

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UP 245

In the Matter of)	
)	
NORTHWEST NATURAL GAS)	
COMPANY, dba NW NATURAL)	ORDER
)	
Application for an Order Authorizing the Sale)	
of Certain Property Located in Albany,)	
Oregon.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On July 11, 2008, the Public Utility Commission of Oregon (Commission) received an application from Northwest Natural Gas Company (NW Natural or Company), requesting approval of the sale of the former Albany customer service center, pursuant to ORS 757.480 and OAR 860-027-0025. On May 16, 2008, NW Natural and Elwood Martin (Martin) entered into an agreement in which Martin agreed to purchase the former Albany customer service center for a price of \$710,000. The property consists of an office and service center for the Central Willamette Valley District consisting of the Company's Albany, Corvallis, and Mid-Willamette service territory. The Company's local office and service center had been located at the subject location from 1961 to 2006. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

OPINION

Under ORS 757.480, a public utility doing business in Oregon shall first obtain Commission approval for any transaction to sell, lease, assign or otherwise dispose of property. Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules.

At its Public Meeting on July 29, 2008, the Commission adopted Staff's recommendation to approve NW Natural's sale of the former customer service center located at 730 34th Avenue SW in Albany, Oregon. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED that the application of Northwest Natural Gas Company is approved, subject to the following conditions:

1. Northwest Natural Gas Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to the transfer of properties.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. Northwest Natural Gas Company shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.
4. Northwest Natural Gas Company will transfer the net gain to a regulatory deferred account to be refunded to customers through the Company's 2008-09 Annual Purchased Gas Adjustment with accrued interest calculated using the applicable Commission approved rate of return from the date of the sale.
5. The final journal entry recording the transaction will be submitted to the Commission within 60 days after completion of the transaction.

Made, entered, and effective JUL 31 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 29, 2008**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 21, 2008

TO: Public Utility Commission

FROM: Dustin Ball *DB*
u

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty *A* *m*

SUBJECT: NORTHWEST NATURAL GAS COMPANY: (Docket No. UP 245)
Application for the sale of a certain property located in Albany, Oregon.

STAFF RECOMMENDATION:

The Commission should approve NW Natural's (NW Natural or Company) application to sell the former customer service center located at 730 34th Avenue SW in Albany, Oregon, subject to the following conditions:

1. NW Natural shall provide the Commission access to all books of account, as well as, all documents, data, and records that pertain to the transfer of properties.
2. The Commission reserves the right to review for reasonableness all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. NW Natural shall notify the Commission in advance of any substantive changes to the transfer of properties, including any material changes in price. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate form) in this docket.
4. NW Natural will transfer the net gain to a regulatory deferred account to be refunded to customers through the Company's 2008-09 Annual Purchased Gas Adjustment with accrued interest calculated using the applicable Commission approved rate of return from the date of the sale.
5. The final journal entry recording the transaction will be submitted to the Commission within 60 days after completion of the transaction.

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DISCUSSION:

This application was filed on July 11, 2008, pursuant to ORS 757.480 and OAR 860-027-0025.

On May 16, 2008, NW Natural and Elwood Martin (Martin) entered into an agreement in which Martin agreed to purchase the former Albany customer service center for a price of \$710,000. The property consists of an office and service center for the Central Willamette Valley District consisting of the Company's Albany, Corvallis, and Mid-Willamette service territory. The Company's local office and service center had been located at the subject location from 1961 to 2006.

A study was conducted by NW Natural to examine the location, structure design, structure layout, building suitability, future population growth of the area, space demands, traffic and functional activities, and processes needed to be performed at the property to provide suitable customer service in the Central Willamette Valley District. The study revealed that remodeling would be expensive and that even with remodeling, the Company would not be able to conduct all of its customer service operations at the property. NW Natural determined that relocation was necessary.

In 2006, NW Natural relocated its customer service operations to a more suitable facility, located at 7150 Supra Drive in Albany, Oregon. The new facility consists of a building purchased and constructed by NW Natural for a total cost of \$2,301,123 and real property that is subject to a lease with the option to purchase. As a result of the relocation, the former Albany customer service center is no longer necessary or useful in the performance of the Company's service to customers.

Issues

Staff investigated the following issues:

1. Scope and Terms of the Asset Purchase Agreement
2. Allocation of Gain
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

Scope and Terms of the Asset Purchase Agreement

There does not appear to be any unusual or restrictive terms to the agreement. The value of the property was based on an appraisal conducted by PGP Valuation Inc., which reported an "as is" market value of \$650,000 as of November 13, 2006. NW Natural has agreed to dispose of the property at a price above the appraised value.

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Allocation of Gain

The property's book value and proceeds are approximately \$240,322 and \$710,000, respectively. As a result of the sale NW Natural will incur a tax expense of approximately \$183,171 (proceeds of \$469,668 x effective tax rate of 39%) resulting in a net gain of approximately \$286,497, as shown below.

Gross Proceeds	\$710,000
Book Value	-\$240,332
Taxes Accrued	-\$183,171
Net Proceeds	\$286,497

NW Natural's application proposes to apply the net gain from the sale as an offset (basis reduction) to the customer service center which the company relocated to in 2006. However, the Company's application also offered an alternative proposal to transfer the net gain into a regulatory deferred account which would then be refunded to customers through the Company's Annual Purchased Gas Adjustment.

By applying the net gain as a basis reduction of the new customer service center ratepayers would benefit through a reduced rate base, on which the Company earns a rate of return (currently set at 8.62%), as well as a reduced depreciation expense, which is included in the Company's cost of service. While rate base and depreciation expense would both be reduced in this scenario, ratepayers would not see the benefit of these reductions until after a general rate case.

Additionally, as part of a recent settlement agreement, NW Natural has agreed not to file a general rate case request before September 2011. Once any rate impact was to take effect, Staff estimates the annual savings to customers at \$28,401, as calculated below. It would take over 10 years for customers to receive the full amount of the net gain, without taking into account the time value of money (which would undoubtedly extend this time period substantially). The following table highlights Staff's calculations concerning the rate base effect.

		ANNUAL
Gain	\$286,497	
Authorized Rate of Return	8.62%	\$24,696
Gain	\$286,497	
Depreciation Rate	2.12%	\$6,074
Reduced Depreciation Exp	\$6,074	
Effective Tax Rate	39%	-\$2,369
Net Estimated Annual Savings		\$28,401

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However, by transferring the net gain into a regulatory deferred account to be refunded through the Annual Purchased Gas Adjustment, ratepayers would benefit by a reduction of the Annual Purchased Gas Adjustment. Under this scenario, ratepayers would receive the entire benefit of the net gain (\$286,497) over a one year period (November 2008 – October 2009). Staff proposes that the net gain of approximately \$286,497 be credited to Account 186 - Miscellaneous Deferred Debits, and refunded to customers in the 2008-09 PGA.

Public Interest Compliance

The sale conforms to the no harm standard used by the Commission because the former customer service center is surplus to the Company's needs and is not necessary to serve its customers. In addition, sale proceeds of approximately \$286,497, along with accrued interest at the Company's approved rate of return, will be refunded to customers through the Company's Annual Purchased Gas Adjustment.

Records Availability, Audit Provisions, and Reporting Requirements

Order Conditions Numbers 1 and 5, listed above in the staff recommendations, afford the necessary Commission examination of NW Natural's books and records concerning the sale.

PROPOSED COMMISSION MOTION:

The requested sale of the former customer service center be approved subject to Staff's recommended conditions.

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