

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 170

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY,)	
dba NW NATURAL)	ORDER
)	
Filing of tariffs establishing automatic)	
adjustment clauses under the terms of SB 408.)	

DISPOSITION: STIPULATION ADOPTED

In this order, the Public Utility Commission of Oregon (Commission) approves a Stipulation that resolves all issues relating to the annual income tax report filed by Northwest Natural Gas Company (NW Natural). The Stipulation authorizes NW Natural to surcharge customers \$1,964,101 for additional federal, state and local income tax liability that was not collected in rates. To minimize the impact of this one-time surcharge, the Stipulation also requires NW Natural to modify certain customer credits so that these annual credits would be applied concurrently with the surcharge.

INTRODUCTION

Senate Bill 408 (SB 408), passed by the 2005 Legislative Assembly, establishes a new method for the rate treatment of utility income taxes. Generally, SB 408, which is codified at ORS 757.268, requires a utility to true-up any differences between the amounts of income taxes authorized to be collected in rates from customers and amounts of taxes actually paid that are “properly attributed” to the utility’s regulated operations. *See* ORS 757.268(4). The utilities must make annual tax filings reporting these amounts on October 15 of each year. If amounts collected and amounts paid differ by more than \$100,000, the Commission must order the utility to establish an automatic adjustment clause to account for the difference, with a rate adjustment to be effective June 1 of each year. *See* ORS 757.268(4), (6)(a); OAR 860-022-0041(8).

On October 15, 2007, NW Natural filed its annual tax report containing information for the 2006 tax year. Through established procedures, the Commission Staff (Staff) and other parties reviewed the report for compliance with ORS 757.268 and Commission rules codified in OAR 860-022-0041. In response to party comments and following two settlement conferences, NW Natural made various adjustments to its

report and ultimately filed a “Revised Amended 2006 Tax Report” that incorporated recommendations requested by Staff.

On January 9, 2008, NW Natural also filed Advice No. 08-1, tariff revision sheets providing for an automatic adjustment for utility income tax, to be effective on a one-time basis for certain billings rendered on and after June 1, 2008. The Commission approved Advice No. 08-1 during its January 22, 2008, Public Meeting. Although review of the tax report was still pending, the Commission adopted Staff’s recommendation to adopt the tariff, subject to later revision to incorporate any changes deemed necessary by the Commission. *See* Order No. 08-045.

STIPULATION

Position of Parties

On February 15, 2008, NW Natural, Staff, the Citizens’ Utility Board of Oregon (CUB) and the Northwest Industrial Gas Users (NWIGU) filed a Stipulation intended to resolve all issues related to NW Natural’s 2006 Tax Report and its Revised Amended 2006 Tax Report. A copy of the Stipulation is attached as Appendix A and incorporated by reference. The parties supported the Stipulation with joint testimony.

The stipulating parties agree that NW Natural’s Revised Amended 2006 Tax Report is consistent with ORS 757.268 and OAR 860-022-0041. That report shows that, during the 2006 tax period, NW Natural was authorized to collect in rates \$30.237 million for income taxes but paid \$31.915 million for taxes properly attributed to regulated operations. Consequently, the stipulating parties agree that the difference between taxes paid and taxes collected results in a \$1.678 million difference that, under the provision of SB 408, must be surcharged to customers.

The stipulating parties note that, pursuant to OAR 860-022-0041(8)(e), interest accrues on the surcharge amount. The total interest on the federal and state income tax portion of the surcharge (\$1.658 million) is \$0.283 million, while the total interest on the local income tax portion of the surcharge (\$0.020 million) is \$0.003 million.

The stipulating parties conclude that NW Natural should recover the total surcharge and interest of \$1,964,101 as a one-time adjustment to customer bills issued on or after June 1, 2008, and continuing through each billing cycle during the effective month until all cycles for that month have been billed. To minimize this impact, the stipulating parties agree that NW Natural should provide changes to its Schedule 185 and Schedule 196 “Special Annual Core Pipeline Capacity Optimization Credits” such that the applicable annual credits would be applied to the same June 2008 bills. The effect of combining the SB 408 surcharge with these credits results in a small net reduction to customer bills during the one-time surcharge period.

The stipulating parties assert that the Stipulation resolves all issues in this proceeding and request that the Commission issue an order approving the Stipulation and implementing its terms. No party objected to the Stipulation, and the time for doing so has expired. *See* OAR 860-014-0085(5).

Discussion and Ruling

The Commission encourages parties to resolve issues and narrow the scope of the proceedings to the extent that such actions further the public interest. Stipulations reduce the burdens of the parties and the Commission and facilitate the prompt completion of matters brought before the Commission for its consideration. In this instance, there has been participation and agreement by parties representing a broad range of interests, and no persons have interposed any objections to the Stipulation.

We agree with the stipulating parties that NW Natural's Revised Amended 2006 Tax Report is consistent with ORS 757.268 and OAR 860-022-0041. The Stipulation and supporting testimony is admitted into evidence pursuant to OAR 860-014-0085. Official notice is taken of the highly confidential information contained in NW Natural's 2006 Tax Report and its Revised Amended 2006 Tax Report.¹

We conclude that the Stipulation should be adopted in its entirety, with one clarification relating to interest rates. As the stipulating parties note, interest accrues on the surcharge amount at the Commission's authorized rate for deferred accounts. *See* OAR 860-022-0041(8)(e). Based on the Commission's current use of the utility's authorized rate of return (AROR), the stipulating parties calculated the amount of interest to be \$0.283 million for the federal and state income taxes, and \$0.003 million for local income taxes.

All four stipulating parties are parties to pending docket UM 1147, which is examining whether the Commission should adopt a rate other than a utility's AROR for deferred accounts during amortization. Because we are likely to issue an order in that proceeding before June 1, 2008, we clarify that the amount of interest required on the surcharge amount of \$1.678 million may be modified by the terms of our final decision in docket UM 1147.

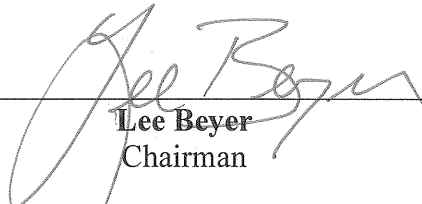
¹ Any party may object to a fact noticed within 15 days of this order. *See* OAR 860-014-0050(2).

ORDER

IT IS ORDERED that:

1. The Stipulation, filed by Northwest Natural Gas Company, the Citizens' Utility Board of Oregon, the Northwest Industrial Gas Users, and the Staff of the Public Utility Commission is adopted in its entirety.
2. Northwest Natural Gas Company shall file compliance tariffs, effective June 1, 2008, that are consistent with the terms of this order and that supersede Advice No. 08-1 approved at the January 22, 2008, Public Meeting.
3. Northwest Natural Gas Company shall file changes to its Schedule 185 and Schedule 196 as necessary to implement the terms of the Stipulation.

Made, entered, and effective APR 11 2008.



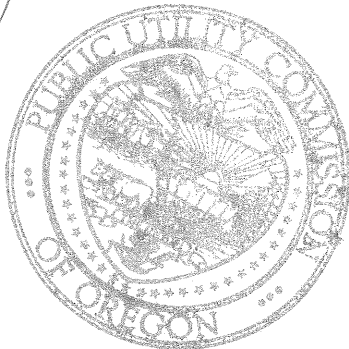
Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A 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.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 170

In the Matter of

OREGON PUBLIC UTILITY
COMMISSION STAFF Directing

NORTHWEST NATURAL GAS
COMPANY

To file tariffs establishing automatic
adjustment clauses under the terms of
SB 408

STIPULATION

This Stipulation is among Northwest Natural Gas Company ("NW Natural"), the staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon, and Northwest Industrial Gas Users.

I. INTRODUCTION

Pursuant to ORS 757.268 and OAR 860-022-0041, on October 15, 2007, NW Natural filed its tax report for calendar-years 2004, 2005 and 2006, (the "Tax Report"). On November 7, 2007, Administrative Law Judge Michael Grant entered a procedural schedule for the docket. Pursuant to the procedural schedule, on December 20, 2007, Staff filed its initial findings with respect to the Tax Report ("Staff's Initial Findings"). In connection with Staff's Initial Findings, Staff requested that NW Natural amend its tax report for calendar-year 2006 to reflect Staff's recommendations. On January 2, 2008, NW Natural filed and amended 2006 tax report for calendar-year 2006 addressing all of Staff's recommendations (the "Amended 2006 Tax Report"). On January 9, 2008, a Settlement Conference was held, during which NW Natural advised the Parties of an error discovered when preparing its amended filing submitted on January 2, 2008, and that an amended filing showing the correction would be forthcoming. On January 14, 2008, NW Natural filed an amended 2006 filing detailing the error. A second Settlement Conference was held on February 11, 2008. Pursuant to that discussion, NW Natural agreed to submit a revised amended filing ("Revised Amended 2006 Tax Report"). All revisions

to NW Natural's filing are described in detail in the Joint Testimony Submitted with this Stipulation.

NW Natural also filed as Advice No. 08-1, on January 9, 2008, tariff revision sheets providing an automatic adjustment for utility income tax, incorporating all of the recommendations from Staff's Initial Findings, to become effective on a one-time basis, for certain billings rendered on and after June 1, 2008.

As a complete settlement of issues in this proceeding and relating to Advice No. 08-1, the Stipulating Parties have agreed to the terms of this Stipulation and to submit the Stipulation to the Commission. The Stipulating Parties request that the Commission issue an order approving the Stipulation and implementing its terms.

II. SPECIFIC TERMS

A. The Stipulating Parties agree and acknowledge that NW Natural's Revised Amended 2006 Tax Report is consistent with ORS 757.268 and OAR 860-022-0041.

B. The Stipulating Parties agree that the surcharge amount of \$1,964,101 (which includes interest during amortization of \$286,101) for federal, state, and local taxes reflected in the Revised Amended 2006 Tax Report for calendar-year 2006 complies with ORS 757.268 and OAR 860-022-0041.

C. The Stipulating Parties further agree that:

1. NW Natural should amortize the 2006 surcharge amount as a one-time adjustment applicable to customer bills issued on and after June 1, 2008 and continuing through each billing cycle during the effective month until all cycles have billed, in the manner set out in NW Natural Advice No. 08-1.

2. To minimize the impact to customers of the one-time annual bill adjustment for the 2006 surcharge, by separate filing NW Natural shall provide changes to Schedule 185 "Special Annual Core Pipeline Capacity Optimization Credit" and Schedule 186 "Special Annual Core Pipeline Capacity Optimization Credit" such that the applicable annual credits would also be applied to the same June 2008 bills.

D. This Stipulation resolves all issues related to NW Natural's Tax Report and Amended 2006 Tax Report.

III. GENERAL TERMS

A. The Stipulating Parties agree that the Stipulation represents a compromise of the positions of the parties for the purpose of this docket. 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.

B. If this Stipulation is challenged by any other party to this proceeding, or any other party resolution of this docket departs from the terms of this Stipulation, the Stipulating Parties reserve the right to cross-examine witnesses and put in such evidence as they deem appropriate to respond fully to the issues presented. Notwithstanding this reservation of rights, the Stipulating Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

C. If the Commission rejects all or any material part of this Stipulation, or adds any material condition to any final order that is not consistent with this Stipulation, each Stipulating Party reserves the right to withdraw from this Stipulation upon written notice to the Commission and the other Stipulating Parties within five (5) business days of service of the final order that rejects this Stipulation or adds such material condition.

D. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-014-0085. The Stipulating Parties agree to support this Stipulation throughout this proceeding and in any appeal and recommend that the Commission issue an order implementing the terms of the Stipulation.

E. 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. Except as provided in 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.

F. This Stipulation may be signed in any number of counterparts, each of which will be deemed an original for all purposes, but all of which taken together will constitute one and the same agreement.

DATED this 15th day of February, 2008.

NORTHWEST NATURAL GAS COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By Marcel Wood
Its Attorney

By _____
Its _____

CITIZENS' UTILITY BOARD OF OREGON

NORTHWEST INDUSTRIAL GAS USERS

By _____
Its _____

By _____
Its _____

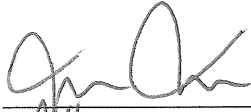
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NORTHWEST NATURAL GAS COMPANY

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By _____
Its _____

By  _____
Its Attorney _____

CITIZENS' UTILITY BOARD OF OREGON

NORTHWEST INDUSTRIAL GAS USERS

By _____
Its _____

By _____
Its _____

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By _____
Its _____

By _____
Its _____

CITIZENS' UTILITY BOARD OF OREGON

NORTHWEST INDUSTRIAL GAS USERS

By Bob Aulis
Its Executive Director

By _____
Its _____

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DATED this 15th day of February, 2008.

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STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By _____
Its _____

By _____
Its _____

CITIZENS' UTILITY BOARD OF OREGON

NORTHWEST INDUSTRIAL GAS USERS

By _____
Its _____

By Edward A Finkler
Its Attorney