

MARK THOMPSON
Tariffs and Regulatory Compliance
Tel: 503.721-2476
Fax: 503.721.2516
email: mrt@nwnatural.com



January 25, 2012

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
550 Capitol Street, NE, Suite 215
Post Office Box 2148
Salem, Oregon 97308-2148

ATTN: Filing Center

Re: **OPUC Docket UM 1078:** Application for Reauthorization of Deferred Accounting of Certain Expenses or Revenues – Unrecovered Environmental Costs

In accordance with ORS 757.125, ORS 757.259(2)(e), and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), files herewith the above-referenced Application for Reauthorization of Deferred Accounting of Unrecovered Environmental Costs Associated with Gasco, Wacker (now known as Siltronic), Portland Gas, Portland Harbor, Eugene Water and Electric Board, Central Gas Hold, Oregon Steel Mills, and the French American International School.

A notice concerning this application will be sent to all parties who participated in Docket UM 1078 and in the Company’s most recent general rate case, UG 152. A copy of the notice is part of the enclosed application.

Please call Jennifer Gross at (503) 226-4211, extension 3590, if you have any questions or require any further information.

Sincerely,

/s/ Mark R. Thompson

Mark R. Thompson
Manager, Rates and Regulatory Affairs

enclosures

1 BEFORE THE PUBLIC UTILITY COMMISSION

2 OF

3
4 OREGON

5
6
7 **UM 1078**

8
9 In the Matter of the Application)
10 by NORTHWEST NATURAL GAS COMPANY,)
11 dba NW NATURAL, for Reauthorization)
12 to Defer Certain Expenses or Revenues)
13 Pursuant to ORS 757.259)

14
15
16 APPLICATION FOR REAUTHORIZATION
17 TO DEFER CERTAIN EXPENSES OR REVENUES

18
19
20 Northwest Natural Gas Company, dba NW Natural (NW Natural or Company),
21 hereby files with the Public Utility Commission of Oregon (Commission) this application
22 for reauthorization (Application) to use deferred accounting pursuant to ORS 757.210
23 and 757.259, and OAR 860-027-0300, for the 12-month period beginning January 26,
24 2012, through January 25, 2013.

25 In compliance with the requirements of OAR 860-027-0300(3) and (4), NW
26 Natural hereby submits the following information:

27 **1. A description of the utility expenses or revenues for which deferred**
28 **accounting is requested. [OAR 860-027-0300 (3)(a)]:**

29 NW Natural seeks authorization to record all environmental costs, which shall
30 include, but are not necessarily limited to, all costs related to investigation, study,
31 monitoring, oversight, legal and remediation costs, and all costs associated with
32 pursuing insurance recoveries (hereafter "Environmental Costs") that are associated

1 with the nine projects: eight were described in more detail in the Company's initial
2 Application for Authorization to Defer Accounting, filed April 7, 2003; the ninth project
3 designated as the French American International School (FAIS), was described in the
4 Company's Application for Reauthorization to Defer Accounting, filed on January 25,
5 2008.

6 As mentioned in the Company's 2011 filing made in UM 1078 for authorization to
7 defer environmental remediation costs, the Company received notice from the US Army
8 Corp of Engineers that it believes that Gasco operations contributed to the
9 contamination at its US Moorings facility, which is adjacent to Gasco. If responsibility is
10 assigned to NW Natural during the deferral period, the Company may file a
11 supplemental request to begin deferring Environmental Costs associated with this site
12 as well.

13 NW Natural has received approval from the Washington Utilities and
14 Transportation (WUTC) to defer environmental costs¹ and will be working with the
15 WUTC to determine the Environmental Costs that are attributable to the provision of
16 service in Washington.

17 **2. Justification for the deferred accounting requested with reference to the**
18 **sections of ORS 757.259 under which deferral can be authorized. [OAR 860-027-**
19 **0300 (3)(b)]:**

20 Authorization to defer Environmental Costs and amounts from insurance
21 recoveries can be authorized pursuant to ORS 757.259(2)(d) because they are "utility

¹ See Order No. 1 in WUTC Docket No. UG-110199

1 expenses or revenues, the recovery or refund of which the commission finds should be
2 deferred in order to minimize the frequency of rate changes ... or to match appropriately
3 the costs borne by and benefits received by ratepayers.”

4 **3. The accounts proposed for recording the amounts to be deferred and the**
5 **accounts that would be used for recording the amounts in the absence of**
6 **approval of deferred accounting are as follows. [OAR 860-027-0300 (3)(c)]:**

7 NW Natural proposes to accrue estimates of the Environmental Costs to a
8 separate liability account for each site with the charge recorded in an operation and
9 maintenance expense account. The proposed balance sheet accounts to be used are:

10	262140	Injuries & Damage Reserve -----Gasco
11	262143	Injuries & Damage Reserve-----Wacker (<i>aka</i> Siltronic)
12	262144	Injuries & Damage Reserve-----Portland Harbor
13	262145	Injuries & Damage Reserve-----Oregon Steel Mills
14	262146	Injuries & Damage Reserve-----Tar Body (a subset of
15		Portland Harbor)
16	262147	Injuries & Damage Reserve-----Central Gas Hold
17	262148	Injuries & Damage Reserve----- Portland Gas (<i>aka</i> Front
18		Street)
19	262149	Injuries & Damage Reserve-----French American
20		International School (FAIS)

21 As environmental liabilities are paid, or as they are accrued and if insurance
22 recovery is uncertain, the costs will be deferred in the following deferred regulatory
23 asset accounts on the balance sheet:

24	186145	Environmental Inv.-----Gasco
25	186146	Environmental Inv.-----EWEB (<i>aka</i> Eugene)

3 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

1	186147	Environmental Inv.-----Wacker (<i>aka</i> Siltronic)
2	186148	Environmental Inv.-----Portland Harbor
3	186149	Environmental Inv.-----Portland Gas (<i>aka</i> Front Street)
4	186151	Environmental Inv.-----Tar Body (a subset of Portland
5		Harbor)
6	186152	Environmental Inv.-----Oregon Steel Mills
7	186153	Environmental Inv-----Central Gas Hold
8	186154	Environmental Inv-----French American International
9		School (FAIS)

10 NW Natural has recorded amounts estimated as insurance receivables or
11 reimbursements, Account 143008----Insurance Recovery for Gasco and Portland
12 Harbor and Account 186160----OR Environ Recovery & Reimbursement. Recoveries
13 from insurance are, and will continue to be recorded in the 143008 or 186160 accounts
14 and will offset the recorded expenses for purpose of amortization as determined by the
15 Commission.

16 **4. An estimate of the amount to be recorded in the deferred accounts for the**
17 **12-month period subsequent to the Application. [OAR 860-027-0300 (3)(d)]:**

18 The Company will incur additional site study, clean-up, potential natural resource
19 damages, DEQ/Environment Protection Agency, tribe and natural resource damage
20 trustee oversight, and legal costs as well as administrative expenses related to
21 feasibility studies and remediation activities associated with these sites. Environmental
22 Costs will be charged to deferred regulatory asset accounts. Insurance recoveries will
23 be used as offsets to deferred Environmental Costs as determined by the Commission.
24 These anticipated expenses and recoveries from insurance are the cause of this filing.
25 At this time, information is insufficient to more accurately estimate the total potential

4 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

1 liability for investigation and remediation costs associated with the nine sites, or to
2 accurately estimate the corresponding total insurance recovery amounts.

3 **5. A description and explanation of the entries in the deferred accounts.**

4 **[OAR 860-027-0300 (4)(a)]:**

5 Below is a list of all liabilities, costs and interest that has been recorded as of
6 December 31, 2011:

Account	Site Name	Recorded Liability	Recorded Expense*	Accrued Interest
186145	Gasco	89,571,478	36,426,572	7,305,142
186146	EWEB	0	158,770	63,117
186147	Wacker (nka Siltronic)	3,316,753	3,194,588	789,784
186148	Portland Harbor	18,000,170	16,305,449	4,834,503
186149	Portland Gas (Front Street)	3,174,539	1,649,055	191,061
185151	Tar Deposit (a subset of Portland Harbor)	9,888,017	16,926,601	6,401,364
186152	Oregon Steel Mills	200,000	34,729	13,806
186153	Central Gas Hold	638,508	141,991	13,765
186154	French American International School (FAIS)	19,958	207,714	42,198
TOTAL		124,809,423	75,045,469	19,654,740

*Recorded expense includes accrued interest

7 Recorded costs are for investigation and remediation, including consultants' fees
8 and ODEQ oversight reimbursement and legal fees.

9 **6. Interest on Deferred Balances. [OAR 860-027-0300(4)(b)]:**

10 As part of this reauthorization, the Company requests continued permission to
11 accrue interest to the deferred actual cash expenses. The Commission has allowed the
12 Company to collect interest on deferred balances since 2006.² As of December 31,
13 2011, the Company has spent over \$75 million on projects. As those amounts continue
14 to be outstanding in anticipation of insurance offsets or recovery from ratepayers,
15 financing the spent amounts is an ongoing burden. As insurance proceeds are attained,
16 they will be used to draw down or offset the amounts outstanding, as determined by the
17 Commission. When final ratemaking is determined for the deferred accounts, interest

² See Commission Order Nos. 06-211, 07-147, 08-247, 09-172, 10-117, and 11-336.

1 on the balance would be affected accordingly. Please note that the Company does not
2 accrue interest on the recorded liability.

3 **7. Reason for the continued request for deferred accounting. [OAR 860-027-**
4 **0300(4)(b)]:**

5 Since early 2006, NW Natural has been pursuing recovery of insurance for its
6 environmental liabilities. It has identified and analyzed all of the liability insurance
7 policies issued between the late 1930s and 1986 which may provide coverage. All of
8 the insurers have been contacted. Most have signed confidentiality agreements and
9 have been provided detailed information about the environmental liabilities. Because
10 the coverage issues involve complex legal and factual issues, the insurers have not
11 agreed that coverage exists. However, most insurers agreed to enter into negotiations
12 in an effort to resolve the claims. In late 2010, NW Natural determined it would not be
13 able to reach settlements within a reasonable period of time, so the Company filed a
14 lawsuit against the insurers seeking a recovery of funds. Recently, the Company
15 received a settlement payment from one of its insurance providers, and anticipates that
16 the payment and appropriate interest will be used to offset deferred costs that will be
17 collected from ratepayers.

18 **8. Requirements per Commission Order No. 09-263**

19 Below is the information required per Commission Order No. 09-263, issued in
20 Docket UM-1286, Staff's Investigation into Purchased Gas Adjustment Mechanisms:

21 **a. A completed Summary Sheet, the location in the PGA filing, and an**
22 **account map that highlights the transfer of dollars from one account to**
23 **another.**

24 NW Natural does not currently intend to request that costs deferred under
25 UM 1078 be amortized in the 2012 PGA filing. In the Company's most current

1 rate case docketed as UG-221, NW Natural has proposed a mechanism that
2 would allow the Company to begin amortizing the net Environmental Costs,
3 which may operate concurrently with the PGA.

4 **b. The effective date of the deferral**

5 This application is for the 12-month period beginning January 26, 2012
6 through January 25, 2013.

7 **c. Prior year Order Number approving the deferral**

8 Approval to defer Environmental Costs was last granted under
9 Commission Order No. 11-336.

10 **d. The amount deferred last year**

11 \$ 16,315,828 was deferred in the 2011 calendar year. This amount
12 includes \$5,683,878 in interest.

13 **e. The amount amortized last year**

14 No costs deferred under UM 1078 were amortized for collection in 2011.

15 **f. The interest rate that will apply to the accounts**

16 The interest rate for deferral accounts is 8.618%.

17 **g. An estimate of the upcoming PGA-period deferral and / or**
18 **amortization**

19 For the reasons described in Section 4 above, the Company is unable to
20 estimate the costs it will incur for its environmental remediation efforts in 2011.

21 **9.** A notice of this Application has been served on the UM 1078 service list and on
22 all parties who participated in the Company's most recent general rate case, UG 152,
23 and is attached to this Application.

24 //

25 //

1 **10.** Communications regarding this Application should be addressed to:

2 Jennifer Gross
3 Rates & Regulatory Affairs
4 NW Natural
5 220 NW Second Avenue
6 Portland, OR 97209-3991
7 Telephone: (503) 226-4211, ext. 3590
8 Facsimile: (503) 721-2516
9 E-mail: jennifer.gross@nwnatural.com

10
11 and

12
13 efiling
14 Rates & Regulatory Affairs
15 NW Natural
16 220 NW Second Avenue
17 Portland, OR 97209-3991
18 Telephone: (503) 226-4211 ext. 3589
19 Facsimile: 503-721-2516
20 E-mail: efiling@nwnatural.com

21

22 DATED this 25th day of January 2012.

23

24 Respectfully submitted,

25 NW NATURAL

26

27 */s/ Mark R. Thompson*

28

29 _____
30 Mark R. Thompson
 Manager, Rates & Regulatory Affairs



January 25, 2012

**NOTICE OF APPLICATION FOR REAUTHORIZATION TO
DEFER ACCOUNTING OF UNRECOVERED ENVIRONMENTAL COSTS**

To All Parties Who Participated in UG 152:

Please be advised that today Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for reauthorization to defer certain expenses and revenues relative to unrecovered environmental costs associated with Gasco, Wacker (now known as Siltronic), Portland Gas, Portland Harbor, Eugene Water and Electric Board, Central Gas Hold, the French American School, and Oregon Steel Mills, pursuant to the provisions of ORS 757.259(2)(e). Copies of the Company's application are available for inspection at its main office.

This is not a rate case. The purpose of this Notice is to inform parties that participated in Docket UM 1078, and in the Company's most recent general rate case, UG 152, that the Application was filed.

Parties who desire more information or who wish to obtain a copy of the filing, or notice of the time and place of any hearing, if scheduled, should contact the Company or the Public Utility Commission of Oregon as follows:

NW Natural
Attn: Jennifer Gross
220 NW Second Avenue
Portland, Oregon 97209-3991
Telephone: (503) 226-4211 ext 3590

Public Utility Commission of Oregon
Attn: Judy Johnson
550 Capitol St., NE, Ste 215
PO Box 2148
Salem, Oregon 97308-2148
Telephone: (503) 378-6636

Any person may submit to the Commission written comments on this matter no sooner than 25 days from the date of this Application. The granting of this Application will not authorize a change in rates, but will permit the Company to defer amounts in rates to a subsequent proceeding.



CERTIFICATE OF SERVICE

I hereby certify that on the 25th day of January 2012, I served the foregoing NOTICE OF APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES OR REVENUES in dockets UM 1078 and UG 152 upon each party listed below by U.S. mail, postage prepaid, or where paper service is waived, by electronic mail.

UM 1078

CARLA BIRD **W**
PUBLIC UTILITY COMMISSION OF
OREGON
carla.bird@state.or.us

CITIZENS' UTILITY BOARD
OF OREGON **W**
gordon@oregoncub.org
bob@oregoncub.org
catriona@oregoncub.org

UG 221

STEVEN LOUNSBURY
COOS COUNTY OFFICE OF LEGAL
COUNSEL
250 N BAXTER
COQUILLE OR 97423

JIM ABRAHAMSON
CASCADE NATURAL GAS CORP
8113 W GRANDRIDGE BLVD
KENNEWICK WA 99336

GORDON FEIGHNER **W**
CITIZENS' UTILITY BOARD OF OREGON
gordon@oregoncub.org

ROBERT JENKS **W**
CITIZENS' UTILITY BOARD OF OREGON
bob@oregoncub.org

G. CATRIONA MCCrackEN **W**
CITIZENS' UTILITY BOARD OF OREGON
catriona@oregoncub.org

RAYMOND MYERS **W**
CITIZENS' UTILITY BOARD OF OREGON
ray@oregoncub.org

KEVIN ELLIOTT PARKS **W**
CITIZENS' UTILITY BOARD OF OREGON
kevin@oregoncub.org

DANIEL W MEEK
ATTORNEY AT LAW
10949 SW FOURTH AVE
PORTLAND OR 97219

JOHN A CAMERON
DAVIS WRIGHT TREMAINE LLP
1300 SW FIFTH AVE STE 2300
PORTLAND OR 97201

MICHAEL T WEIRICH
DEPARTMENT OF JUSTICE
BUSINESS ACTIVITIES SECTION
1162 COURT ST NE
SALEM OR 97310-4096

TED LEHMANN
DIREXX ENERGY
2737 SE 78TH AVE STE 101
MERCER ISLAND WA 98040

GORDON J SMITH
JOHN & HENGERER
1730 RHODE ISLAND AVE NW STE 600
WASHINGTON DC 20036-3116

KATHERINE A MCDOWELL
MCDOWELL RACKNER & GIBSON PC
419 SW 11TH AVE STE 400
PORTLAND OR 97205

PAULA E PYRON
NORTHWEST INDUSTRIAL GAS USERS
4113 WOLF BERRY CT
LAKE OSWEGO OR 97035-1827

JAY T WALDRON
SCHWABE WILLIAMSON & WYATT
1211 SW FIFTH AVE STE 1600-1900
PORTLAND OR 97204-3795

STEVEN WEISS
NORTHWEST ENERGY COALITION
4422 OREGON TRAIL CT NE
SALEM OR 97305

JUDY JOHNSON
PUBLIC UTILITY COMMISSION
PO BOX 2148
SALEM OR 97308-2148

PATRICK G HAGER
PORTLAND GENERAL ELECTRIC
121 SW SALMON ST 1WTC0702
PORTLAND OR 97204

DONALD W SCHOENBECK
REGULATORY & COGENERATION
SERVICES INC
900 WASHINGTON ST STE 780
VANCOUVER WA 98660-3455

DATED at Portland, Oregon, this 25th day of January 2012.

/s/ Kelley Miller
Kelley Miller
Rates & Regulatory Affairs
NW NATURAL
220 NW Second Avenue
Portland, Oregon 97209-3991
1.503.226.4211, extension 3589
kelley.miller@nwnatural.com