

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 903/AR 357

In the Matter of )  
 )  
NORTHWEST NATURAL GAS ) ORDER  
COMPANY, dba NW NATURAL )  
 )  
2008 Spring Earnings Review. )

DISPOSITION: NO EARNINGS SHARED

On May 1, 2008, Northwest Natural Gas Company (NW Natural) filed its 2007 earnings report, with the Public Utility Commission of Oregon (Commission), for the 12 months ending December 31, 2007. NW Natural represented that the report was developed in a manner consistent with Order No. 99-272 and reflects adjustments appropriate to Commission Order No. 03-507.

At its July 8, 2008, public meeting, the Commission adopted Staff's recommendation, attached as Appendix A and 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 established in docket 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 11 2008

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.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: July 8, 2008

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

DATE: June 24, 2008

TO: Public Utility Commission

FROM: Carla Owings *CO*

THROUGH: *LS* Lee Sparling, *EB* Ed Busch and *JJ* Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket Nos. UM 903/AR 357) 2008 Spring Earnings Review.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission accept Staff's finding that Northwest Natural's (NW Natural or Company) 2007 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, Cascade Natural Gas Corporation, and Avista Corporation. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were originally scheduled to sunset in 2002 but were extended twice, first in Order No. 03-198 (AR 449) until 2006 and then again in Order No. 07-019 (AR 512), through 2008.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to in 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.

NWN UM 903 2008  
June 24, 2008  
Page 2

- **Structure of Earnings Reviews:** By May 1, each year, 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 August 15. Starting in 2001, the LDCs would file annual gas cost tracking filings by August 15 for rate changes to take place on October 1. In 2006 this schedule was permanently moved forward one month; now gas cost tracking filings are made by August 31 for rate changes to take place on November 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 (as modified by Order No. 07-019), the earning threshold for NW Natural for this 2008 Spring Earnings review is 13.20 percent plus an adjustment for inflation as specified in Commission Order No. 04-203. The total adjusted earnings threshold for this 2008 Spring Earnings Review is 13.40 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.

NWN UM 903 2008  
June 24, 2008  
Page 3

### NW Natural's Earnings Review

On May 1, 2008, NW Natural submitted its 2007 results of operations report for the twelve months ending December 31, 2007. 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 10.15 percent after application of its Type 1 adjustments, which is below the 13.40 percent threshold authorized by the Commission.

Staff has examined the Company's filed earnings report. In its 2007 PGA, the Company's purchased gas costs were less than forecast resulting in a sharing of the gas cost savings. The portion of savings retained by shareholders was approximately \$14.1 million. The Company removed the impact of the shareholders' portion of savings as a Type 1 adjustment.

Staff and the Company disagree as to whether this is an appropriate Type 1 adjustment. If the adjustment is made, NW Natural's adjusted ROE is 10.15. If this adjustment is not made, Staff's calculation of NW Natural's adjusted ROE is 12.84 percent. In either case, the adjusted ROE is below the Commission authorized 13.40 percent threshold; thus in either case, there should be no sharing of earnings with customers. Staff and the Company have agreed to work together to resolve this issue prior to the Company's next required earnings filing.

Taking into consideration this change, Staff's calculation of NW Natural's adjusted ROE is 12.84 percent. Because NW Natural's adjusted ROE is below the Commission authorized 13.40 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 in response.

### **PROPOSED COMMISSION MOTION:**

The Commission accept Staff's finding that NW Natural's 2007 earnings are below the earnings threshold designated in UM 903 and that there should be no earnings shared in this filing.

NWN UM 903 2008 Spring Earnings Review