

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 21, 2006**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** January 26, 2006

DATE: February 7, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1245) Application for Authorization of Deferred Accounting of Oregon "Tax Kicker" Income Tax Reduction.

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's (NW Natural or company) request for authorization, under ORS 757.259, to defer monetary benefits associated with the Oregon "Tax Kicker" income tax reduction.

DISCUSSION:

On January 26, 2006, NW Natural requested authorization to record and defer monetary benefits to the company associated with ORS 291.349 Oregon "Tax Kicker" Savings (Tax Kicker) income tax reduction.

The Tax Kicker establishes procedures under which Oregon taxpayers can receive refunds or credits for income taxes or excise taxes. The refunds or credits occur when tax receipts are more than two percent greater than those estimated for the biennium. This threshold was met in 2005 and Oregon corporate taxpayers received a 35.94 percent reduction to their 2005 Oregon Corporate Excise Taxes. In 1996, NW Natural entered into a Memorandum of Understanding (MOU) with the Commission and other parties regarding ORS 291.349. The intent of the MOU was to pass through to ratepayers significant benefits received by the company from the Tax Kicker. Provisions of the memorandum state that NW Natural will defer Oregon allocated tax reductions, net of any directly related Federal Income Tax increases, and to the extent that the revenue requirement of the reductions exceeded 0.1 percent of calendar year 1995 Oregon revenues from sales to customers.

Description of Expense or Revenue

NW Natural proposes to defer, with interest, the amount by which the Tax Kicker reduces Oregon income tax for utility operations in Oregon. The proper ratemaking treatment would then be considered in a future rate case or PGA filing.

Reason for Deferral

Adoption of deferred accounting is authorized pursuant to 757.259(2)(e), under which a deferral mechanism may be authorized in order to minimize the frequency of rate changes or fluctuation of rate levels. Oregon income taxes are allowed expenses for recovery from customers. A reduction in these expenses should be refunded to customers in order to match cost borne by and benefits received by ratepayers.

Proposed Accounting

The company proposes to record the tax reduction amount in a sub-account of FERC Account 186, Miscellaneous deferred debits. In the absence of deferred accounting, NW Natural would record the decreases in Oregon income tax in sub-accounts of FERC Account 409, Income taxes.

Estimates of Deferrals in Authorized Period

The company estimates that about \$1 million will be deferred in the 12 months starting January 26, 2006.

PROPOSED COMMISSION MOTION:

NW Natural's request for authorization, under ORS 757.259, to defer the monetary benefits to the company associated with the Oregon Tax Kicker income tax reduction be approved.