAS 158 "Employers' Accounting for Defined Benefit Pensions and Other Postretirement Plans". This application was filed pursuant to ORS 757.120 and 757.125.

The Financial Accounting Standards Board (FASB) issued FAS 158 on September 29, 2006, with the intent of improving financial reporting with respect to the overfunded or underfunded status of defined benefit postretirement plans. The new FAS 158 financial

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standard changes FAS 87 by requiring that the funded status of postretirement plans be recorded on the balance sheet based on the Projected Benefit Obligation (PBO) rather than the Accumulated Benefit Obligation (ABO) as had previously been used. The PBO, as the name says, is based on projected future compensation levels whereas the ABO is based on current and past compensation levels. The PBO is a larger value than the ABO and FAS 158 requires the company to recognize, as a component of shareholder's equity, the amount by which the PBO is greater than the fair value of the post retirement plan assets that are currently recorded as an accrued liability and additionally, that it cannot be reduced by recognizing any Prepaid Asset.

NW Natural estimates that, as of December 31, 2006, the PBO will be greater than the fair value of the plan assets by \$56 million. Adjusting for the Prepaid Asset, the aggregate difference between the PBO and the net Prepaid Asset is \$70 million. This represents an after tax charge to AOCI in equity of approximately \$42 million and a deferred income tax asset of \$28 million.

The following factors have contributed to NW Natural's current underfunded pension status: 1) the company adopted new mortality rates in 2005 to reflect longer life expectancies; and, 2) the present value of future benefit obligations to employees have increased as interest rates have declined.

If the company is not allowed to create and maintain a Regulatory Asset as required by FAS 158, NW Natural will be obligated to record, for its fiscal year ending December 31, 2006, a \$42 million after-tax charge to AOCI (\$70 million aggregate difference less \$28 million in deferred income taxes). Although this net charge to equity is expected to be adjusted in future periods, the 2006 charge would have the immediate effect of reducing the common equity ratio and, according to the company, negatively impact the credit rating and possibly increase its cost of capital.

Staff agrees that allowing the company to create and maintain the Regulatory Asset is the most reasonable approach in meeting the changing requirements of FAS 158.

NW Natural also requests confirmation by the Commission that actuarially determined FAS 87 and FAS 106 benefit costs are presently recoverable in rates. Staff agrees that actuarially determined FAS 87 and FAS 106 pension costs are generally recoverable in rates and that this has been the case in past rate cases, but does not agree that the Commission should confirm that this forms the basis for recovery of these costs in rates. Such a ruling should be reserved for a general rate proceeding.

Staff and NW Natural both acknowledge that there should be no rate change, now or in the future, associated with the requested regulatory asset.

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PROPOSED COMMISSION MOTION:

Northwest Natural's application for an accounting order, authorizing the company to record and maintain, as a regulatory asset or liability the company's Accumulated Other Comprehensive Income pursuant to new accounting requirements under FAS 158, be approved. This approval is for accounting purposes only and does not constitute authorization of any future ratemaking treatment of the costs associated with the regulatory assets.

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