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January 25, 2013

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 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 2013 through January 25, 2014.

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 Authorization to defer Environmental Costs and amounts from insurance
12 recoveries can be authorized pursuant to ORS 757.259(2)(d) because they are “utility
13 expenses or revenues, the recovery or refund of which the commission finds should be
14 deferred in order to minimize the frequency of rate changes ... or to match appropriately
15 the costs borne by and benefits received by ratepayers.”

16 Additionally, in its Order No. 12-408 issued in UG 221, the Commission
17 authorized a cost recovery mechanism through which NW Natural will recover its
18 environmental remediation costs. In that Order, the Commission determined that NW
19 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 with the charge recorded in an operation and
8 maintenance expense account. The proposed balance sheet accounts to be 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 as determined by the Commission.
23 These anticipated expenses and recoveries from insurance are the cause of this filing.
24 At this time, information is insufficient to more accurately estimate the total potential

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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, 2012:

Account	Site Name	Recorded Liability	Recorded Expense*	Accrued Interest
186145	Gasco	98,454,512	53,574,420	10,956,895
186146	EWEB	-	172,753	77,101
186147	Wacker (<i>nka</i> Siltronic)	3,733,070	3,889,627	1,083,284
186148	Portland Harbor	15,736,118	18,920,040	6,325,460
186149	Portland Gas (Front Street)	3,199,661	2,544,684	358,025
186151	Tar Body (a subset of Portland Harbor)	9,595,674	17,781,288	7,840,987
186152	Oregon Steel Mills	200,000	37,788	16,865
186153	Central Gas Hold	723,890	210,045	29,539
186154	French American International School (FAIS)	13,061	218,162	60,042
TOTAL		131,655,987	97,348,808	26,748,198
* Recorded expense includes accrued interest				

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

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

11 As part of this reauthorization, the Company requests continued permission to
12 accrue interest to the deferred actual cash expenses. The Commission has allowed the

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1 Company to collect interest on deferred balances since 2006.⁴ As of December 31,
2 2012, the Company has spent over \$97 million on projects.⁵ As those amounts
3 continue to be outstanding in anticipation of insurance offsets or recovery from
4 ratepayers, financing the spent amounts is an ongoing burden. As insurance proceeds
5 are attained, they will be used to draw down or offset the amounts outstanding, as
6 determined by the Commission. When final ratemaking is determined for the deferred
7 accounts, interest on the balance would be affected accordingly. Please note that the
8 Company does not accrue interest on the recorded liability.

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

17 **7. Reason for the continued request for deferred accounting. [OAR 860-027-**
18 **0300(4)(b)]:**

19 Since early 2006, NW Natural has been pursuing recovery of insurance for its
20 environmental liabilities. It has identified and analyzed all of the liability insurance
21 policies issued between the late 1930s and 1986 which may provide coverage. All of
22 the insurers have been contacted. Most have signed confidentiality agreements and
23 have been provided detailed information about the environmental liabilities. Because

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

⁵ The \$97 million spent in 2012 includes interest.

⁶ See Commission Order No. 12-408.

1 the coverage issues involve complex legal and factual issues, the insurers have not
2 agreed that coverage exists. However, most insurers agreed to enter into negotiations
3 in an effort to resolve the claims. In late 2010, NW Natural determined it would not be
4 able to reach settlements within a reasonable period of time, so the Company filed a
5 lawsuit against the insurers seeking a recovery of funds.

6 Because the Company continues to incur costs related to its environmental
7 remediation obligations, and because it has not been able to recover these amounts
8 from insurers, it seeks to defer these expenses to preserve its ability to seek appropriate
9 recovery through rates.

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

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

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

16 Because the Commission is currently investigating a number of issues
17 related to the Company's ability to amortize its deferred environmental
18 remediation costs,⁷ it is unclear when the Company will submit a filing to request
19 recovery of any portion of these costs this year.

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

21 This application is for the 12-month period beginning January 26, 2013
22 through January 25, 2014.

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

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c. Prior year Order Number approving the deferral

Approval to defer Environmental Costs was last granted under Commission Order No. 12-090.

d. The amount deferred last year

\$ 15,047,757 was deferred in the 2011 calendar year. This amount includes \$7,093,484 in interest.

e. The amount amortized last year

No costs deferred under UM 1078 were amortized for collection in 2012.

f. The interest rate that will apply to the accounts

The interest rate for deferral accounts is 8.618% from January to October and 7.78% thereafter. As directed in the Commission's Order Nos. 12-408 and 12-437 issued in UG 221, a different interest rate will apply once the amounts have been reviewed for prudence, and until they are amortized.

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

For the reasons described in Section 4 above, the Company is unable to estimate the costs it will incur for its environmental remediation efforts in 2013.

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

10. Communications regarding this Application should be addressed to:

Jennifer Gross
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, OR 97209-3991
Telephone: (503) 226-4211, ext. 3590
Facsimile: (503) 721-2516

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and

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DATED this 25th day of January 2013.

Respectfully submitted,

NW NATURAL

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



January 25, 2013

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

To All Parties Who Participated in 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
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 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

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DATED at Portland, Oregon, this 25th day of January 2013.

/s/ Kelley C. Miller

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