

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1520/UG 204

In the Matters of

NORTHWEST NATURAL GAS
COMPANY, dba NW Natural

Applications for Deferred Accounting
Order Regarding Purchase of Natural Gas
Reserves (UM 1520)

and

Proposed Purchase of Natural Gas
Reserves (UG 204)

ORDER

**DISPOSITION: STIPULATION ADOPTED; PROPOSED
TRANSACTION FOUND PRUDENT;
SUPPLEMENTAL ORDER TO BE ISSUED**

In these dockets, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company) seeks approval of applications related to a proposed joint venture with Encana Oil & Gas (USA) Inc. (Encana) to develop gas reserves for service to NW Natural's customers. In docket UG 204, NW Natural requests an order that the Company's decision to acquire a long-term property interest in specified natural gas reserves negotiated with Encana (the Proposed Transaction) is prudent. In docket UM 1520, NW Natural requests that it be allowed to implement deferred accounting to track related expenses from the date of the Proposed Transaction through October 31, 2011, when the Company proposes to begin to recover its expenses through its purchased gas adjustment (PGA) filings. NW Natural requests that we process these applications on an expedited basis, explaining that it needs a decision by May 1, 2011, to execute the negotiated transaction.

Following the filing of opening testimony and a series of settlement negotiations, the four active parties to this docket, NW Natural, the Citizens' Utility Board of Oregon (CUB), the Northwest Industrial Gas Users (NWIGU), and the Commission Staff (Staff) (collectively, Parties), entered a settlement of all issues and

presented a stipulation for Commission adoption.¹ The stipulation is attached as Appendix A and incorporated by reference.

In the stipulation, the Parties agree it is likely that the Proposed Transaction will provide benefits to NW Natural's customers, and that, subject to the terms of the stipulation, the Company's decision to enter into the joint venture is prudent. Under the negotiated terms of the Proposed Transaction, NW Natural would enter into a joint venture with Encana to partially fund the drilling of natural gas wells in the Jonah Field in Sublette County, Wyoming, owned by Encana. In return, NW Natural would earn a working interest in the gas reserves in the Jonah Field. NW Natural will invest about \$251 million over 5 years and expects to receive a specified volume of gas over a 30-year term. NW Natural either can take its gas in kind, or it can have Encana sell the gas at market prices, allowing the Company to purchase replacement gas at market prices.

The stipulation also sets forth the Parties' agreed alternative ratemaking treatment for the Proposed Transaction. Among other things, the parties agree that the capitalized costs authorized in rates are capped at \$251 million. As an interim matter, the initial rates to cover NW Natural's carrying costs will be calculated at the Company's authorized cost of capital, approved by the Commission in docket UG 152, subject to a retroactive adjustment once the Commission authorizes a new cost of capital for the Company. NW Natural's investment will be amortized over 30 years to match the expected volumes, with the opportunity for the parties to reexamine and recommend adjustments to the amortization schedule in five years.

In addition, the Parties agree that the costs of the Proposed Transaction should be recovered on an ongoing basis through NW Natural's annual PGA mechanism, including the deferral process for the commodity cost of gas. All variances from forecast amounts associated with the costs and volumes are subject to the PGA sharing mechanism, up to the first \$10 million of the variance in any annual period. Any variance in excess of \$10 million, whether positive or negative, will be passed through to customers through the PGA sharing mechanism at 100 percent. Similarly, any savings or costs resulting from NW Natural's decision to take gas in kind or have Encana sell it will be subject to the PGA sharing mechanism. Where the Company incurs additional costs because it purchases replacement gas at a higher price, the stipulation provides for NW Natural to provide notice to the other parties and later explain the transaction.

Finally, the stipulation contains other terms, including the requirement that NW Natural will file a request for a general rate revision not later than December 31, 2011, and submit various reports associated with the Proposed Transaction to the parties and the Commission.

¹ Cascade Natural Gas Corporation intervened as a party but did not file testimony in the proceedings.

DISCUSSION

For reasons to be provided in a supplemental order in these proceedings, we adopt the uncontested stipulation. Although this matter was presented to us on an extremely expedited basis, we have received sufficient information from the parties and our Staff to determine that NW Natural's proposed purchase of the natural gas reserves, under the negotiated terms of the Proposed Transaction, is prudent. We agree with the parties that the Proposed Transaction is likely to produce benefits for NW Natural's customers, that the risk of the transaction has been reasonably mitigated, and that the remaining risk is appropriately shared between shareholders and ratepayers under the terms of the stipulation.

As stated in the stipulation, the finding of prudence does not prevent the parties from challenging the prudence of the Proposed Transaction if new information arises that demonstrates that NW Natural knew, or should have known, something of consequence to the Proposed Transaction at the time of entering it. Moreover, the finding of prudence at this time applies only to NW Natural's decisions to enter into the Proposed Transaction, and not any subsequent decisions the Company might make in terms of exercising its discretion to manage underlying contracts.

By issuing this order to approve the stipulation and enter a finding of prudence, we provide NW Natural the requisite approval prior to May 1, 2011, to permit the Company to proceed with the transaction. Due to the limited time since the filing of the Parties' stipulation and supporting testimony, however, we have not yet had time to prepare our complete written analysis explaining the bases for our conclusions that support the adoption of this stipulation. We will therefore issue a supplemental order providing a more complete summary of the Proposed Transaction, the stipulation, the Parties' testimony supporting the stipulation, and our complete analysis.

ORDER

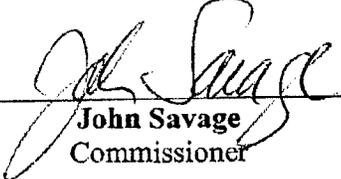
IT IS ORDERED that:

1. The stipulation among Northwest Natural Gas Company, dba NW Natural, the Citizens' Utility Board of Oregon, the Northwest Industrial Gas Users, and the Staff of the Public Utility Commission of Oregon, attached as Appendix A to this order, is adopted.
2. The Proposed Transaction between Northwest Natural Gas Company, dba NW Natural, and Encana Oil & Gas (USA) Inc., is prudent as described in the stipulation.

ORDER NO. 11 140

3. The application for deferred accounting regarding the purchase of natural gas reserves, filed by Northwest Natural Gas Company, dba NW Natural, is approved.
4. The revised Schedule P, attached as Exhibit A to the stipulation, is approved.
5. Northwest Natural Gas Company, dba NW Natural, must file compliance tariffs consistent with the terms of this order no later than 10 days from the date of this decision.

Made, entered, and effective APR 28 2011



John Savage
Commissioner



Susan K. Ackerman
Commissioner JA



A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1520, UG 204

In the Matters of

NORTHWEST NATURAL GAS
COMPANY, dba NW Natural,

Application for Deferred Accounting
Order Regarding Purchase of Gas
Reserves (UM 1520),

and

Application for Proposed Purchase of
Natural Gas Reserves (UG 204).

STIPULATION

This Stipulation resolves all known issues among the parties to this Stipulation related to Northwest Natural Gas Company's ("NW Natural" or "Company") request in these dockets for approval by the Public Utility Commission of Oregon ("Commission") of its acquisition of natural gas reserves.

I. PARTIES

1. The parties to this Stipulation are Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), the Northwest Industrial Gas Users ("NWIGU"), and NW Natural (together, the "Parties").

II. BACKGROUND

2. For several years, NW Natural has been investigating opportunities to obtain a long-term fixed-price gas supply for approximately 10 percent of its portfolio. The Company believes that such an arrangement would provide substantial benefits to its customers. The Company has now entered into an agreement intended to provide long-term price stability through a joint venture with Encana Oil & Gas (USA) Inc ("Encana") to

1 develop gas reserves (the "Proposed Transaction"). In these consolidated dockets, NW
2 Natural requests Commission approval for the Proposed Transaction.

3 **A. Terms of the Proposed Transaction**

4 3. The Proposed Transaction calls for NW Natural and Encana to enter into a
5 joint venture to develop gas reserves for service to NW Natural's customers. Encana will
6 contribute its interest in certain natural gas leases and wells in the Jonah Field, which is
7 located in the Green River Basin in Sublette County, Wyoming. NW Natural will
8 participate with Encana by paying to Encana a portion of the costs of drilling a specified
9 number of new wells referred to in the agreements as "Carry Wells." For each Carry Well
10 drilled, the Company will receive either a working interest in a section of the field (including
11 existing wells and the Carry Wells) or a working interest in the reserves in the field plus a
12 certain percentage of the output of the drilled well, depending upon the section in which
13 the well is drilled. The details of the Proposed Transaction are described in paragraphs 4
14 through 6 below.

15 4. Over five years, NW Natural will invest approximately \$251 million in the
16 Proposed Transaction through its commitment to pay a portion of the costs of drilling its
17 Carry Wells. In addition to this initial capital investment, over the life of the agreement the
18 Company will pay a portion of the costs to operate and maintain its wells, and to gather
19 and process the gas from those wells. NW Natural expects to receive 63 percent of the
20 total gas from the Proposed Transaction in the first 10 years, 83 percent in the first 15
21 years, and 94 percent by the end of year 20. The remaining volumes would be received
22 until the wells are finally capped at the end of their useful life—estimated to be
23 approximately 30 years from the date NW Natural and Encana enter into the agreement
24 as described in Paragraph 2 above. These gas volume amounts are expected to represent
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approximately 10 percent of NW Natural's total annual gas requirements during the first ten years of the agreement, and will taper off over the remaining expected life of the wells.

5. The ownership interest earned by NW Natural in the Jonah Field gas reserves differs depending on where in the Jonah Field the wells are drilled. For each well drilled by NW Natural in the part of the Jonah Field referred to as the Updip Area, NW Natural will earn a percentage interest in the oil and gas lease and all of the wells (and all of the gas produced) in one of three sections in that area, up to a specified maximum interest in each section. For each well drilled by NW Natural in the part of the Jonah Field referred to as the Downdip Area, NW Natural will earn a percentage interest in the individual wellbore, (and the gas produced by that well) in addition to the specified interest in the leases, wells and gas produced in one of the sections in the Updip Area as described above. Under the terms of the agreement, Encana will act as the operator of the wells, subject to the terms of the Joint Operating Agreement (NWN/502). Under the Joint Operating Agreement, NW Natural can elect to take its share of production in kind, to sell the production, or to transport it to NW Natural's distribution system. Alternatively, NW Natural may elect to have Encana sell NW Natural's share of production at market prices, and to receive the proceeds of such sale, minus the appropriate royalty and other costs specified in the Proposed Transaction. Then NW Natural could use the proceeds to purchase quantities of gas (or offset portions of the cost of gas) at Opal or from other locations. Initially, NW Natural has elected to have Encana sell NW Natural's share of production.

6. The Proposed Transaction is specifically conditioned upon NW Natural receiving Commission approval, including a finding of prudence.

1 **B. Dockets UM 1520 and UG 204.**

2 7. Docket UM 1520 was opened on January 31, 2011, when NW Natural filed
3 an Application for Deferred Accounting that sought the deferral of expenses related to the
4 Proposed Transaction from the date of its closing (following Commission approval)
5 through the date that the costs are included in rates through the Company's Purchased
6 Gas Adjustment Mechanism ("PGA") on October 31, 2011.

7 8. Thereafter, on February 18, 2011, the Company filed Advice No. OPUC 11-2,
8 along with its direct testimony, opening Docket UG 204. This filing requests a
9 Commission order finding the Proposed Transaction is prudent and requests approval of
10 revisions to Schedule P of NW Natural's tariff (see Exhibit A) including provisions that will
11 allow NW Natural to assign to its Oregon customers the benefits and costs associated with
12 the Proposed Transaction.

13 9. On February 22, 2011, Administrative Law Judge ("ALJ") Patrick Power
14 consolidated these two dockets. On February 25, 2011, ALJ Power granted NWIGU's
15 petition to intervene and took notice of CUB's February 3, 2011, notice of intervention.¹

16 10. On March 11, 2011, the Commission held a workshop where the Company
17 presented the Proposed Transaction's details and its analysis outlining its proposed
18 ratemaking treatment and estimated customer benefits. At that workshop, presentations
19 were also made by Encana, and certain consultants that had reviewed the Proposed
20 Transaction for NW Natural and the Parties. Also at that workshop the intervening parties
21 and Staff made comments and explained portions of their positions relative to the
22 Proposed Transaction.

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26 ¹ Cascade Natural Gas Corporation also intervened in this docket, although it has not been
an active participant and is not a party to this Stipulation.

1 11. At the time that the Company filed its direct testimony, the final transactional
2 documents had not yet been fully executed. Therefore, on March 23, 2011, the Company
3 filed supplemental direct testimony that included final and fully executed copies of all of
4 the primary transactional documents, including the Carry & Earning Agreement
5 (NWN/501) and the Joint Operating Agreement (NWN/502).

6 12. Pursuant to the procedural schedule, Staff, CUB, and NWIGU filed testimony
7 on March 30, 2011.

8 13. A settlement conference was held on March 31, 2011, and was followed up
9 with conference calls on April 1 and April 4. All the Parties participated in the conference
10 and the subsequent calls.

11 14. The timeline for Commission review of the Proposed Transaction is very short
12 – this is an expedited docket. Nonetheless, the Parties did, in short order, conduct an
13 analysis of the terms of the Proposed Transaction and its attendant risks and benefits.
14 Staff and the intervening parties served, and the Company provided responses to (both up
15 to the date of the filing of testimony and thereafter), more than 150 data requests seeking
16 detailed information about the Proposed Transaction. The Company also made available
17 to Staff and the intervening parties and the Commission drafts and final copies of all
18 transactional documents (final documents being made available just before testimony was
19 due and filed), and reports prepared by Netherland and Sewell (regarding volumes of gas
20 reserves in the Jonah Field), draft reports by KPMG (regarding the pricing assumptions
21 and benefits of the Proposed Transaction – final report received after testimony was filed),
22 and Environ (regarding environmental review of Encana's operations at the Jonah Field)
23 as part of the Company's evidence of its due diligence.

24 15. In addition, the Company agreed to fund the retention of an independent legal
25 counsel to act as special legal counsel to CUB and NWIGU for the purpose of reviewing
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the transactional documents under Wyoming oil and gas law and to independently advise CUB and NWIGU.

III. AGREEMENT

16. The Parties agree that it is likely that the Proposed Transaction, over its life, will provide benefits to NW Natural's customers and that therefore, subject to the terms and conditions set forth in this Stipulation and exhibits hereto, including but not limited to the accompanying supporting testimony, the Company's decision to enter into the Proposed Transaction is prudent. Moreover, the Parties agree that given the unique nature of the Proposed Transaction, the Commission should make a finding of prudence at this time based upon the information the Parties have reviewed. However, the Parties recognize that the review in this case has been expedited and that, if in the future, new information, not made available to Staff and the intervening parties, arises which demonstrates that NW Natural knew, or should have known, something of consequence to the Proposed Transaction at the time of the Proposed Transaction, Staff and the intervening parties can then use that information to challenge the prudence of the Transaction. On this point, the Parties agree that a prudence finding by the Commission at this time should apply only to the Company's decision to enter into the Proposed Transaction, and not to any subsequent decisions the Company might make in terms of exercising its discretion to manage the contract. The Parties specifically agree that a prudence finding by the Commission at this time should not, for example, extend to a future decision by the Company to participate in drilling Elective Wells, as that term is defined in the Carry and Earning Agreement (NWN/501). If the Company does choose to participate in drilling Elective Wells, the Parties agree that such decisions would be subject to separate determinations of prudence in future proceedings. Other decisions in addition to that of the drilling of Elective Wells may also require separate prudence findings.

1 17. For ratemaking purposes, the Parties agree that the costs of the Proposed
2 Transaction should be recovered on an ongoing basis only through the Company's annual
3 Purchased Gas Adjustment ("PGA"), including the deferral process for the commodity cost
4 of gas. Each year the Company will re-forecast and will update costs associated with the
5 Proposed Transaction, including depletion rate, volumes, operating costs (including
6 midstream costs and ad valorem and severance taxes), and return (carrying costs).
7 These costs will be included in the Company's PGA filing. To calculate the Proposed
8 Transaction's cost of gas for inclusion in the WACOG for the PGA, the Company will
9 divide the projected annual cost of service by the therms expected to be received under
10 the Proposed Transaction. The cost of service will consist of five components: (1)
11 depletion, (2) operating expenses, (3) midstream costs, (4) severance and ad valorem
12 taxes, and (5) return on the investment (carrying costs). The Parties agree that the
13 operating expense and midstream costs are subject to ongoing prudence reviews in the
14 annual PGA filing as provided in Paragraph 16. For purposes of PGA rate calculations
15 and cost of gas deferrals, items 1 through 5 above will be computed and included as part
16 of the Company's commodity costs. Exhibit B attached hereto provides an example of the
17 development of the rate components for gas related to the transaction. For purposes of
18 recording expenses on its books, and for the earnings test, only items 1 through 4 above
19 will be, and the carrying costs will not be, included as part of the Company's cost of gas.
20 For purposes of any general rate proceeding, NW Natural agrees to remove the amounts
21 associated with carrying costs and rate base, including accumulated depletion and
22 deferred (and accumulated deferred) taxes from its books to avoid the potential for double
23 recovery related to the continual ratemaking for the Proposed Transaction. Also, each
24 year at the same time as the earnings test is filed, the Company will provide a separate
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1 reporting of the earnings test year with the transaction results removed as they would be
2 for a rate case. Exhibit C attached hereto illustrates this proposed ratemaking treatment.

3 **18. Cost of Capital:** To address the dispute that has arisen with respect to the
4 appropriate return on the investment included in rates through the PGA, the Parties have
5 agreed to a retrospective adjustment of the cost of capital portion of rates, i.e. the portion
6 of the rates designed to recover the Company's return on equity ("ROE") and cost of debt.
7 As an interim matter, the initial rates to recover the Company's carrying costs in the
8 Proposed Transaction will be calculated at the Company's authorized cost of capital, as
9 determined by the Commission in Docket UG 152. However, the Parties agree that once
10 the Commission authorizes a new cost of capital in the Company's next general rate case,
11 the Company will calculate the difference between the current cost of capital as it relates
12 to the Proposed Transaction as authorized by the Commission in docket UG 152 and the
13 newly authorized cost of capital. The Company will then refund to (or surcharge)
14 customers 100 percent of that difference through the PGA mechanism. This adjustment
15 will occur whether the newly authorized cost of capital is higher or lower than the UG 152
16 cost of capital. This adjustment is a onetime event and thereafter the return on this
17 investment will be calculated at the new Commission-authorized cost of capital that
18 applies generally to the Company. The applicable cost of capital would be adjusted each
19 time the Commission authorizes a new cost of capital in the context of a general rate
20 proceeding.

21 **19. Incremental Cost of Capital:** The Parties also agree that in future rate
22 cases, no Party will use the Proposed Transaction to argue for a higher or lower cost of
23 capital. This provision prohibits parties from seeking incremental adjustments (higher or
24 lower) to their cost of capital calculated using traditional or prevailing methods based on
25 the effects of the Proposed Transaction.
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1 **20. Cost Sharing:** The Parties agree that variances from forecast amounts
2 associated with the costs and volumes related to the Proposed Transaction will be subject
3 to the PGA's normal sharing mechanism, up to the first \$10 million of the variance in any
4 annual period, whether that variance is positive or negative. All variance in excess of \$10
5 million (whether positive or negative) will be passed through to customers through the
6 PGA at 100 percent. For instance, in the event that NW Natural has elected 90%/10%
7 sharing in a particular PGA year and in the event variances from forecast amounts
8 associated with the Proposed Transaction in that PGA year come to \$11 million, NW
9 Natural will bear \$1 million of the variance and customers will bear \$10 million (\$10 M =
10 (90% x \$10 M) + (100% x \$1 M)) of the variance. Likewise, if variances result in a benefit
11 of \$11 million, then NW Natural will retain \$1 million of the savings and customers will
12 realize \$10 million in savings (as in the equation above).

13 **21. Amortization:** The Parties agree to amortize this investment over 30 years
14 in a manner designed to match the expected volumes. However, the Parties agree to
15 revisit this amortization schedule in five years to determine whether the amortization
16 schedule should be modified for any reason, notwithstanding the annual revisions as
17 specified in paragraph 17 above. Further, for purposes of facilitating the periodic
18 development of amortization rates to be used in recording amortization expense, the
19 Parties specifically request that the Commission, as part of its Order in this proceeding,
20 authorize the company to develop amortization rates assuming the entire investment, net
21 of any cumulative amortization, and the entire remaining volume delivery forecast.

22 **22. Marketing Variances:** Under the terms of the Proposed Transaction, the
23 Company has the ability to either take its share of gas production in kind or it can elect to
24 have Encana sell the Company's share of the gas at market prices. If the Company elects
25 to have Encana sell its share, the Company can then purchase replacement gas at Opal
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1 or another location. The Parties agree that any savings resulting from Encana marketing
2 NW Natural's share of the gas will be subject to the PGA sharing mechanism unless the
3 savings become predictable and are included in the forecasted WACOG. In the event that
4 the Company purchases replacement gas as described under this paragraph at a price
5 higher than the price at which Encana sells the gas under the marketing agreement, the
6 Company agrees to provide written notice to the other Parties within 14 days of the
7 transaction. The Parties also agree that if this occurs, the transaction will be placed on the
8 agenda of the next quarterly meeting of the Gas Portfolio Review meeting, where the
9 Company will explain the facts and provide documentation surrounding the purchase.
10 Notwithstanding anything else in this paragraph, the Parties specifically agree that if the
11 Company does purchase replacement gas at a price higher than the price the Company
12 receives for gas sold by Encana, the purchase of replacement gas will be subject to
13 ongoing prudence reviews as provided in Paragraph 16.

14 **23. Capital Costs:** The Parties agree that the capital costs authorized in rates
15 are capped at \$251 million related to the overall investment per well under the agreement.
16 In addition, transactional costs (the incremental amount needed to produce the
17 transaction, including all due diligence— of up to \$1.5 million) will also be capitalized and
18 will be amortized volumetrically with the investment capital costs.

19 **24. Additional Reporting:** The Parties agree that NW Natural will provide the
20 following:

21 a. A report that identifies the Company's contract management duties
22 and responsibilities with respect to the Joint Operating Agreement and the Carry and
23 Earning Agreement. This report must be filed within 30 days of the Commission's order
24 approving this Stipulation.
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1 b. Prior to the Company's 2016 PGA filing, the Company agrees to file a
2 detailed report that describes the results of the Proposed Transaction. This report will
3 include a comparison of actual results to forecast results and an assessment of the
4 Company's actions with respect to its ongoing duties and responsibilities managing the Joint
5 Operating Agreement and the Carry and Earning Agreement.

6 c. Each quarter, as part of the regular quarterly portfolio review process,
7 the Company agrees to report on the decisions it has made to manage the Proposed
8 Transaction's investment.

9 d. The Company agrees to report to the Commission, within 10 days, of
10 (1) any ratings downgrade of Encana; (2) any environmental liability or cleanup by Encana
11 exceeding \$20,000; or (3) any event that materially impacts the operations and drilling in the
12 Jonah Field.

13 25. The Company agrees to file a general rate proceeding no later than
14 December 31, 2011.

15 26. The Parties agree that the Commission should approve NW Natural's
16 Application for Deferred Accounting, filed in UM 1520, and the revised Schedule P
17 attached hereto as Exhibit A subject to the agreement and conditions set forth in this
18 Stipulation and exhibits attached hereto. The Parties agree that approval of Schedule P
19 will result in just and reasonable rates.

20 27. The Parties agree to submit this Stipulation to the Commission and request
21 that the Commission approve the Stipulation as presented. The Parties agree that the
22 adjustments and the rates resulting from this Stipulation are fair, just, and reasonable.

23 28. This Stipulation will be offered into the record of this proceeding as evidence
24 pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation
25 throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation
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1 at any hearing (if necessary), and recommend that the Commission issue an order
2 adopting the settlements contained herein.

3 29. If this Stipulation is challenged by any other party to this proceeding, the
4 Parties agree that they will continue to support the Commission's adoption of the terms of
5 this Stipulation. The Parties reserve the right to cross-examine witnesses and put in such
6 evidence as they deem appropriate to respond fully to the issues presented including the
7 right to raise issues that are incorporated in the settlements embodied in this Stipulation.

8 30. The Parties have negotiated this Stipulation as an integrated document. If
9 the Commission rejects all or any material part of this Stipulation, or adds any material
10 condition to any final order that is not consistent with this Stipulation, each Party reserves
11 its right, pursuant to OAR 860-001-0350(9), to present evidence and argument on the
12 record in support of the Stipulation or to withdraw from the Stipulation. Parties shall be
13 entitled to seek rehearing or reconsideration pursuant to OAR 860-001-0720 in any
14 manner that is consistent with the agreement embodied in this Stipulation.

15 31. By entering into this Stipulation, no Party shall be deemed to have approved,
16 admitted, or consented to the facts, principles, methods, or theories employed by any
17 other Party in arriving at the terms of this Stipulation. No Party shall be deemed to have
18 agreed that any provision of this Stipulation is appropriate for resolving issues in any other
19 proceeding, except as specifically identified in this Stipulation.

20 32. In the event that the Proposed Transaction does not close because NW
21 Natural determines that it has not received an order from the Commission that is
22 satisfactory, no Party shall be bound by any of the terms of this Stipulation.

23 33. This Stipulation may be executed in counterparts and each signed
24 counterpart shall constitute an original document.

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This Stipulation is entered into by each Party on the date entered below such Party's signature.

STAFF

CITIZENS' UTILITY BOARD

By: Michael T. [Signature]

By: _____

Date: 4/19/11

Date: _____

NW NATURAL

NWIGU

By: _____

By: _____

Date: _____

Date: _____

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This Stipulation is entered into by each Party on the date entered below such Party's signature.

STAFF

CITIZENS' UTILITY BOARD

By: _____
Date: _____

By: Bl [Signature]
Date: 4-19-2011

NW NATURAL

NWIGU

By: _____
Date: _____

By: _____
Date: _____

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This Stipulation is entered into by each Party on the date entered below such Party's signature.

STAFF

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

NW NATURAL

NWIGU

By: EA M

By: _____

Date: 4/19/11

Date: _____

1 This Stipulation is entered into by each Party on the date entered below such Party's
2 signature.

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STAFF

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

NW NATURAL

NWIGU

By: _____

By: Paula E. Piper

Date: _____

Date: 4/19/2011

Exhibit A

NORTHWEST NATURAL GAS COMPANY
P.U.C. Or. 24Cancels _____ Revision of Sheet P-1
Revision of Sheet P-1**SCHEDULE P
PURCHASED GAS COST ADJUSTMENTS****APPLICABILITY:**

This schedule applies to all schedules for natural gas Sales Service within the entire territory served by the Company in the State of Oregon. The definitions and provisions described herein shall establish the natural gas costs for Purchased Gas Adjustment (PGA) deferral purposes on a monthly basis.

PURPOSE:

The purpose of this schedule is to allow the Company, on established Adjustment Dates, to adjust rate schedules for changes in the cost of gas purchased in accordance with the rate adjustment provisions described herein.

This Schedule is an "automatic adjustment clause" as defined in ORS 757.210, and is subject to the customer notification requirements as described in OAR 860-022-0017.

DEFINITIONS:

1. **Actual Commodity Cost:** The natural gas supply costs for commodity actually paid for the month, including Financial Transactions, fuel use, and distribution system lost and unaccounted for natural gas (LUG) plus Gas Storage Facilities withdrawals, plus or minus the cost of natural gas associated with pipeline imbalances, plus propane costs, plus odorization charges, if applicable, less Net Commodity Off-System Sales Revenues for the month, plus actual Variable Transportation Costs, plus commodity-related reservation charges, plus the costs of Gas Reserves,¹ less all transportation demand charges embedded in commodity costs.
2. **Net Commodity Off-System Sales Revenues:** Revenues from the sale of natural gas to a party other than the Company's Oregon Sales Service customers less costs associated with the sales transactions.
3. **Variable Transportation Costs:** Variable transportation costs, including Pipeline volumetric charges, and other variable costs related to volumes of commodity delivered to Sales Service customers.
4. **Actual Non-Commodity Cost:** Actual Non-Commodity gas costs shall be equal to actual Demand Costs, less actual Capacity Release Benefits, plus or minus actual Pipeline refunds or surcharges.
5. **Demand Costs:** Fixed monthly Pipeline costs and other demand-related natural gas costs such as capacity reservation charges, plus any transportation demand charges embedded in commodity costs.
6. **Capacity Release Benefits:** This component includes revenues associated with pipeline capacity releases. The benefits to customers, through the monthly PGA deferrals, shall be 100% of the capacity release revenues up to the full Pipeline rate, and 80% of the capacity release revenues exceeding amounts reflecting full Pipeline rates. Capacity release revenues shall be quantified on a transaction-by-transaction basis.

¹ Per the terms of the Stipulation in Docket UM 1520.
Issued October 17, 2006
NWN Advice No. OPUC 06-13B

Effective with service on
and after November 1, 2006

NORTHWEST NATURAL GAS COMPANY

P.U.C. Or. 24

Cancels _____ Revision of Sheet P-4
_____ Revision of Sheet P-4Exhibit OCS 1.1R Beck
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Docket No. 12-057-13**SCHEDULE P
PURCHASED GAS COST ADJUSTMENTS
(continued)****DEFINITIONS** (continued):

19. **Embedded Non-Commodity Cost – MDDV Based Sales Service:** The Estimated Non-Commodity Cost per Therm – MDDV Based Firm Sales Service multiplied by the Actual Monthly MDDV Sales Service Volumes.
20. **Financial Transactions:** Cost of Financial Transactions related to gas supply, including but not limited to, hedges, swaps, puts, calls, options and collars that are exercised to provide price stability/control or supply reliability for sales service customers.
21. **Gas Storage Facilities:** The cost of natural gas for injections shall be the actual cost of purchasing gas for storage and the cost of injection of the gas into the storage facility. Withdrawals of natural gas shall be valued at the weighted average cost of gas in the facility plus any variable withdrawal costs. For purposes of annual rate filings, the cost of inventory in storage shall be an overall average cost including existing inventory volumes and costs and refill inventory volumes and costs. Refill volumes will be priced at the expected pricing used in each filing. Only the cost of natural gas withdrawn from Gas Storage Facilities will be included in the Actual Commodity Cost, as defined herein.
22. **Seasonalized Fixed Charges:** The projected monthly non-Commodity costs of gas recovery, calculated by multiplying the Embedded Non-Commodity Costs by Oregon forecasted sales.
23. **Gas Reserves:** The volumes of natural gas actually received by the Company through its acquisition of gas reserves through joint venture agreements as authorized by the Commission.¹ For purposes of annual rate filings, the cost of Gas Reserves includes all carrying costs on the rate base investment, amortization, operating expenses, gathering and processing costs, and ad Valorem and severance taxes. The cost of Gas Reserves will be included in Actual Commodity Costs.

(N)
|
(N)**CALCULATION OF MONTHLY GAS COSTS FOR DEFERRAL PURPOSES:**

The Company shall maintain sub-accounts of Account 191. Monthly entries into these sub-accounts shall be made to reflect: 1) the difference between the monthly Actual Commodity Cost and the monthly Embedded Commodity Cost, 2) the difference between Actual Non-Commodity Cost and the monthly portion of Estimated Non-Commodity Cost and, 3) the difference between Embedded Non-Commodity Cost and monthly Seasonalized Fixed Charges. The entries shall be calculated each month as follows:

1. A debit or credit entry shall be made equal to 100% of the difference between the monthly Actual Non-Commodity Cost and the Monthly Embedded Non-Commodity Cost, net of revenue sensitive effects.

(continue to Sheet P-5)

¹ See Commission order in UM 1520Effective with service on
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Portland, Oregon 97209-3991

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NORTHWEST NATURAL GAS COMPANY

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Revision of Sheet P-5
Cancels _____ Revision of Sheet P-5

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**SCHEDULE P
PURCHASED GAS COST ADJUSTMENTS
(continued)**

CALCULATION OF MONTHLY GAS COSTS FOR DEFERRAL PURPOSES (continued):

2. A debit or credit entry shall be made equal to 100% of any monthly difference between Embedded Non-Commodity Costs and Monthly Seasonalized Fixed Charges. The monthly Seasonalized Fixed Charges for the period November 1, 2010 through November 30, 2011 are:

November 2010	\$8,508,808
December 2010	\$12,783,584
January 2011	\$12,472,968
February	\$10,224,130
March	\$8,795,971
April	\$6,322,866
May	\$4,126,576
June	\$2,703,901
July	\$2,166,691
August	\$2,157,069
September	\$2,417,892
October	\$5,432,235
November	<u>\$9,197,282</u>
ANNUAL TOTAL	\$78,801,165

3. A debit or credit entry shall be made equal to 90% of the difference between the Actual Commodity Cost and the Embedded Commodity Cost. A debit or credit entry will also be made equal to 100% of the difference between storage withdrawals priced at the actual book inventory rate as of October 31 prior to the PGA year and storage withdrawals priced at the inventory rate used in the PGA filing. For any given tracker year, if the total activity subject to debit or credit entries that is related to the Gas Reserves transaction exceeds \$10 million, amounts beyond \$10 million will be recorded at 100%. (N)

4. Monthly differentials shall be deemed to be positive if actual costs exceed embedded costs and to be negative if actual costs fall below embedded costs. (N)

6. The cost differential entries shall be debited to the sub-accounts of Account 191 if positive, and credited to the sub-accounts of Account 191 if negative. (N)

7. Interest – Beginning November 1, 2007, the Company shall compute interest on existing deferred balances on a monthly basis using the interest rate(s) approved by the Commission.

(continue to Sheet P-6)

Effective with service on
and after May 1, 2011

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APPENDIX A
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Exhibit B

Volume and Rate Per Therm would be included in the PSA to develop WACOGs (lines 21 and 22)

	Projected November 20XX	Projected December 20XX	Projected January 20XX	Projected February 20XX	Projected March 20XX	Projected April 20XX	Projected May 20XX	Projected June 20XX	Projected July 20XX	Projected August 20XX	Projected September 20XX	Projected October 20XX
1	1,132.0	1,310.8	1,475.7	1,631.5	1,780.3	1,987.6	2,087.5	2,307.5	2,358.1	2,547.4	2,846.6	3,061.7
2	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416	0.2416
3	274	317	357	394	430	480	504	556	570	616	688	740
4												
5												
6	87.2	106.1	113.0	124.9	137.2	154.1	164.0	176.5	182.7	200.5	218.5	230.2
7	59.95	69.42	86.76	95.91	104.86	116.85	127.72	135.96	138.63	149.76	167.35	180.90
8	147.17	169.48	199.79	220.80	241.86	270.99	286.74	311.87	321.34	350.24	383.89	410.18
9												
10	23,154.78	26,198.00	29,226.67	32,262.08	35,270.76	39,078.57	42,857.27	44,945.75	46,175.50	49,051.58	52,706.30	54,648.55
11												
12												
13	98.36	111.29	124.16	137.05	149.83	166.01	182.06	190.93	196.17	208.37	223.90	232.15
14												
15	116.58	130.65	138.42	152.68	167.07	184.41	206.71	224.60	230.21	250.53	275.49	290.11
16	67.93	76.85	85.74	94.64	103.47	114.64	125.72	131.85	135.47	143.90	154.62	160.32
17	184.50	207.50	224.16	247.32	270.54	293.05	332.44	358.45	365.68	394.42	434.10	450.43
18												
19	605.21	693.72	780.55	862.37	942.60	1,050.33	1,123.62	1,224.72	1,256.84	1,360.24	1,507.88	1,600.47
20												
21	1,132.0	1,310.8	1,475.7	1,631.5	1,780.3	1,987.6	2,087.5	2,307.5	2,358.1	2,547.4	2,846.6	3,061.7
22	0.535	0.529	0.529	0.529	0.529	0.528	0.538	0.532	0.533	0.534	0.530	0.523

Exhibit C

NW Natural
 20XX Oregon Earnings Review
 12 Months Ended December 31, 20XX Forecast
 (\$'000's)

Line No.	OREGON EARNINGS TEST						
	Test Year Results (a)	TYPE I Adjustments (b)	Test Year Adjusted (c)	Gas Reserves (d)	Test Year Results (e)	TYPE II Adjustments (f)	Test Year Adjusted Results (g)
1			\$0		\$0		\$0
2			0		0		0
3			0		0		0
4			0		0		0
5			0		0		0
6			0		0		0
7	0	0	0		0	0	0
8			0		0		0
9			0		0		0
10			0		0		0
11	0	0	0		0	0	0
12			0		0		0
13			0		0		0
14			0		0		0
15			0		0		0
16			0		0		0
17	0	0	0		0	0	0
18	\$0	\$0	\$0	\$0	\$0	\$0	\$0
19			\$0		\$0		\$0
20			0	2/	0		0
21	0	0	0	0	0	0	0
22			0		0		0
23			0		0		0
24			0		0		0
25			0		0		0
26			0		0		0
27	\$0	\$0	\$0	\$0	\$0	\$0	\$0
28							
29							

Adjustments for rate cases and annual reporting of results assuming removal of effects of the gas reserves transaction

- 1/ The Carrying Cost (return and taxes) will be added back to gas purchased to produce a cost of gas commensurate with revenues. The federal and state income taxes will be adjusted to reflect the add back of carrying costs in addition to the removal of the depletion allowance tax benefit.
- 2/ The cumulative investment amount will be removed as an item of Utility Plant in Service.
- 3/ The cumulative amortization will be removed as an item of Utility Accumulated Depreciation.
- 4/ The cumulative deferred income taxes will be removed as an item of Utility Accumulated Deferred Income Taxes.

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