

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 152/UG 163

In the Matters of

NORTHWEST NATURAL GAS COMPANY

Application for a General Rate Revision
Advice No. 02-19, (UG 152)

and

Petition to Commence Investigation.
(UG 163)

ORDER

DISPOSITION: SUPPLEMENTAL STIPULATION ADOPTED

In this order, we adopt a Supplemental Stipulation that governs future requests by Northwest Natural Gas Company (NW Natural) to defer and amortize prudently incurred capital costs for Phase II of its Automated Meter Reading (AMR) project. The Supplemental Stipulation supplements an earlier stipulation adopted in Order No. 07-426.

I. BACKGROUND

In Order No. 07-426, we adopted a multi-party Stipulation that extended NW Natural's Weather-Adjusted Rate Mechanism (WARM).¹ As part of the Stipulation, NW Natural agreed not to file a general rate case before September 1, 2011, except under certain conditions. One condition related to the recovery of capital costs for an AMR project. That provision acknowledged the possibility that a joint meter reading agreement with Portland General Electric Company (PGE) might be rendered obsolete or terminated and, if either occurred, NW Natural would implement AMR in the affected service territory. The Stipulation states that, under such circumstances, NW Natural would be allowed an

¹ The Stipulation was signed by NW Natural, the Public Utility Commission of Oregon Staff (Staff), Citizens' Utility Board of Oregon (CUB), Northwest Industrial Gas Users (NWIGU), Northwest Energy Coalition (NVEC), Community Action Partnership of Oregon (CAPO), Oregon Energy Coordinators Association (OECA), Oregon Department of Energy (ODOE), and the Natural Resource Defense Council (NRDC).

opportunity to recover its prudently incurred capital costs for its AMR project, either through a rate case or alternative mechanism. The Stipulation reads, in part:

If Portland General Electric (PGE) receives Commission approval of its automated metering infrastructure tariff (Docket UE 189) or otherwise notifies NW Natural that it is terminating the agreement governing the PGE & NW Natural joint meter reading territory (JMR), NW Natural intends to implement automated meter reading (“AMR”) in the territory currently covered by the JMR agreement. If the Parties do not support a request by NW Natural for the opportunity to recover the capital costs for its AMR project on an annual basis and the Parties cannot agree on an alternative form of recovery, or the Commission does not approve recovery of prudent costs pursuant to NW Natural’s request, NW Natural may file a general rate case.²

As contemplated by the Stipulation, the JMR agreement between PGE and NW Natural was terminated, and NW Natural began to implement AMR in the affected territory. NW Natural sought and received authorization to defer expenses related to this Phase II of the AMR project, which are estimated to be approximately \$30 million.³

II. SUPPLEMENTAL STIPULATION

On October 22, 2009, NW Natural filed an agreement intended to supplement the Stipulation adopted in Order No. 07-426. This so-called Supplemental Stipulation, attached as Appendix A, is signed by NW Natural, CUB, Staff, and NWIGU (collectively, the Parties).⁴ The Supplemental Stipulation establishes the Parties’ agreement as to future requests by NW Natural to renew its Phase II AMR application, and also establishes standards that should be applied to requests to amortize the deferred costs.

In the Supplemental Stipulation, the Parties agree to the following:

1. The Parties continue to support NW Natural’s recovery of prudently incurred Phase II AMR Project costs through amortization of the amounts deferred, subject to earnings reviews. The Parties understand that NW Natural will file annual requests for renewal of its authority to defer Phase II AMR project costs.

² Order No. 07-426, Appendix A, pp. 2-3. NW Natural did not seek deferral of costs associated with the Phase I installation of AMR, which affected service territory that does not overlap PGE’s territory and was not subject to the JMR.

³ See Order No. 09-105.

⁴ The Parties contacted other parties to the original Stipulation approved in Order No. 07-426. ODOE, NRDC, and NVEC do not object to the Supplemental Stipulation. The parties were unable to contact OECA and CAPO, but did serve them a copy of the Supplemental Stipulation. Neither party filed an objection to the Supplemental Stipulation under OAR 860-014-0085(5).

2. The Parties support renewal of NW Natural authority to defer Phase II AMR costs until NW Natural's next general rate case.
3. NW Natural should be allowed to amortize the deferral amount unless such recovery would cause NW Natural's return on equity (ROE) during the earnings review period to exceed NW Natural's authorized ROE.
4. The Shareholder's portion of weighted-average cost of gas (WACOG) variances deferred pursuant to NW Natural's purchased gas adjustment mechanism (PGA) should be excluded from the earnings test.
5. NW Natural should be able to amortize the full amount of deferred Phase II AMR costs each calendar year unless such amortization results in a surcharge in excess of three percent of NW Natural's gross revenues for the preceding calendar year, with any amounts not allowed to be amortized in a subsequent period.
6. NW Natural will seek to amortize deferred Phase II project costs concurrently with NW Natural's annual PGA.
7. Amounts amortized pursuant to the Supplemental Stipulation will be spread on an equal percentage of margin basis for customer classes participating in the AMR project.

III. DISCUSSION

The original Stipulation, approved in Order No. 07-426, authorized NW Natural to seek recovery of its prudently incurred Phase II AMR costs on either an annual basis or, if necessary, as part of a general rate proceeding. To date, NW Natural has sought recovery on an annual basis through deferred accounting. CUB, NWIGU, and Staff have supported that approach, and have now joined NW Natural in the Supplemental Stipulation to support future requests by NW Natural to renew its Phase II AMR deferrals, and to clarify the standards that should be applied to NW Natural's requests to amortize the deferred costs.

With regard to amortization, the Parties agree that the deferred costs will be subject to audit and an earnings review in a manner consistent with ORS 757.259. The Parties, however, propose that the company's shareholder portion of the WACOG variances deferred under NW Natural's PGA be excluded from the earnings test. To the extent this proposal conflicts with Commission precedent, NW Natural requests an exception for purposes of the Supplemental Stipulation. NW Natural explains that, when it agreed to the

rate case moratorium, it excluded the shareholder portion from its earnings, and that this treatment of WACOG differences served as a basis for NW Natural's decision to agree not to seek a rate case until September 2011.

In prior dockets, we have concluded that gas cost variances retained by a utility through the sharing provisions of a PGA should be considered as part of the utility's regulated earnings for purposes of PGA spring earnings review.⁵ In those dockets, we held that all gas cost variances, including any amounts retained by the utility, should be accounted for in the utility's earnings.

We have not expressly addressed the question whether amounts retained by shareholders through a PGA sharing mechanism should be included as part of a utility's earnings when conducting an earnings test to determine whether deferred amounts should be amortized under ORS 757.259. It is likely that we would reach a similar decision and conclude that shareholder portions should be included when examining earnings prior to amortization. That broad question, however, is not before us, and we decline to resolve the issue here based on a limited record. Instead, we consider only the specific question presented—whether the Parties' agreement to exclude such earnings during a proceeding to amortize the deferred Phase II AMR costs is reasonable within the context of the Supplemental Stipulation.

Within this limited context, we find the exclusion of WACOG variances from an earnings test to amortize the Phase II AMR costs to be reasonable. As noted by the Parties, NW Natural agreed to the rate case moratorium with the assumption that WACOG variances would be excluded, and all agree that the earnings review for the Phase II AMR costs should be conducted consistent with that understanding. Thus, for purposes of this Supplemental Stipulation, we find the Parties' proposal to exclude WACOG variances during the earnings review to be reasonable.

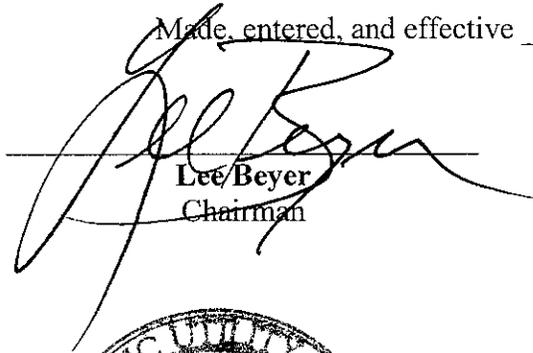
We also find the other provisions of the Supplemental Stipulation to be reasonable, and conclude it should be adopted in its entirety. The Supplemental Stipulation provides NW Natural the opportunity to recover the prudent costs incurred in the implementation of the Phase II AMR Project without necessitating a general rate case.

⁵ See Order No. 08-504 at 14-15, 18 (Docket UM 1286); Order No. 09-180 (Docket DR 43).

ORDER

IT IS ORDERED that the Supplemental Stipulation, establishing standards for requests by Northwest Natural Gas Company to defer and amortize prudently incurred capital costs for Phase II of its Automated Meter Reading project and executed by Northwest Natural Gas Company, the Citizens' Utility Board of Oregon, Commission Staff, and the Northwest Industrial Gas Users, is adopted in its entirety.

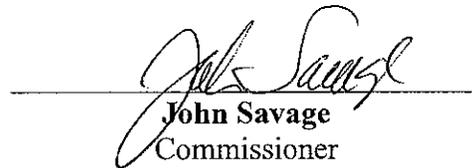
Made, entered, and effective FEB 01 2010



Lee Beyer
Chairman



Ray Baum
Commissioner



John Savage
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

UG 152/UG 163

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NORTHWEST NATURAL GAS COMPANY
Application for a General Rate Revision
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Petition to Commence Investigation.
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SUPPLEMENTAL STIPULATION

INTRODUCTION

This agreement (hereinafter, "Supplemental Stipulation") is intended to supplement the Stipulation adopted by the Public Utility Commission of Oregon ("Commission") in this docket in Order No. 07-426. In that Stipulation, the Parties (listed below) agreed to extend the terms of Northwest Natural Gas Company's ("NW Natural" or the "Company") Weather-Adjusted Rate Mechanism ("WARM") and Distribution Margin Normalization ("DMN") mechanisms. In addition, the Parties agreed that NW Natural would not file a rate case prior to September 1, 2011 (the "Rate Case Moratorium"), except under certain conditions, including the opportunity to seek recovery of its capital costs associated with its Automated Meter Reading ("AMR") project.¹ The Commission has now approved NW Natural's request to defer such capital costs for later recovery,² and the Parties wish to memorialize their

¹ The Stipulation included two other exceptions to the Rate Case Moratorium, allowing NW Natural to file a rate case prior to September of 2011, as might be necessary to have the opportunity to recover costs associated with its Integrity Management Program, and if in the event of an "extraordinary event." Order No. 07-426, Appendix A, pp. 2-3.

²See Order No. 09-105, issued in UM 1413.

1 further agreement as to the amortization of such costs and the impact of such amortization
2 on the Rate Case Moratorium.

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PARTIES

4 The Parties to this Supplemental Stipulation are as follows: Commission Staff,
5 Citizens' Utility Board ("CUB"), Northwest Industrial Gas Users ("NWIGU"), and NW Natural.

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BACKGROUND

7 On September 26, 2007, the Commission approved an all-party Stipulation extending
8 the terms of NW Natural's WARM and DMN mechanisms and establishing an annual
9 reporting requirement for WARM. As a key provision of that Stipulation, NW Natural
10 agreed—subject to specific qualifications—that the Company would not initiate a general
11 rate case prior to September 1, 2011. Among the agreed-upon exceptions is the following:

12 If Portland General Electric receives approval of its automated metering
13 infrastructure tariff (Docket UE 189) or otherwise notifies NW Natural that it is
14 terminating the agreement governing the PGE and NW Natural joint meter
15 reading territory, NW Natural intends to implement its automated meter
16 reading ("AMR") in the territory currently covered by the JMR agreement. If
17 the Parties do not support a request by NW Natural for the opportunity to
18 recover the capital costs for its AMR project on an annual basis and the
19 Parties cannot agree on an alternative form of recovery, or the Commission
20 does not approve recovery of prudent costs pursuant to NW Natural's
21 request, NW Natural may file a general rate case.³

18 The "JMR agreement" ("JMR Agreement") referenced above is the contract between
19 NW Natural and PGE, entered into in May of 2001, in which those two companies agreed to
20 divide between them the meter reading routes in their overlapping territories in the Portland
21 and Salem areas, and to each read each other's meters on their assigned routes. At the
22 time the Parties signed the Stipulation, PGE had requested that the Commission approve an
23 automated metering infrastructure tariff.⁴ The Stipulation specifically addressed the

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25 ³ Order No. 07-426, Appendix A, at pp. 2-3.

26 ⁴ See, Reference to Request to Add Schedule 111, Advanced Metering Infrastructure ("AMI"), UE
189.

1 condition that if the Commission approved PGE's tariff request, PGE would no longer need
2 to dispatch personnel to read its meters, thus rendering the JMR Agreement obsolete. The
3 Parties were informed that NW Natural had already begun deployment of its own automated
4 meter reading project in non-JMR territory (the Company's "Phase I AMR Project") and that
5 if the JMR Agreement were to be dissolved, NW Natural would likely extend the AMR project
6 to cover the JMR territory (the Company's "Phase II AMR Project"). The Stipulation states
7 that, in this event, NW Natural should be allowed an opportunity to recover its prudently
8 incurred capital costs for its AMR project, either through a rate case or other alternative
9 mechanism.

10 On May 5, 2008, the Commission approved PGE's proposed tariff to recover AMR
11 costs.⁵ Two days later, PGE provided NW Natural with formal notice of its intent to terminate
12 the JMR Agreement. NW Natural completed its financial analysis of a project to deploy its
13 own AMR system in the JMR territory and began work on Phase II in August 2008. The
14 current schedule anticipates that Phase II will be complete in December 2009. The total
15 capital cost for the Phase II project is estimated to be approximately \$30 million.

16 On January 14, 2009, the Company filed a petition requesting authorization to defer
17 the revenue requirement related to the installation of the Phase II AMR Project.⁶ The
18 purpose of the petition was to allow NW Natural an opportunity to recover its net costs of
19 service associated with the Phase II AMR project until those cost could be reflected in

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24 ⁵ Order No. 08-245, issued in UE 189.

25 ⁶ See, Application for Authorization to Defer Expenses Related to the Installation of Automated Meter
26 Reading, filed in UM 1413. The Company did not request deferral of costs related to the Phase I.

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1 permanent rates.⁷ In its Order No. 09-105, issued in UM 1413, the Commission adopted
2 Staff's recommendation and approved NW Natural's deferral request.⁸

3 **STIPULATION**

4 **Whereas,** the Parties agree to support NW Natural's recovery of its revenue
5 requirement subject to earnings reviews described below associated with the prudently
6 incurred capital costs for its Phase II AMR Project through a deferral mechanism, and

7 **Whereas,** the Parties understand that NW Natural plans to file annual requests for
8 the renewal of its authority to defer its revenue requirement associated with its Phase II
9 AMR Project until such costs have been considered in a general rate filing, the Parties agree
10 as follows:

- 11 1. The Parties agree to support NW Natural's recovery of the revenue requirement
12 associated with prudently incurred capital costs for the Phase II AMR Project
13 through amortization of the amounts deferred pursuant to Commission orders
14 issued in UM 1413⁹ (or any other order approving the Company's request to
15 defer capital costs for the Phase II AMR Project), subject to an earnings review,
16 as described in Paragraph 4 below and subject to audit of those capital costs and
17 the terms and conditions of this Supplemental Stipulation.
- 18 2. The Parties agree to support renewal of the Phase II AMR Project deferral
19 applications each year until the effective date of rates set in NW Natural's next
20 general rate case.

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23 ⁷ *Id.*, at p. 4.

24 ⁸ The Parties are, however, now proposing a different earnings test period than the period
contemplated in the Commission-adopted Staff Report.

25 ⁹ UM 1413 describes the method in which the Company should calculate the associated revenue
26 requirement minus depreciation and the avoided Operations and maintenance expense related to
savings from JMR.

- 1 3. The Parties agree to support the amortization of all of NW Natural's prudently
2 incurred Phase II AMR Project cost deferrals as described herein.
- 3 4. The Parties agree that the earnings review applied to amortization of Phase II
4 AMR Project cost deferrals will be conducted in a manner consistent with ORS
5 757.259. For purposes of this Stipulation, the Parties agree that NW Natural will
6 be allowed to amortize the deferral except to the extent that recovery would
7 cause the Company's return on equity ("ROE") during the earnings review period,
8 described in Paragraph 6 below, to exceed the Company's authorized ROE in
9 effect during the earnings review period. The shareholders' portion of WACOG
10 variances deferred pursuant to NW Natural's purchased gas cost adjustment
11 mechanism ("PGA") will be excluded from the earnings test described in this
12 paragraph.
- 13 5. The Parties recognize that during the amortization periods of Phase II AMR
14 Project cost deferrals, the Company may be amortizing the customer share of
15 excess gas costs deferred pursuant to its PGA. The Parties agree that for
16 purposes of applying the amortization cap contained in ORS 757.259(6), the
17 Company should be allowed to amortize the full amount (after application of the
18 earnings test described in Paragraph 4 above) of Phase II AMR Project cost
19 deferral each calendar year, unless the amortization of all deferrals subject to
20 ORS 757.259(6), excluding costs deferred pursuant the Company's PGA
21 mechanism or other costs deferred pursuant to ORS 757.259(7), would result in
22 a surcharge in excess of three percent of the Company's gross revenues for the
23 preceding calendar year. The Parties agree that any amounts not allowed to be
24 amortized in any given year as a result of applying ORS 757.259(6) should be
25 amortized in a subsequent period.

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- 1 6. NW Natural will seek amortization of Phase II AMR Project deferred amounts
2 concomitantly with the Company's annual PGA Filings.
- 3 a. The 2010 request for amortization will include AMR Phase II amounts
4 deferred from January 14, 2009 – December 31, 2009. The earnings
5 review period for this amortization will be the calendar year 2009. This
6 deferred amount will be subject to the earnings test in Paragraph 4 above
7 to determine the allowable recovery amount and then will be amortized
8 from November 1, 2010, through October 31, 2011. The 2011 request for
9 amortization will include AMR Phase II amounts deferred from January 1,
10 2010 through December 31, 2010. The earnings review period for this
11 amortization is the calendar year 2010. The deferred amount will be
12 subject to the earnings test described in paragraph 4 above to determine
13 the allowable recovery amount and then will be amortized from November
14 1, 2011, through October 31, 2012, along with any residual over-or-under
15 collection from the previous year's amortization. NW Natural will seek
16 subsequent amortizations of Phase II AMR Project deferred amounts
17 consistent with this paragraph, subject to Paragraph 6.b below.
- 18 b. For the purposes of subsequent requests for amortization of AMR Phase II
19 Project costs deferred pursuant to this Supplemental Stipulation, the
20 applicable earnings review period will be the calendar year of the first
21 deferral month for which amortization is being sought. For instance, when
22 the Company requests amortization of AMR Phase II Project cost amounts
23 deferred from January 1, 2011 – December 31, 2011, the earnings review
24 period for this amortization will be the calendar year 2011.
- 25 7. The Parties agree that amounts amortized pursuant to this Supplemental
26 Stipulation will be spread an equal percentage of margin basis for customer

- 1 classes participating in the AMR project—those customers taking sales service
2 under Schedules 1, 2, 3, and 31.
- 3 8. The Stipulation is offered into the record of this docket pursuant to OAR 860-014-
4 0085. The Parties agree to support the Stipulation throughout this proceeding
5 and any appeal, to provide witnesses to sponsor the Stipulation at any hearing
6 held in this docket and recommend that the Commission issue an order adopting
7 the settlement contained herein.
- 8 9. The Parties have negotiated the Stipulation as an integrated document. If the
9 Commission rejects any material portion of the Stipulation or conditions its
10 approval upon the imposition of additional material conditions, any Party
11 disadvantaged by such action shall have the right, upon written notice to the
12 Commission and all Parties within 15 business days of the Commission's order to
13 withdraw from this Stipulation, pursue its rights under OAR 860-014-0085 and
14 shall be entitled to seek reconsideration of the Commission's order. However,
15 prior to withdrawal, the Party shall engage in good faith negotiation with the other
16 Parties. No Party withdrawing from this Stipulation shall be bound to any
17 position, 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
20 by any other Party in arriving at the terms of the Stipulation nor to have agreed to
21 the application of the methodology set forth in this Stipulation in any other
22 context.
- 23 11. This Stipulation may be executed in counterparts and each signed counterpart
24 shall constitute an original document.
- 25 12. Each Party enters into the Stipulation on the date below.
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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

By: C. Or + Mi

By: _____

Dated: 10/21/09

Dated: _____

OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

By: _____

By: _____

Dated: _____

Dated: _____

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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

By: _____

By: Phil Oels

Dated: _____

Dated: 10-21-09

OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

By: _____

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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

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OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

By: AK _____

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NW NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD
OF OREGON

By: _____

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Dated: _____

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OPUC STAFF

NORTHWEST INDUSTRIAL GAS USERS

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Dated: 10/21/09