

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



January 24, 2014

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
3930 Fairview Industrial Drive SE
Post Office Box 1088
Salem, Oregon 97308-1088

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-221. 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 OREGON

4 **UM 1078**

5 In the Matter of the Application)
6 by NORTHWEST NATURAL GAS COMPANY,)
7 dba NW NATURAL, for Reauthorization)
8 to Defer Certain Expenses or Revenues)
9 Pursuant to ORS 757.259)

10 APPLICATION FOR REAUTHORIZATION
11 TO DEFER CERTAIN EXPENSES OR REVENUES

12 Northwest Natural Gas Company, dba NW Natural (NW Natural or Company),
13 hereby files with the Public Utility Commission of Oregon (Commission) this application
14 for reauthorization (Application) to use deferred accounting pursuant to ORS 757.210
15 and 757.259, and OAR 860-027-0300, for the 12-month period beginning January 26,
16 2014 through January 25, 2015.

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

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

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

1 with nine projects at the following sites: Gasco, Wacker (aka Siltronic), EWEB, Portland
2 Harbor, Oregon Steel Mills, Tar Body (a subset of Portland Harbor), Central Gas Hold,
3 Portland Gas (aka Front Street), and French American International School.¹

4 NW Natural has received approval from the Washington Utilities and
5 Transportation Commission (WUTC) to defer environmental costs² and will be working
6 with the WUTC and OPUC to determine the Environmental Costs that are attributable to
7 each state.

8 **2. Justification for the deferred accounting requested with reference to the**
9 **sections of ORS 757.259 under which deferral can be authorized. [OAR 860-027-**
10 **0300 (3)(b)]:**

11 This application is made pursuant to ORS 757.259(2)(d), which authorizes the
12 deferral of “utility expenses or revenues, the recovery or refund of which the
13 commission finds should be deferred in order to minimize the frequency of rate changes
14 ... or to match appropriately the costs borne by and benefits received by ratepayers.”

15 Additionally, in its Order No. 12-408 issued in UG 221, the Commission
16 authorized a cost recovery mechanism through which NW Natural will recover its
17 environmental remediation costs. In that Order, the Commission determined that NW
18 Natural should continue to defer these costs and determined that they would be

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

² See Order No. 1 in WUTC Docket No. UG-110199

1 collected through the Company's Site Remediation and Recovery Mechanism, subject
2 to an earnings test and prudence review.³

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

6 NW Natural proposes to accrue estimates of the Environmental Costs to a
7 separate liability account for each site. The proposed balance sheet accounts to be
8 used are:

9	262140	Injuries & Damage Reserve -----Gasco
10	262143	Injuries & Damage Reserve-----Wacker (<i>aka</i> Siltronic)
11	262144	Injuries & Damage Reserve-----Portland Harbor
12	262145	Injuries & Damage Reserve-----Oregon Steel Mills
13	262146	Injuries & Damage Reserve-----Tar Body (a subset of
14		Portland Harbor)
15	262147	Injuries & Damage Reserve-----Central Gas Hold
16	262148	Injuries & Damage Reserve----- Portland Gas (<i>aka</i> Front
17		Street)
18	262149	Injuries & Damage Reserve-----French American
19		International School (FAIS)

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

23	186145	Environmental Inv.-----Gasco
24	186146	Environmental Inv.-----EWEB (<i>aka</i> Eugene)

³ See page 5 of Public Utility Commission of Oregon Order No. 12-408 issued in Docket No. UG-221

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 in Account 186160---OR Environ Recovery & Reimbursement.
12 Recoveries from insurance are, and will continue to be recorded in the 186160 accounts
13 and will offset the recorded expenses for purpose of amortization as determined by the
14 Commission.

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

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

4 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

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

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

3 Below is a list of all liabilities, costs and interest that has been recorded as of
4 December 31, 2013:

Account	Site Name	Recorded Liability	Recorded Expense*	Accrued Interest
186145	Gasco	103,096,935	61,858,321	14,873,784
186146	EWEB	-	186,469	90,817
186147	Wacker (<i>nka</i> Siltronic)	4,211,476	4,460,084	1,406,876
186148	Portland Harbor	18,550,833	21,471,148	7,878,823
186149	Portland Gas (Front Street)	4,135,585	3,325,455	585,787
186151	Tar Body (a subset of Portland Harbor)	10,523,002	19,793,906	9,288,741
186152	Oregon Steel Mills	194,060	34,471	19,489
186153	Central Gas Hold	721,994	432,194	53,460
186154	French American International School (FAIS)	158,120	235,585	77,464
TOTAL		141,592,005	111,797,633	34,275,241
* Recorded expense includes accrued interest				

5
6 Recorded costs are for investigation and remediation, including consultants' fees
7 and ODEQ oversight reimbursement and legal fees.

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

9 As part of this reauthorization, the Company requests continued permission to
10 accrue interest to the deferred actual cash expenses. The Commission has allowed the
11 Company to collect interest on deferred balances since 2006.⁴ As of December 31,

⁴ See Commission Order Nos. 06-211, 07-147, 08-247, 09-172, 10-117, and 11-336.

1 2013, the Company has spent over \$111.8 million on projects.⁵ As those amounts
2 continue to be outstanding in anticipation of insurance offsets or recovery from
3 ratepayers, financing the spent amounts is an ongoing burden. As insurance proceeds
4 are attained, they will be used to draw down or offset the amounts outstanding, until
5 final ratemaking is determined for the deferred accounts, and interest on the balance
6 would be affected accordingly. Please note that the Company does not accrue interest
7 on the recorded liability.

8 In NW Natural's most recent rate case, Docketed as UG 221, the Company
9 requested authorization to begin amortizing environmental remediation costs deferred in
10 accordance with the authorization granted under this docket, UM 1078. The
11 Commission granted NW Natural a mechanism through which it will recover those
12 deferred costs, but determined that certain specifics regarding the mechanism as well
13 as the prudence review of the deferred costs would need to be separately investigated.⁶
14 A new docket, UM 1635, has been initiated, through which this investigation will be
15 completed.

16 **7. Reason for the continued request for deferred accounting. [OAR 860-027-**
17 **0300(4)(b)]:**

18 Since early 2006, NW Natural has been pursuing recovery of insurance for its
19 environmental liabilities. It has identified and analyzed all of the liability insurance
20 policies issued between the late 1930s and 1986 which may provide coverage. In late
21 2010, NW Natural determined it would not be able to receive payments without initiating
22 litigation against the insurers, so the Company filed a lawsuit against the insurers
23 seeking a recovery of funds.

⁵ The \$111.8 million spent in 2013 includes interest.

⁶ See Commission Order No. 12-408.

1 Because the Company continues to incur costs related to its environmental
2 remediation obligations, and because it has not been able to recover these amounts
3 from insurers as of this date, it seeks to defer these expenses to preserve its ability to
4 seek appropriate recovery through rates. We continue to work to resolve the claims
5 against our insurers, and will notify the Commission of any resolution of the claims as
6 soon as any such agreements become finalized.

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

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

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

13 Because the Commission is currently investigating a number of issues
14 related to the Company's amortization its deferred environmental remediation
15 costs,⁷ it does not have this information at this time.

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

17 This application is for the 12-month period beginning January 26, 2014
18 through January 25, 2015.

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

20 Approval to defer Environmental Costs was last granted under
21 Commission Order No. 13-081.

22 //

23 //

24 //

⁷ The Commission's investigation is docketed as UM 1635.

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

2 \$ 35,220,056 was deferred in the 2013 calendar year. This amount
3 includes \$7,527,044 in interest. These amounts do not include the effect of
4 offsetting insurance payments.

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

6 No costs deferred under UM 1078 were amortized for collection in 2013.

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

8 The interest rate for deferral accounts is 7.78%. As directed in the
9 Commission's Order Nos. 12-408 and 12-437 issued in UG 221, a different
10 interest rate will apply once the amounts have been reviewed for prudence, and
11 until they are amortized.

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

14 For the reasons described in Section 4 above, the Company is unable to
15 estimate the costs it will incur for its environmental remediation efforts in 2014

16 **9.** A notice of this Application has been served on the UM 1078 service list and on
17 all parties who participated in the Company's most recent general rate case, UG 221,
18 and is attached to this Application.

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

20 Jennifer Gross
21 Rates & Regulatory Affairs
22 NW Natural
23 220 NW Second Avenue
24 Portland, OR 97209-3991
25 Telephone: (503) 226-4211, ext. 3590
26 Facsimile: (503) 721-2516
27 E-mail: jennifer.gross@nwnatural.com, and
28
29 efileing
30 Rates & Regulatory Affairs

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NW Natural
220 NW Second Avenue
Portland, OR 97209-3991
Telephone: (503) 226-4211 ext. 3589
Facsimile: 503-721-2516
E-mail: efiling@nwnatural.com

DATED this 24th day of January 2014.

Respectfully submitted,

NW NATURAL

/s/ Mark R. Thompson
Mark R. Thompson
Manager, Rates & Regulatory Affairs



January 24, 2014

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

To All Parties Who Participated in UM 1078 and UG 221:

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 221, 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
3930 Fairview Industrial Drive SE
PO Box 1088
Salem, Oregon 97308-1088
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.

 **NW Natural**
CERTIFICATE OF SERVICE

I hereby certify that I have this day served by electronic mail the foregoing NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER ENVIRONMENTAL REMEDIATION COSTS upon all parties of record in this docket, UM 1078, and UG 221, which is the Company's most recent general rate case.

UM 1078

CARLA BIRD W
997 GLAZE MEADOW DRIVE NE
KEIZER OR 97303
carlasmail1@comcast.net

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

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

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

UG 221

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

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

OPUC DOCKETS W
CITIZENS' UTILITY BOARD OF OREGON
dockets@oregoncub.org

CHAD M. STOKES W
CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD LLP
cstokes@cablehuston.com

TOMMY BROOKS W
CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD LLP
tbrooks@cablehuston.com

EDWARD FINKLEA W
NORTHWEST INDUSTRIAL GAS USERS
efinklea@nwigu.org

JASON W. JONES W
PUC STAFF-DEPARTMENT OF
JUSTICE
jason.w.jones@state.or.us

KEITH KUENY W
COMMUNITY ACTION PARTNERSHIP
OF OREGON
keith@caporegon.org

WENDY GERLITZ W
NW ENERGY COALITION
wendy@nwenergy.org

JUDY JOHNSON W
PUBLIC UTILITY COMMISSION
judy.johnson@state.or.us

TERESA HAGINS W
NORTHWEST PIPELINE GP
teresa.l.hagins@williams.com

STEWART MERRICK W
NORTHWEST PIPELINE GP
stewart.merrick@williams.com

RANDY DAHLGREN W
PORTLAND GENERAL ELECTRIC
pge.opuc.filings@pgn.com

DOUGLAS C TINGEY W
PORTLAND GENERAL ELECTRIC
doug.tingey@pgn.com

LISA F RACKNER W
MCDOWELL RACKNER & GIBSON PC
dockets@mcd-law.com

DATED at Portland, Oregon, this 24th day of January 2014.

/s/ Kelley C. Miller

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