

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 903

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL

2010 Spring Earnings Review

ORDER

**DISPOSITION: 30-DAY EXTENSION GRANTED**

On May 1, 2010, Northwest Natural Gas Company (NW Natural or Company) submitted its 2009 results of operations report, with the Public Utility Commission of Oregon (Commission), for the 12 months ending December 31, 2009. NW Natural states that the report was developed in a manner consistent with Order No. 99-272 and reflects applicable adjustments per Commission Order No. 03-507 for its general rate filing, UG 152.

Staff has examined NW Natural's report, and has been working with the Company to resolve questions as to whether all appropriate adjustments are included in the earnings test and whether Staff agrees with the calculation of all the adjustments. As Staff and NW Natural require the exchange of further information, Staff requests an additional 30 days to reach its conclusion on the earnings report.

At its July 6, 2010, 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 need for additional exchange of information between Staff and NW Natural, the Commission grants Staff's request for an additional 30 days to resolve remaining issues.

**ORDER**

IT IS ORDERED that Staff's recommendation, as stated in Appendix A, is adopted. Northwest Natural Gas Company's request for a 30-day extension is granted.

Made, entered and effective JUL 27 2010.

BY THE COMMISSION:



Becky L. Beier  
Becky 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.



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beginning November 1<sup>st</sup> whether to choose 90/10 sharing<sup>1</sup> or 80/20 sharing with a corresponding earnings review threshold. Pursuant to Commission Order No. 08-504, on October 27, 2008, NW Natural filed an Election Letter choosing an 80/20 sharing percentage for the gas year beginning November 1, 2008 and ending October 31, 2009.

- **Spring Earnings Review:** An earnings review will be performed each spring (pursuant to OAR 860-022-0070) based on the most recent fiscal year's results of operations. The earnings review will apply to the sharing election made by the LDC the previous August; 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.
- **The ROE Earnings Threshold:** Beginning with the 2010 Spring Earnings Review, an LDC that elects 90-10 sharing will be subject to an earnings threshold 100 basis points above its ROE, adjusted to reflect changes in conditions in capital markets. An LDC that elects 80-20 sharing is subject to an earnings threshold 150 basis points above its ROE, adjusted in the same manner.<sup>2</sup> The earning threshold for NW Natural for this 2010 Spring Earnings review (for reviewing 2009 results of operations) is 11.54 percent.
- **Structure of Earnings Reviews:** By May 1, each year, the 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. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.

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<sup>1</sup> Sharing of the variance between the LDC's weighted average cost of gas (WACOG) included in its rates and its actual WACOG. For example, 90/10 designates 90 percent of the variance will be deferred for subsequent charge or credit to customers, and 10 percent is absorbed or retained by the LDC.

<sup>2</sup> See Order 08-504 at 17. The earnings threshold is adjusted each year by 20 percent of any change in the risk free rate for the twelve-month calendar year preceding the annual earnings review (See Order No. 04-203 at 3-4 and OAR 860-022-0070(5)(c)).

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- **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.
- **Effective Date of Rate Adjustment and Applicable Interest:** Upon completion of the earnings review, any amount of earnings over the sharing dead band determined to be returned to customers will be booked to a deferred account. Interest shall apply beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.

#### NW Natural's Earnings Review

On May 1, 2010, NW Natural submitted its 2009 results of operations report for the twelve months ending December 31, 2009. 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 11.22 percent after application of its Type 1 adjustments.

Staff has examined the Company's filed earnings report. Staff has been working with the Company to resolve questions as to whether all appropriate adjustments are included in the earnings test and whether Staff agrees with the calculation of all the adjustments. These issues will require Staff and NWN to exchange further information in order for Staff to make a conclusion regarding the currently proposed ROE. Staff requests that the Commission allow Staff an additional 30 days to reach its conclusion.

As required by OAR 860-022-0070(6), on June 10, 2009, Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments in response.

#### **PROPOSED COMMISSION MOTION:**

The Commission allow an additional 30 days for Staff to investigate Northwest Natural's earnings report to resolve remaining issues.