

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1335

In the Matter of)	
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)	
NORTHWEST NATURAL GAS COMPANY,)	ORDER
dba NW NATURAL)	
)	
Application for an Accounting Order Regarding)	
Depreciation Rates and Flow-Through)	
Amounts.)	

DISPOSITION: STIPULATION ADOPTED

I. OVERVIEW

A. THE APPLICATION

On August 3, 2007, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), filed an Application for an Accounting Order Regarding Depreciation Rates and Flow-Through Amounts (Application) with the Public Utility Commission of Oregon (Commission). Separate from any general rate case (GRC), the Application requests authorization to revise the accounting treatment for NW Natural’s book depreciation rates, as well as the flow-through amounts for book depreciation in excess of tax and for removal costs incurred, consistent with two studies undertaken by the Company.

NW Natural supported the Application with two studies. One study provides an update of NW Natural’s book depreciation rates (Application’s Depreciation Study).¹ This study indicates that the depreciation expense on the Company’s books is approximately \$6.5 million higher than is appropriate, based on the average service life rates of gas plant in service as of December 31, 2005. In accordance with this study, the Application requests authorization to revise its accounting treatment to reflect a \$6.5 million decrease in book depreciation expense. Such a decrease would result in a decrease in the same amount to NW Natural’s system cost of service, and to the Company’s revenue requirement.

¹ The Depreciation Study was performed by Gannet Fleming, Inc.

In another study, NW Natural's Tax Manager reviewed the Company's deferred income tax balances, including an analysis of tax benefits that are attributed to the Company's pre-1981 plant and flowed through to customers. NW Natural asserts that this study indicates that two accounting adjustments are needed to: 1) ensure that the regulatory tax asset related to the tax effects of the pre-1981 plant is amortized over a reasonable period consistent with the expected lives of these assets; 2) to account for these assets consistent with the Company's financial accounting standards;² and 3) to ensure that the Company recovers the tax effects on a going-forward basis.

The Application requests authorization to increase the federal flow-through amount for depreciation of pre-1981 assets by approximately \$4.4 million, from the current amount of \$635,000 to \$5,021,000. NW Natural indicates that the increased revenue requirement associated with this change is \$2.8 million, on a system basis. NW Natural represents that the adjustment will allow the Company's regulatory tax asset to be amortized over a reasonable period of 25 years, rather than the current 100 years. NW Natural indicates that SFAS 109 requires the flow-through amount applied to a regulatory asset account to be updated.

The Application also requests authorization to treat removal costs incurred on a normalized basis, instead of flowing through the tax benefit of removal costs incurred. NW Natural proposes to eliminate the current federal flow-through of tax in excess of book of \$2.3 million, thereby increasing the Company's income tax liability by \$0.9 million and its revenue requirement by \$1.5 million.

B. *THE PROCEDURAL SCHEDULE*

A prehearing conference was held in the docket on February 14, 2008. A preliminary procedural schedule was established during the prehearing conference. The procedural schedule provided time for the filing of petitions to intervene. The Northwest Industrial Gas Users (NWIGU) intervened.

The preliminary procedural schedule also allowed time for a settlement conference. The procedural schedule was amended twice, however, and eventually suspended to permit additional settlement conferences. Settlement resulted, and on November 10, 2008, NW Natural, Staff and NWIGU (collectively the Stipulating Parties) executed a Stipulation. The Stipulation, along with Joint Testimony, was filed on November 11, 2008.

² Effective January 1, 1993, NW Natural adopted the Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes."

II. THE STIPULATION

The Stipulation indicates resolution of all issues related to NW Natural's Application. The Stipulating Parties assert that the Stipulation is in the public interest and request that the Commission adopt it. The key features of the Stipulation include:

1. *Application's Depreciation Study*

The Stipulating Parties agree to implement depreciation recommendations set forth in the Application's Depreciation Study, but with certain changes that result in an incremental decrease of system depreciation accruals of approximately \$6 million from the Application's Depreciation Study. The resulting annual revenue requirement decrease for Oregon, including revenue sensitive effects, is \$10,992,789.

The effective date for implementation of the modified depreciation study is January 1, 2009.

2. *New Depreciation Study*

NW Natural will produce a new depreciation study with the Company's next GRC, or by January 1, 2014, whichever is sooner.

3. *Amortization of Pre-1981 Regulatory Assets*

The Stipulating Parties agree that 100 years is an unreasonable length of time to amortize NW Natural's pre-1981 assets. Consequently, the Stipulating Parties agree to reduce the amortization schedule to 25 years, by increasing the federal flow-through (book in excess of tax) amount for depreciation of pre-1981 assets from the current amount of \$635,000 to \$7,350,000, which is \$2,329,000 more than the amount of \$5,021,000 requested in the Application. The resulting annual revenue requirement increase, including revenue sensitive effects, is \$4,076,000.

The effective date for implementation of the amortization changes for pre-1981 regulatory assets will be delayed until November 1, 2009. The Stipulating Parties agree to an interest effect of \$246,249.

4. *Removal Costs*

NW Natural will not normalize removal costs incurred, and will not reduce the current federal flow-through of tax in excess of book from \$2,322,000.

5. *Rate Spread*

The revenue requirement change will be spread in rates on an equal percentage of margin basis, excluding special contract customers.

III. DISCUSSION

The Commission encourages Staff and parties to voluntarily resolve issues in a proceeding to the extent that a settlement is in the public interest. Staff and all parties in this docket entered into a Stipulation that resolves all outstanding issues. No party has filed an objection to the Stipulation.

The Commission has examined the Stipulation, the Joint Testimony, and the rest of the pertinent record in the case. The Commission concludes that the Stipulation is an appropriate resolution of all the pending issues in this docket. The Commission adopts the Stipulation in its entirety without modification.

Under the terms of the Stipulation, NW Natural's rates will initially change, on January 1, 2009, to reflect a decrease in the Company's revenue requirement of \$10,746,540. This revenue requirement change reflects a decrease of \$10,992,789 associated with implementation of NW Natural's modified depreciation study, and a one-year temporary increase of \$246,249 associated with the interest effect for the delayed implementation of amortization changes for pre-1981 regulatory assets change. NW Natural already filed tariff revisions, on November 17, 2009, in Advice No. 08-10, to adjust rates on January 1, 2009. On November 1, 2009, NW Natural's rates will be changed to increase the Company's revenue requirement by \$4,076,000 for the delayed implementation of the amortization changes related to the pre-1981 regulatory assets.

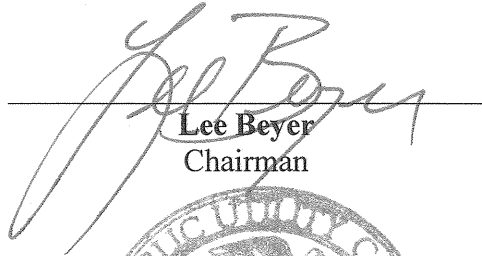
ORDER

IT IS ORDERED that:

1. The Stipulation, dated November 10, 2008, and executed by NW Natural, the Northwest Industrial Gas Users, and Commission Staff, is adopted.

2. The tariffs filed in NW Natural Advice No. 08-10 shall be treated as a filing in compliance with this order subject to review at a public meeting.

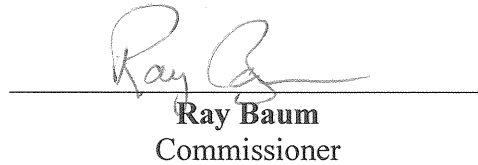
Made, entered, and effective DEC 08 2008.



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

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In the Matter of
THE PUBLIC UTILITY COMMISSION OF
OREGON
In the Matter of an Application for an
Accounting Order Regarding Depreciation
Rates and Flow-Through Amounts

STIPULATION

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I. INTRODUCTION

The parties to this Stipulation are Northwest Natural Gas Company ("NW Natural"), Northwest Industrial Gas Users ("NWIGU"), and Commission Staff ("Staff") (collectively, the "Parties").

By entering into this Stipulation, the Parties intend to resolve all issues addressed in this docket, as more particularly described below.

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II. BACKGROUND

On August 3, 2007 NW Natural filed with the Public Utility Commission of Oregon ("the Commission") its Application for an Accounting Order Regarding Depreciation Rates and Flow-Through Amounts ("Application"). In the Application, NW Natural requested that the Commission issue an order authorizing the accounting treatment to revise NW Natural's book depreciation rates, and to revise the flow-through amounts for book depreciation in excess of tax and removal costs incurred that are used in calculating the Company's income tax provision for rate making.

The Parties to this Stipulation include all Parties to the docket.

A prehearing conference was held on February 14, 2008, at which time the ALJ set a schedule for the docket. Pursuant to the schedule, the Parties held a settlement conference

1 on May 13, 2008. An additional settlement conference was held on June 10, and was
2 continued on July 17 and August 13.

3 As a result of these settlement negotiations, the Parties agreed to enter into this
4 Stipulation:

5 **III. STIPULATION**

6 1. The Parties agree to NW Natural's depreciation study proposed in its Petition
7 with changes reflected in Attachment A, attached. The changes to the depreciation study
8 reflected in Attachment A result in an incremental decrease of system depreciation accruals
9 of approximately \$6 million from the depreciation study proposed in the Petition. The
10 revenue requirement effect for the depreciation study implementation is calculated with
11 regard to the treatment of depreciation for transportation and power operated equipment
12 (amounts cleared to both capital and O&M).

13 2. NW Natural will produce a new depreciation study for the Company's next
14 rate case or by January 1, 2014, whichever is sooner.

15 3. NW Natural will increase the level of pre-81 regulatory asset amortization,
16 from the level reflected in the Petition of \$5,021,000 to the new level of \$7,350,000. NW
17 Natural will retain the level of removal cost at \$2,322,000. See Attachment B.

18 4. The effective date of change for depreciation study implementation will be
19 January 1, 2009. The Oregon annual revenue requirement decrease including revenue
20 sensitive effects is \$10,992,789, as reflected in Attachment A.

21 5. The effective date of change for pre-81 regulatory asset amortization
22 implementation will be November 1, 2009. The Oregon annual revenue requirement
23 increase including revenue sensitive effects is \$4,076,000, as reflected in Attachment B.

24 6. In deference to NW Natural delaying the revenue requirement effects related
25 to the flow-through of the pre-1981 assets, the Parties have agreed to an interest effect of
26 \$246,249.

APPENDIX A
PAGE 2 OF 6

1 7. Rate spread will be implemented on an equal percentage of margin basis,
2 excluding special contract customers.

3 **Terms of Agreement**

4 8. The Stipulation is offered into the record of this docket pursuant to OAR 860-
5 014-0085. The Parties agree to support the Stipulation throughout this proceeding and any
6 appeal, to provide witnesses to sponsor the Stipulation at any hearing held in this docket
7 and recommend that the Commission issue an order adopting the settlement contained
8 herein.

9 9. The Parties have negotiated the Stipulation as an integrated document. If the
10 Commission rejects any material portion of the Stipulation or conditions its approval upon
11 the imposition of additional material conditions, any party disadvantaged by such action
12 shall have the right, upon written notice to the Commission and all Parties within 15
13 business days of the Commission's order to withdraw from this Stipulation, pursue its rights
14 under OAR 860-014-0085 and shall be entitled to seek reconsideration of the Commission's
15 order. However, prior to withdrawal, the Party shall engage in good faith negotiation with
16 the other Parties. No Party withdrawing from this Stipulation shall be bound to any position,
17 commitment, or condition of this Stipulation.

18 10. By entering into this Stipulation, no Party shall be deemed to have approved,
19 admitted to, or consented to the facts, principles, methods or theories employed by any
20 other Party in arriving at the terms of the Stipulation.

21 11. This Stipulation may be executed in counterparts and each signed
22 counterpart shall constitute an original document.

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APPENDIX A
PAGE 3 OF 6

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3 12. Each Party enters into the Stipulation on the date below.

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5 OPUC STAFF

NW NATURAL GAS COMPANY

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7 By: Daniel B. Hatta

By: _____

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NORTHWEST INDUSTRIAL GAS USERS

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11 By: _____

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Dated: 2008, November 10

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APPENDIX A
PAGE 4 OF 6

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3 12. Each Party enters into the Stipulation on the date below.

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5 OPUC STAFF

NW NATURAL GAS COMPANY

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7 By: _____

By: *Carly M...*

11/10/08

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10 NORTHWEST INDUSTRIAL GAS USERS

11 By: _____

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13 Dated: 2008

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APPENDIX *A*
PAGE *5* OF *6*

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3 12. Each Party enters into the Stipulation on the date below.

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5 OPUC STAFF

NW NATURAL GAS COMPANY

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7 By: _____

By: _____

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NORTHWEST INDUSTRIAL GAS USERS

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11 By: Paula E. Pyron

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Dated: 2008, November 10

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APPENDIX A
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