

**MARK R. THOMPSON**  
Manager, Rates & Regulatory Affairs  
Tel: 503.721.2476  
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email: Mark.Thompson@nwnatural.com



December 13, 2013

Steven V. King, Executive Director and Secretary  
WASHINGTON UTILITIES &  
TRANSPORTATION COMMISSION  
1300 S Evergreen Park Drive, SW  
Post Office Box 47250  
Olympia, Washington 98504-7250

Re: In the matter of NW Natural Gas Company's Petition for an Accounting Order  
Authorizing Deferred Accounting Treatment of Certain Costs Associated with  
City of Vancouver Natural Gas Taxes  
Docket No. UG \_\_\_\_\_

Northwest Natural Gas Company, dba NW Natural (NWN or the "Company") files herewith in the above proceeding an original and twelve (12) copies of the Petition for an Accounting Order.

The Company has designated a portion of Exhibit A to the attached Petition as confidential. Exhibit A is a copy of a third party document that was designated as confidential by such third party when it was submitted to the Company. The Company is not in a position to modify the confidential designation, and as such requests that the Commission treat those portions of Exhibit A as Confidential under WAC 480-07-160. A redacted version of the document has been filed herewith. An un-redacted copy of Exhibit A has been provided to the Commission under separate cover.

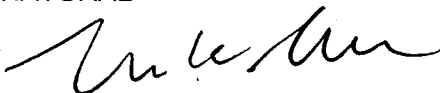
Please address correspondence on this matter to me with copies to the following:

Kelley C. Miller, Rates Specialist  
Rates & Regulatory Affairs  
NW Natural  
220 NW Second Avenue  
Portland, Oregon 97209  
Telecopier: (503) 721-2516  
Telephone: (503) 226-4211, ext. 3589  
kelley.miller@nwnatural.com  
and  
eFiling@nwnatural.com

Onita R. King  
Rates and Regulatory Affairs  
NW Natural  
220 NW Second Avenue  
Portland, Oregon 97209  
Telecopier: (503) 721-2516  
Telephone: (503) 721-2452  
ork@nwnatural.com

Sincerely,

NW NATURAL



Mark R. Thompson  
Manager  
Rates & Regulatory Affairs

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RECORDS MANAGEMENT  
2013 DEC 16 PM 2:30  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION



## II. Support for Petition

### A. Factual Background

3. Through this Petition, the Company seeks to defer future expenses related to Natural Gas Taxes associated with an audit conducted by the City, as described in Exhibit A to this application, for later incorporation in rates. As described below, the initial audit period was October 2008 to September 2011. However, the City has indicated that it will also conduct an additional audit for the period of January 1, 2013, to September 30, 2013. The Company requests authority to defer future expenses related to both these audits.
4. On September 17, 2013, Muniservices, LLC, an audit firm working on behalf of the City, released its final audit report for the audit period of October 2008 to September 2011 (“Audit Report”). The Audit Report found that NW Natural owed \$566,158 to the City related to unpaid Natural Gas Taxes that NW Natural had previously not considered required.
5. The Audit Report concluded that NW Natural had incorrectly excluded certain general ledger accounts containing amounts charged to City natural gas customers that should be subject to the Natural Gas Tax, but which NW Natural did not include in its calculation of the Natural Gas Tax base. The revenue accounts identified by Muniservices are: Billed Exaction Tax WA (BEXTX), Late Fee (LATE), Meter Rental (MTRNT), Duplicate Check Fee (DCFEE), Other Gas Rev Misc. (OTHGR), Return Check Fee (R FEE), Summary Bill Fee (SBFEE) and Automated Payment Fee (APS).<sup>1</sup> Of the eight listed accounts, account BEXTX which represent the collection from City customers of the 6% Business and Occupational License Tax, represents the most significant portion of the Natural Gas Tax identified by Muniservices.<sup>2</sup> Thus, the main portion of the Natural Gas Taxes the City is requiring NW Natural to pay result from the City’s position that NW Natural should pay a tax on the revenues it collects in order to pay taxes to the City.

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<sup>1</sup> See Exhibit A, page 4.

<sup>2</sup> See Exhibit A, Attachment C.1, pages 1-2.

6. The City has also requested similar documentation needed to conduct a second audit for the period of January 1, 2013, to September 30, 2013. NW Natural's Account Services has preliminarily determined that an audit for that period will identify an additional \$80,692 relating to the exclusion of the same revenue accounts discussed above from NW Natural's Natural Gas Tax calculations for that period, for a total estimated amount that will be asserted to be owed to the City as a result of both audits of \$646,850.
7. NW Natural requested review of the Audit Report by Lloyd Tyler, the City's Director of Financial and Management Services. Mr. Tyler affirmed Muniservices findings in a letter dated October 29, 2013. NW Natural is currently evaluating its options with respect to administrative review of the Audit Report.

**B. Request for Deferral**

8. NW Natural seeks authorization to defer Natural Gas Tax expenses associated with the the City of Vancouver as described above for later incorporation in rates. Such Natural Gas Tax expenses will include, but are not necessarily limited to, the expense associated with the recalculation of exaction tax payments to the City of Vancouver during the City's audit periods, any additional expense associated with any additional recalculation of Natural Gas Tax payments that the City of Vancouver may impose outside of the audit periods, and any additional expenses associated with the audits described above.
9. Authorization of the deferral requested by NW Natural is consistent with the Commission's treatment of municipal taxes. The Commission treats taxes as utility operating expenses that can be included in utility rates and municipal taxes are generally recovered by a direct pass through to customers within the taxing municipality.<sup>3</sup> The Commission has also authorized the use of

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<sup>3</sup> *Willman v. Washington Utilities & Transp. Comm'n*, 122 Wash. App. 194, 204, 212-13, 93 P.3d 909, 913 (2004) *aff'd*, 154 Wash. 2d 801, 117 P.3d 343 (2005); *State ex rel. City of Seattle v. Dep't of Pub. Utils.*, 33 Wash.2d 896, 902, 207 P.2d 712 (1949); *see also Washington Pub. Serv. Comm'n V Washington Water Power Co.*, 33 P.U.R.3d 468 (W.U.T.C. Apr. 21, 1960); *Brannan et. al. v. Qwest Corp.*, Docket UT-010988, 2002 WL 32862573 (Jan. 2002) (cost recovery allowed unless the tax is "clearly invalid").

deferred accounting for tax payments made by a utility to the taxing authority to correct the improper prior tax treatment of certain expenditures.<sup>4</sup>

**C. Cost Estimate**

10. NW Natural cannot estimate with certainty what amounts will be recorded in the deferral account because the amount is dependent on the final outcome of the administrative review process. At this time, the minimum likely amount would be the amount identified by the City's audit results, plus subsequent application of the City's calculation methodology to the January through September 2013 time period, which is a total of \$646,850.

**D. Process Considerations**

11. NW Natural is continuing to work internally and with the Commission's Staff to determine if there are other appropriate methods for recovery of the Natural Gas Taxes requested to be deferred, other than through deferral and amortization. NW Natural believes at this time, however, that it is appropriate to seek an order allowing these expenses to be deferred, so as to remove any uncertainty that may exist with respect to the recoverability of these expenses through appropriate methodologies.

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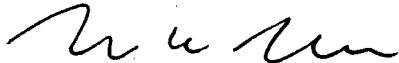
<sup>4</sup> *Re Puget Sound Power and Light Company*, 132 P.U.R.4th 545 (W.U.T.C. Apr. 10, 1992) (authorizing utility to defer tax payments made in 1991-1996, but which relate to underpayments from 1984-1990).

### III. Relief Requested

12. The Company requests that the Commission issue an accounting order authorizing the Company to defer the expenses associated with the Natural Gas Taxes, plus interest at its allowed rate of return, for later incorporation in rates, as described in this Petition. At the time of consideration for incorporation into rates, NW Natural will propose an appropriate amortization period for the Natural Gas Taxes for the Commission's consideration.

Dated this 13<sup>th</sup> day of December, 2013.

NW NATURAL



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Mark Thompson, Manager, Regulatory Affairs  
220 NW Second Ave  
Portland, OR 97209



MuniServices, LLC  
32107 West Lindero Canyon Road, Suite 203  
Westlake Village, California 91361  
Phone: 800.800.8181  
www.MuniServices.com

September 17, 2013

Mr. Jon Simonson  
C/O NW Natural Gas Co.  
220 NW Second Ave.  
Portland, OR 97209

Mr. Simonson,

MuniServices has completed an audit of NW Natural's compliance with City of Vancouver, WA Municipal Code Chapter 5.88, "Natural Gas Companies." Attached are two copies of the final audit report for your files. Also attached is an invoice in the amount of \$566,156.16 for the tax shortfall, including penalties, as identified in the Findings and Recommendation section of the report.

The City of Vancouver requires the following action on your part:

1. Make payment for the Natural Gas Utility Tax shortfall and penalties as detailed on the attached invoice and in the final audit report. Payment in full is due to the City by October 17, 2013;
2. Modify NW Natural's tax calculation system and/or accounting processes to include the revenue and cost recovery accounts, as identified in the audit report, as taxable for the calculation of Natural Gas Utilities Tax. The Company should inform the City in writing when this change has been implemented;
3. Remove the exempt status from the five customer accounts, as specified in the audit report, which are currently being treated as exempt in the calculation of Natural Gas Utilities Tax;
4. Correct the jurisdictional tax designations for the customer addresses as specified in Attachment F of the audit report;
5. For the period January 1, 2013 – September 30, 2013 (when available), provide copies for each month of the report:
  - a. "Rate Based Taxes by Tax District Report" similar to that shown as audit report Attachment C.1,
  - b. "Vancouver Revenue Over \$25,000" similar to that shown as audit report Attachment C.2, and
  - c. "City of Vancouver Exaction Tax" similar to that shown as audit report Attachment C.3.

These reports should be provided as soon as available, electronically if possible, and addressed to Michele Chai of MuniServices at [michele.chai@muniservices.com](mailto:michele.chai@muniservices.com).

City of Vancouver Municipal Code Chapter 5.87, "Tax Administration Code", contains a taxpayer's rights and obligations for administrative reviews and appeals of a tax shortfall determination made by the Director. Please note that any such request for review or appeal must be timely submitted, in writing, to the Vancouver City Clerk.

Please contact me if you have questions on any of the above materials.

Regards,

Gary Grace  
MuniServices - UUT Manager  
32107 W Lindero Canyon Rd, Ste 233  
Westlake Village, CA 91361  
T: 818-661-5520

Attachments





PO Box 12872  
Norfolk, VA 23541

NW Natural Gas Co.  
220 NW Second Ave.  
Portland, OR 97209

Invoice Number: **Van-UUT-091713**  
Invoice Date: 9/17/2013

Payment Due Date: 10/17/2013

**City of Vancouver  
Natural Gas Utility Tax Invoice**

Period	Tax Shortfall	Penalties	Total Due
10/2008 – 12/2012	\$514,689.24	\$51,468.92	\$566,158.16

**PLEASE REMIT PAYMENT TO:**

City of Vancouver  
PO Box 12872  
Norfolk, VA 23541

Net Invoice: \$566,158.16  

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Invoice Total: \$566,158.16

**Make checks payable to City of Vancouver**

Please contact the Billing Department at (757) 519-9300 ext. 12947, or by e-mail [billing@portfollorecover.com](mailto:billing@portfollorecover.com) should you have any questions or comments.

**CONFIDENTIAL**

*City of Vancouver, WA*  
*Audit Report – Northwest Natural Gas Company*

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**CITY OF VANCOUVER, WA**  
**NORTHWEST NATURAL GAS COMPANY AUDIT**

**MUNISERVICES, LLC**  
**32107 West Canyon Blvd. Suite 233, Westlake Village, CA 91361**

**REDACTED**

**September 16, 2013**

