

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903

In the Matter of

NORTHWEST NATURAL GAS, dba NW
NATURAL

2010 Spring Earnings Review.

ORDER

DISPOSITION: NO EARNINGS SHARED

At its July 6, 2010 Public Meeting, the Public Utility Commission of Oregon (Commission) adopted Staff's recommendation to allow an additional thirty days to review Northwest Natural Gas's, dba Northwest Natural, 2009 Results of Operations report and to resolve questions as to whether all appropriate adjustments were included in the earnings test.

At its September 7, 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 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.

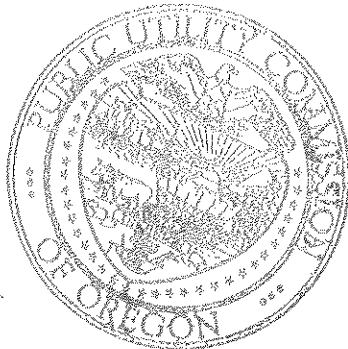
ORDER

IT IS ORDERED that:

1. Staff's recommendation, as stated in Appendix A, is adopted.
2. Northwest Natural Gas is required to revise its 2007 and 2008 Results of Operations report to correct the clerical errors associated with the calculation of its weather normalization adjustment.
3. For its 2007 report, Northwest Natural Gas should provide the results of Return on Equity without an adjustment for shareholder earnings and with an adjustment for shareholder earnings.

Made, entered and effective SEP 22 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.

ITEM NO. 2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 7, 2010

REGULAR X CONSENT _____ EFFECTIVE DATE _____ N/A _____

DATE: September 2, 2010

TO: Public Utility Commission

FROM: Carla Bird *CB*

THROUGH: Lee Sparling, Maury Galbraith, Lori Koho *MG* and Judy Johnson *JJ*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 903) 2010 Spring Earnings Review.

STAFF RECOMMENDATION:

Staff recommends:

1. That the Commission accept Northwest Natural's earnings for the 12-months ended December 31, 2009, as below the earnings threshold established in UM 903 and there should be no earnings shared in this filing; and
2. Require Northwest Natural to revise its 2007 and 2008 Results of Operations report to correct the clerical errors associated with the calculation of its weather normalization adjustment and for the 2007 report, NWN should provide the results of Return on Equity (ROE) without an adjustment for shareholder earnings and with an adjustment for shareholder earnings no later than December 31, 2010.

DISCUSSION:

At its July 6, 2010, Public Meeting, the Commission adopted¹ Staff's recommendation to allow an additional thirty days to review Northwest Natural's (NWN or the Company) 2009 Results of Operations (ROO) report to resolve questions and exchange further information.

¹ Commission Order No. 10-288

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As a result of this extended review, Staff has identified the following issues:

1. NWN does not perform a Type 1 Regulatory adjustment related to wages and salaries based upon the outcome from its last general rate proceeding.
2. The base volumes representing “normal” usage for NWN’s test year normalizing adjustment indicates a dramatic increase in volumes between the 2008 ROO and the 2009 ROO.

Issue 1: Wage and Salary Adjustment:

Staff’s data request no. 3 issued on June 30, 2010, asked for the Company to explain why it does not include an adjustment to its annual ROO to reflect a wage and salary disallowance adopted by stipulation in Commission Order No. 03-507.

The Company responded that it has never included this as an adjustment to any its annual ROO reports since its 2003 general rate proceeding (Docket No. UG 152). The Company does not believe that this adjustment is required because it does not appear in the list of Type I ratemaking adjustments adopted by the Commission in Order No. 99-272. Further, the Company believes that the wage and salary adjustment was a stipulated agreement and therefore was not a disallowance as referenced by Staff.

Staff disagrees that the list of Type 1 adjustments in Commission Order 99-272 is all-inclusive list of adjustments necessary to perform on an annual basis for the ROO reports. Staff pointed out to NWN that there are other adjustments the Company has performed each year since UG 152 that do not appear on the list.

Staff performed a current Wage & Salary analysis by gathering the current information from the Company and using Staff’s three-year model in order to determine whether this adjustment would have an impact on NWN’s 2009 ROO. It does not.

Staff believes the reason there is no current impact on Wages and Salaries using the three-year model is three-fold. First, due to NWN’s implementation of Automated Meter Reading (AMR), NWN has reduced its workforce in the past two earnings periods by a considerable number of Full-Time Equivalent (FTE). As a result of this its current wage and salary levels are below Consumer Price Index (CPI) and therefore do not impact the Company’s earnings. Second, a considerable percentage of FTE are union represented. In the three-year wage and salary model, Staff replaces typical CPI with the percentage increases adopted through union negotiations. Third, due to the length of time since NWN’s last rate case provides more incentive (especially in a down economy) for the Company to keep its costs at or below CPI.

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Since there is no financial impact on the 2009 ROO for a wage and salary adjustment, Staff believes it is likely there will be no impact in the 2010 ROO for the same reasons stated above. Staff believes it would be best to address this issue in NWN's next general rate proceeding.

In Docket No.UG 152, NWN agreed to a rate moratorium that will expire in 2011. NWN's agreements regarding its decoupling and WARM mechanisms will expire at that same time. It is likely that these issues will force NWN to come in for a general rate proceeding in order to address a request to extend these mechanisms. Staff believes that this would be the appropriate time to address whether or not the Commission agrees that a wage and salary adjustment should be carried forward into future ROO's as a Type I adjustment.

Issue 2: Normal base year volumes:

As a part of its WARM and Decoupling calculation, NWN establishes a "base" year of "normal" volumes. In response to Staff's data requests, NWN discovered a clerical error that occurred in its 2008 ROO that accounts for the large volume differences between the 2008 and 2009 base volumes. Staff pointed out that this explanation creates the same situation (a large jump in the base volumes) for 2007. In response, NWN stated that the same clerical error occurred in both years.

Staff Analysis:

The conclusion of Staff's extended review related to the 2009 ROO results in no recommended changes to NWN's 2009 ROO report. The earning threshold established for NWN's ROE for the 2010 Spring Earnings review is 11.54 percent, as originally filed. The Company calculates its ROE as 11.22 percent after application of its Type 1 adjustments. Therefore, Staff recommends no earnings be shared as a result of the 2010 Spring Earnings review.

However, Staff recommends that NWN revise its ROO reports for 2007 and 2008 as a result of discovering the clerical errors discussed in Issue 2 above. Staff believes the reports should reflect revisions that correct the clerical errors and are also compliant to Commission Order No. 09-180.

The 2007 ROO is the last year NWN filed its ROO which included an adjustment to remove the effects of shareholder earnings related to the purchased gas cost adjustments. This means that the current 2007 ROO on file at PUC removes the effects shareholder's earnings due to a lower-than-forecast Weighted Average Cost of Gas (WACOG). Allowing this adjustment lowers NWN's ROE for the 2007 period. Staff

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believes requiring NWN to remove this adjustment is compliant with Docket No. DR 43 that was issued in Commission Order No. 09-180.

NWN's 2008 ROO was performed both ways (including the shareholder adjustment and excluding the shareholder adjustment) due to the fact that the application for a declaratory ruling was before the Commission at the time of the 2008 ROO filing, but an order had not yet been issued.

Staff believes the Company should be required to revise the 2007 and 2008 ROO's to correct for the clerical errors and to exclude an adjustment for shareholder earnings. Staff believes the retrospective revisions are necessary due to the fact that NWN may make a request for amortization in the future for amounts that were deferred during these two periods. If an amortization request is made, Staff would need to refer back to the ROO's for this time period. At that time, it would be incumbent upon Staff and NWN to remember that errors were discovered in these reports and new reports would be necessary to perform an earnings test in order to make a recommendation regarding amortization.

NWN was willing to file revised 2007 and 2008 ROO's to correct for the clerical errors, but disagrees that it is appropriate to include the shareholder's earnings. NW Natural believes that Commission Order No. 08-504 in UM 1286 and the Commission's ruling on the Company's Petition for Declaratory Ruling in DR 43 changed the manner in which NW Natural treated gas cost variances in its ROOs on a *prospective* basis beginning with the 2008 Spring Earnings Review.

Resolution of the Issues:

On September 1, 2010, Staff, NWN, Northwest Industrial Gas Users (NWIGU) and the Citizens' Utility Board (CUB) (the Parties) met by telephone to discuss a resolution. As a compromise of the two positions, NWN has agreed to submit its revised 2007 and 2008 Earnings Reports showing both results; the ROE without an adjustment for shareholder earnings and with an adjustment for shareholder earnings.

Should the treatment of gas cost variances become an issue in a future earnings review related to the 2007 ROO, the Parties will address their arguments to the Commission at that time.

Thirty-Day Extension:

At the July 6, 2010, Public Meeting, the Commission adopted Staff's recommendation to allow an additional thirty days to resolve questions as to whether all appropriate adjustments were included in the earnings test.

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OAR 860-022-0070(6) outlines the procedures and timing related to unresolved issues that may occur as a result of Staff's review of the Earnings Test related to the Spring Earnings Review. In part, the rules state that the Commission will issue a decision by August 15th of any unresolved issues. Since Commission Order No. 10-288 allows for a thirty-day extension, Staff believes that the Commission must issue an order prior to September 15th to be compliant with the procedures described in OAR 860-022-0070(6).

Procedurally, Staff is unable to move this item before the Commission to a Consent Agenda item due to the statutory requirements necessary for proper notice. Therefore, this item remains on the Regular Public Meeting Agenda even though there is a resolution fully supported by Staff and the Parties.

PROPOSED COMMISSION MOTION:

1. The Commission accept Northwest Natural's earnings for the 12-months ended December 31, 2009, as below the earnings threshold established in UM 903 and there should be no earnings shared in this filing; and
2. Require Northwest Natural to revise its 2007 and 2008 Results of Operations report to correct the clerical errors associated with the calculation of its weather normalization adjustment and for 2007 report, NWN should provide the results of ROE without an adjustment for shareholder earnings and with an adjustment for shareholder earnings.

NWN 2010 UM 903 after 30 day review