

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Application of
NORTHWEST NATURAL GAS
COMPANY
For an Order Approving a Corporate
Reorganization to Create a Holding
Company, Northwest Natural Holdco, in
Connection with the Acquisition of Portland
General Electric Company by Northwest
Natural Holdco.

DOCKET NO. UG-01_____

NORTHWEST NATURAL GAS COMPANY

EXHIBIT 2 OF MARK S. DODSON

December 4, 2001

**NW NATURAL GAS COMPANY
WUTC DOCKET NO. UG-01 _____**

PROPOSED CONDITIONS

The following Proposed Conditions, if adopted by the Commission, shall be incorporated into the Commission's Order approving the corporate reorganization of Northwest Natural Gas Company ("NW Natural") to create a holding company, NW Natural Holdco, in connection with the acquisition of Portland General Electric Company ("PGE") by NW Natural Holdco.

Rates

1. NW Natural Holdco agrees to hold the customers of NW Natural harmless if the acquisition of PGE results in a higher revenue requirement for NW Natural than if the acquisition had not occurred.
2. NW Natural agrees to exclude all costs of completing the acquisition (i.e., transaction costs) and all goodwill from the acquisition from each utility's regulated accounts. NW Natural will provide a preliminary accounting of transaction costs within 90 days following the closing of the acquisition and a final accounting of transaction costs within 30 days following the accounting close of the acquisition.
3. For ratemaking purposes, NW Natural agrees it will have the burden of establishing the reasonableness of NW Natural Holdco's costs allocated or directly assigned to NW Natural and the Commission will have the authority to approve such costs for ratemaking purposes.
4. NW Natural agrees to the following Rate Benefit Plan:
 - (a) NW Natural will provide its Washington customers with the Washington-allocated share of NW Natural's portion of the following combined NW Natural/PGE benefits through a rate credit to distribution rates:

CY 2003	\$ 2.0 million
CY 2004	\$ 3.0 million
CY 2005	\$ 4.0 million
CY 2006	\$ 5.0 million
CY 2007	\$ 7.5 million
CY 2008	\$ 10.0 million

NW Natural may defer for amortization in the following year one-half of the payment of these rate credits from the years specified for the purpose of meeting financing cash flow needs. Rate credits will be paid to customers annually through the use of a tariff rider, which NW Natural will file for this purpose to be

effective January 1, 2003. All rate credits will be paid to customers by December 31, 2008, with carrying charges as appropriate.

- (b) By October 1, 2002, NW Natural will file with the Commission a proposed allocation of these credits between PGE and NW Natural customers. NW Natural customers will receive their respective portions of these rate credits pursuant to adjustment schedules, calculated to deliver the credit as an equal percentage decrease by customer class based upon current base rates, without adjustments, in effect on the date the Commission approves this transaction. Special contract customers of NW Natural will not receive a credit unless the special contract so provides.
- (c) NW Natural agrees to abide by its rate moratorium approved by the Commission in the Second Supplemental Order Approving and Adopting Settlement Agreement, Docket No. UG-000073 (October 26, 2000).

Finance

- 5. NW Natural agrees to maintain separate ratings for its own debt and for its own preferred stock if more than \$5 million is outstanding.
- 6. NW Natural agrees not to make any distributions to NW Natural Holdco that would reduce such utility's common equity capital below 45 percent of its total capital, without Commission approval. Total capital is defined as common equity, preferred equity, and long-term debt. Long-term debt is defined as debt with a term of more than one year.

Effective Regulation

- 7. NW Natural's accounting records will be maintained separately from PGE's and from those of NW Natural Holdco and other affiliates.
- 8. The Commission or its agents may audit the accounts of NW Natural Holdco and its unregulated subsidiaries which are the bases for charges to NW Natural. NW Natural Holdco agrees to cooperate fully with such Commission audits, to determine the reasonableness of allocation factors used by NW Natural Holdco to assign costs to NW Natural and amounts subject to allocation or direct charges.
- 9. Transition costs (i.e., costs incurred to achieve merger savings) will be directly assigned to the extent possible. Transition costs that cannot be directly assigned will be consolidated and allocated to the companies on an equitable and, to the extent possible, cost-causative basis.
- 10. NW Natural Holdco and NW Natural agree to develop a Master Services Agreement in consultation with the Commission Staff and file it with the Commission for review. The Master Services Agreement will cover the terms and transfer prices for the provision of goods and services among these entities.

11. NW Natural and NW Natural Holdco agree to comply with all Commission requirements regarding affiliated interest ("AI") transactions, including timely filing of reports. Beginning with the first full year after closing, NW Natural will file annual AI reports, as otherwise required by WAC 480-146-360, with the Commission. Also, these AI reports will include employee transfers, permanent and temporary, among NW Natural Holdco, PGE, and NW Natural and consulting and training activities conducted by NW Natural Holdco, PGE, or NW Natural personnel for the other entities. These reports are due June 1 of each year.

Customer Service

12. NW Natural agrees to perform under the service quality measures proposed in the Direct Testimony of Mark S. Dodson and Exhibit ____ (MSD-1).
13. NW Natural will maintain its existing or comparable service facilities in Vancouver, Clark County, through December 31, 2008.

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