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May 9, 2013

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 – Northwest Natural’s System Integrity Program

Enclosed for filing in the above-referenced docket are the original and five copies of the Joint Explanatory Brief and Motion to Admit Stipulation.

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

Very truly yours,

Wendy McIndoo
Office Manager

Enclosure

cc: Service List
Jason Jones, DOJ
Lisa Gorsuch, OPUC
Chad Stokes, NWIGU
Ed Finklea, NWIGU
Catriona McCracken, CUB
Bob Jenks, CUB

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

3 **UM 1406**

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

JOINT EXPLANATORY BRIEF
EXPEDITED CONSIDERATION
REQUESTED

7
8 **I. INTRODUCTION**

9 This brief explains and supports the Stipulation filed by Northwest Natural Gas
10 Company ("NW Natural"), Commission Staff ("Staff"), the Citizens' Utility Board of Oregon
11 (CUB), and the Northwest Industrial Gas Users (NWIGU) (together, the "Parties") in this
12 docket on May 1, 2013 ("May 1, 2013 Stipulation"). The Parties entered the May 1, 2013
13 Stipulation for the purposes of documenting the written consent of Staff, CUB, and NWIGU
14 regarding the recovery cap under NW Natural's System Integrity Program ("SIP Program"),
15 and resolving certain other modifications to the SIP Program agreed to by the Company
16 and those parties. The parties submit this Joint Explanatory Brief to the Public Utility
17 Commission of Oregon ("Commission") pursuant to OAR 860-001-0350(7)(a).

18 **II. BACKGROUND**

19 In Order No. 09-067, issued on March 1, 2009 in this proceeding, the Commission
20 adopted a stipulation among the Parties implementing the SIP Program ("SIP Stipulation")
21 and approved NW Natural's Application for an Accounting Order related to the SIP
22 Program.¹ The SIP Stipulation set forth the process by which the Company is allowed to
23 track certain safety-related costs into rates on an annual basis. Before adoption of the SIP
24 Stipulation in Order 09-067, NW Natural maintained a number of different safety programs.

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26 ¹ *Re NW Natural Gas Co. Application for an Accounting Order*, Docket UM 1406, Order No. 09-067
(Mar. 1, 2009) [hereinafter "Order No. 09-067"].

1 With the adoption of the SIP Program, the Company combined the Bare Steel Replacement
2 Program,² Transmission Integrity Management Program (TIMP),³ and the Distribution
3 Integrity Management Program (DIMP),⁴ into a single program. The Bare Steel Stipulation,
4 which was adopted in Order No. 01-843 and governed the Bare Steel Replacement
5 Program, remained in effect after the SIP Stipulation, but the SIP Stipulation overrode any
6 inconsistent provisions in the Bare Steel Stipulation.⁵ The SIP Stipulation provided that NW
7 Natural would continue its obligation under the Bare Steel Stipulation to complete the
8 replacement of its bare steel distribution and transmission facilities by 2021.⁶

9 In Docket UG 221, the Company's most recent general rate case, the Company
10 proposed continuing the SIP Program and recommended increasing the soft cap on SIP
11 expenditures ("Recovery Cap") per annual tracking period ("Tracker Year")⁷ from \$12
12 million to \$26.3 million for 2013 to account for a bare steel replacement project, the South
13 of Monmouth Bare Replacement, planned for that year.⁸ Staff recommended that the
14 Commission discontinue the SIP Program.⁹

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17 ² The Bare Steel Replacement Program was approved by the Commission in 2001 and had an
original completion date of 2021. See Order No. 09-067, Appendix B at 17-30.

18 ³ The TIMP was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 and
19 U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration's
(PHMSA) Natural Gas Integrity Management Rule.

20 ⁴ The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 ("2006 PIPES Act")
21 expanded requirements of the Pipeline Safety Improvement Act of 2002 by requiring PHMSA to
prescribe minimum standards for Distribution Integrity Management Programs ("DIMPs") to cover the
integrity and broader aspects of distribution mains, services, and other gas related appurtenances.

22 ⁵ Order No. 09-067, Appendix B ¶ 14.

23 ⁶ *Id.*

24 ⁷ *Id.* ¶ 10.

25 ⁸ *Re NW Natural Request for a General Rate Increase*, Docket UG 221, NWN/600, Yoshihara/11
(Dec. 30, 2011).

26 ⁹ *Re NW Natural Request for a General Rate Increase*, Docket UG 221, Staff/1000, Zimmerman/23
(May 3, 2012).

1 On October 2, 2012, the Parties in Docket UG 221 filed a Second Partial
2 Stipulation, which provided that (1) the Company's existing SIP Program would remain in
3 effect for two years after the rate effective date in this case, after which date it will sunset;
4 (2) prior to the sunset date NW Natural would make a filing each year specifying projects
5 and expenses that are proposed to be tracked into rates through the SIP Program for that
6 year, to which parties will have the opportunity to respond; (3) the Recovery Cap of \$12
7 million will remain in effect and NW Natural would not recover through the SIP Program the
8 first \$3.25 million of combined bare steel and leakage capital costs, or any of its O&M
9 funding embedded in base rates; (4) the Second Partial Stipulation did not affect the Bare
10 Steel Stipulation adopted in Order No. 01-843, which remains in effect until 2021 or until
11 completion of the bare steel removal; and (5) nothing in the Second Partial Stipulation
12 affects NW Natural's right to request that the Commission continue the SIP Program past
13 the date of the sunset.¹⁰ The Commission adopted this agreement in Order No.12-408.¹¹
14 After the conclusion of Docket UG 221, the Parties continued discussions related to the SIP
15 Program, which resulted in the recently-filed May 1, 2013 Stipulation.

16 III. THE STIPULATION

17 A. Terms of the Stipulation

18 The general terms of the May 1, 2013 Stipulation are as follows:

19 First, the Parties agree to raise the Recovery Cap by \$13.7 million in total over the
20 two Tracker Years beginning on November 1, 2012. The May 1, 2013 Stipulation provides
21 the written consent needed pursuant to paragraph 10 of the SIP Stipulation to raise the
22 Recovery Cap.

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25 ¹⁰ *Re NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-408,
Appendix B ¶¶ 30-31 (Oct. 26, 2012).

26 ¹¹ *Re NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-408
at 10-11 (Oct. 26, 2012).

1 Second, NW Natural agreed in the SIP Stipulation that it would not seek recovery
2 through the SIP Program for certain expenses, including the first \$3 million in combined
3 bare steel and leakage capital costs and an additional \$250,000 in SIP capital costs. The
4 May 1, 2013 Stipulation provides that the amount of capital expenditures for which the
5 Company will not seek recovery through the SIP Program will be increased to \$4 million for
6 each of the two Tracker Years beginning on November 1, 2012.

7 Third, the May 1, 2013 Stipulation provides that pursuant to Paragraph 31 of the
8 Second Partial Stipulation in Docket UG 221, the SIP Program will remain in effect until
9 November 1, 2014. The May 1, 2013 Stipulation does not affect NW Natural's right to
10 request that the Commission continue the SIP Program, with or without modifications, after
11 this date.

12 Fourth, the May 1, 2013 Stipulation provides that the Company may use the
13 process outlined in the Bare Steel Stipulation to track bare steel replacement costs incurred
14 on or before December 31, 2015 into rates. However, any bare steel replacement costs
15 incurred after that date will be included in rates only through future rate case proceedings,
16 rather than tracked in between rate cases. The Company agrees that any request to
17 continue the SIP Program described above will not include a bare steel tracking component
18 for bare steel replacement costs incurred after 2015.

19 Finally, the May 1, 2013 Stipulation provides that the Parties agree that nothing in
20 this May 1, 2013 Stipulation alters Staff or Intervenors' ability to conduct discovery and file
21 responsive testimony in pursuit of a prudence review of any projects and expenses
22 proposed to be tracked into rates through the SIP for a given year.

23 **B. The Commission Should Adopt the May 1, 2013 Stipulation, as It Is**
24 **Consistent with Law and Commission Policy.**

25 The May 1, 2013 Stipulation is consistent with law and Commission policy and
26 should therefore be adopted by the Commission. *First*, acceptance of the Stipulation will

1 facilitate timely completion of the South of Monmouth Bare Replacement Project, a 12-mile
2 long corridor of bare steel and will therefore increase the safety of NW Natural's distribution
3 system by accelerating the removal of bare steel.

4 *Second*, the May 1, 2013 Stipulation is consistent with the Commission's policy in
5 favor of adopting stipulations that provide guidance to the parties and reduce unnecessary
6 litigation. See *U.S. West Communications, Inc.*, Docket UM 753, Order No. 96-179 (July
7 16, 1996) (adopting a stipulation because it provided standards that "should provide
8 guidance for [the utility] in the future and reduce unnecessary litigation."). The Parties'
9 agreement on modifications to the SIP Program will provide guidance to the Company on
10 its bare steel replacement efforts and may reduce litigation of SIP-related issues in future
11 filings.

12 **IV. EXPEDITED REVIEW REQUESTED**

13 The Company requests expedited consideration of the May 1, 2013 Stipulation. As
14 explained above, one of the purposes of the May 1, 2013 Stipulation is to provide the
15 written consent of the parties in order to raise the Recovery Cap on SIP expenditures to
16 accommodate implementation of the South of Monmouth Bare Replacement project, with
17 which the Company is currently preparing to begin construction. Staff, CUB, and NWIGU
18 do not object to the Company's request for expedited consideration.

19 **V. CONCLUSION**

20 For reasons set forth above, the Parties respectfully request that the Commission
21 issue an order adopting the May 1, 2013 Stipulation.

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1 Dated: May 9, 2013

Respectfully submitted,

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MCDOWELL RACKNER & GIBSON PC

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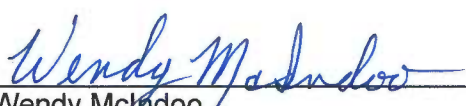
CERTIFICATE OF SERVICE

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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DATED: May 9, 2013



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

3 **UM 1406**

4 In the Matter of
5 **NORTHWEST NATURAL's System**
6 **Integrity Program**

MOTION TO ADMIT STIPULATION
Expedited Consideration Requested

7 Pursuant to OAR 860-001-0350(7)(b), Northwest Natural Gas Company moves to
8 admit into the record in this proceeding the Stipulation filed on May 1, 2013.

9 The Company requests expedited consideration of this Motion. As explained in the
10 Joint Explanatory Brief filed concurrently with this motion, one of the purposes of the May 1,
11 2013 Stipulation is to provide the written consent of the parties in order to raise the Recovery
12 Cap on SIP expenditures to accommodate implementation of the South of Monmouth Bare
13 Replacement project, with which the Company is currently preparing to begin construction.
14 Staff, CUB, and NWIGU do not object to the Company's request for expedited consideration.

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16 DATED: May 9, 2013

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