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August 17, 2011

VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket UM 1406 – Motion to Amend Order Approving Stipulation

Enclosed for filing in the above-reference docket are the original and one copy of Northwest Natural's Motion to Amend Order Approving Stipulation (Order No. 09-067).

A copy of this filing has been served on all parties to this proceeding as indicated on the attached Certificate of Service.

Very truly yours,

A handwritten signature in black ink that reads "Wendy McIndoo". The signature is fluid and cursive.

Wendy McIndoo
Office Manager

Enclosure

cc: Service List

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM 1406**

4 In the Matter of
5 NORTHWEST NATURAL'S
6 System Integrity Program.
7

MOTION TO AMEND ORDER APPROVING
STIPULATION (ORDER NO. 09-067)

8 Pursuant to OAR 860-001-0420(1), Northwest Natural Gas Company ("NW Natural" or
9 the "Company") requests that the Public Utility Commission of Oregon ("Commission") amend
10 Order No. 09-067 to extend the stipulation adopted in that order ("Stipulation") to the effective
11 date of new rates adopted in the Company's next general rate case.¹ Staff of the Public Utility
12 Commission of Oregon ("Staff") and the Northwest Industrial Gas Users ("NWIGU") support this
13 request. The Citizens' Utility Board of Oregon ("CUB") has authorized NW Natural to represent
14 that, while CUB does not support the current request for an extension, neither does CUB
15 oppose it.

16 NW Natural also requests that the Commission clarify in its order on this motion that the
17 Company is authorized to continue the accounting treatment for System Integrity Program costs
18 approved in Order No. 09-067.

19 **BACKGROUND**

20 On November 25, 2008, the Parties filed the Stipulation, requesting that the Commission
21 approve a System Integrity Program ("SIP") for NW Natural. Prior to the establishment of the
22 SIP, NW Natural maintained a number of different safety programs. The Company's prior safety
23 programs included a Cast Iron Replacement Program and a Geohazard Program, both of which
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26 ¹ The parties to the Stipulation are NW Natural, Commission Staff, NWIGU, and CUB (collectively, the
"Parties").

1 were discontinued prior to the filing of the Stipulation.² At the time of the filing of the Stipulation,
2 the Company was operating the Transmission Integrity Management Program (“TIMP”), which
3 was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 (“2002
4 Improvement Act”) and PHMSA³ Natural Gas Integrity Management Rule, and the Bare Steel
5 Replacement Program (“Bare Steel Program”), which was approved by the Commission in 2001
6 and had an original completion date of 2021.⁴

7 The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 (“2006 PIPES
8 Act”) expanded requirements of the 2002 Improvement Act by requiring PHMSA to prescribe
9 minimum standards for Distribution Integrity Management Programs (“DIMPs”) to cover the
10 integrity and broader aspects of distribution mains, services, and other gas related
11 appurtenances. In addition, the 2006 PIPES Act significantly expanded the requirements of all
12 stakeholders relative to excavation damage prevention.

13 While previously implemented separately, NW Natural’s Cast Iron, Bare Steel, and
14 Geohazard programs all were designed to address the issues raised and regulations formulated
15 as a result of federal legislation to improve natural gas transmission and distribution system
16 safety. NW Natural determined that it would be difficult to separate those critical programs from
17 regulations that emerged from the 2002 and 2006 safety acts and could emerge in the future.
18 To that end, NW Natural proposed renewal and consolidation of existing programs for Bare
19 Steel and TIMP, and inclusion of DIMP, into a single SIP. The Parties entered into the
20 Stipulation governing cost recovery, recovery cap, cost tracking, and cost of service of the SIP.
21 In the Stipulation, the Parties agreed that all SIP costs exceeding the operation and
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24 ² Some of the activities that were previously conducted under the Geohazard Program continued to be
conducted under the TIMP and/or DIMP programs.

25 ³ U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration.

26 ⁴ *Re. Application of NW Natural for Deferred Accounting of Safety Program Costs*, Docket UM 1030,
Order No. 01-843 (Sept. 28, 2010).

1 maintenance expense included in NW Natural's prior rate case would be classified as capital
2 costs.⁵

3 In conjunction with the Stipulation, NW Natural filed an Application for an Accounting
4 Order ("Application"). The Application requested authorization to classify all SIP expenses as
5 capital, except for the O&M amount included in the Company's last general rate case.⁶ The
6 Application explained that the Commission had already agreed that costs associated with the
7 TIMP Program should be recorded as capital expenses,⁷ and that the DIMP costs are also
8 properly characterized as capital expenditures.⁸

9 In Order No. 09-067, the Commission approved the Stipulation and Application.⁹

10 **PROPOSED MODIFICATION**

11 Paragraph 16 of the Stipulation sets the term of the Stipulation to expire the earlier of
12 October 31, 2011, or until the effective date of new rates adopted in the Company's next
13 general rate case.¹⁰ Based on a stipulation adopted by the Commission in UG 152 and UG 163
14 in Order No. 07-426, the Company cannot file a rate case prior to September 1, 2011, except
15 under certain conditions.¹¹ More recently, in Docket UG 204 and UM 1520 in Order No. 11-176,
16 NW Natural agreed that it would file a general rate case not later than December 31, 2011. NW
17 Natural is currently planning to file its rate case before December 31, 2011, meaning that new
18 rates would likely be in effect in September of 2012. As a result, under the existing term of the

19 ⁵ *Re. NW Natural Gas Co. Application for an Accounting Order*, Docket UM 1406, Order No. 09-067,
20 Appendix B at 2 (Mar. 1, 2009) [hereinafter "Order No. 09-067"].

21 ⁶ *Re NW Natural's Application for Accounting Order Regarding System Integrity Pipeline Program*
22 *Expenses*, Docket UM 1406, NW Natural's Application for an Accounting Order at 7 (Nov. 25, 2008)
23 [hereinafter "Application"].

24 ⁷ *Re. NW Natural Application Requesting to Classify the Integrity Management Program Costs as Capital*
25 *Expenditures*, Docket UM 1156, Order No. 04-390 (July 13, 2004).

26 ⁸ Application at 2.

⁹ Order No. 09-067 at 1-2.

¹⁰ Order No. 09-067, Appendix 2 at 6.

¹¹ *Re. NW Natural Gas Co. Application for a General Rate Revision and Petition to Commence*
Investigation, Docket UG 152 and Docket UG 163, Order No. 07-426, Appendix A at 2-3 (Sept. 26, 2007).

1 Stipulation, there would be a gap between the time the Stipulation expires and new rates go into
2 effect. During that time, there would be no cost recovery mechanism for NW Natural's ongoing
3 safety programs.

4 NW Natural, Staff, and NWIGU agree that the Stipulation should not expire before new
5 rates go into effect. Therefore, NW Natural requests that the Commission amend Order No. 09-
6 067 to provide that the term of the Stipulation shall extend until the effective date of new rates
7 adopted in the Company's next general rate case. NW Natural, Staff, and NWIGU agree that all
8 other terms of the Stipulation should remain in place.


9 Unlike the Stipulation, the Commission's approval of the accounting for SIP costs did not
10 contain an explicit term. Therefore, NW Natural does not believe that Order 09-067 must be
11 modified to extend the term of the accounting approved in that order. For clarity, however, NW
12 Natural requests that the Commission state in its order that the accounting approved in Order
13 09-067 will continue consistent with the new term of the Stipulation.

14 **CONCLUSION**

15 NW Natural asks the Commission to modify the Stipulation adopted in Order No. 09-067
16 to extend the Stipulation to the effective date of new rates adopted in the Company's next
17 general rate case. NW Natural also requests that the Commission clarify that the Company is
18 authorized to continue the accounting treatment for System Integrity Program costs approved in
19 Order No. 09-067.

20 DATED: August 17, 2011.

McDOWELL RACKNER & GIBSON PC



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22 Of Attorneys for NW Natural

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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in this proceeding on the following named person(s) on the date indicated below by email and/or first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

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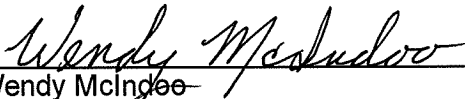
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DATED: August 17, 2011



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