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March 11, 2016

NWN OPUC Advice No. 15-03B / ADV18
REPLACEMENT FILING

VIA ELECTRONIC FILING AND US MAIL

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

**Re: Amended Compliance Filing
UM 1635/UM 1706: Order No. 16-029**

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), makes this filing in accordance with Order No. 16-029 (the “2016 Order”) issued on January 26, 2016. In that Order, the Commission clarified and affirmed Order No. 15-049 (the “2015 Order”) issued on February 20, 2015, which resolved a number of issues relating to the implementation of NW Natural’s Site Remediation and Recovery Mechanism (SRRM). In the 2015 Order, the Commission directed the Company to make a compliance filing demonstrating how “it will implement both the historic and the future decisions reached in th[e] order.”¹ NW Natural made its original compliance filing on March 31, 2015, (the “Original Compliance Filing”).²

Following the submission of the Original Compliance Filing, the parties raised several issues concerning the Company’s proposed methods for complying with the Order. The parties discussed and resolved most of the issues through constructive workshops; however, the Company was aware of two unresolved issues following the workshops. The parties agreed that NW Natural would withdraw its Original Compliance Filing and file a Revised Compliance Filing that addressed the resolved issues and identified unresolved issues for further process. The Company filed the Revised Compliance Filing on September 21, 2015. In the Revised Compliance Filing, the Company requested that the Commission establish a prehearing conference to develop a schedule for the resolution of any remaining contested issues in the docket. A briefing schedule was established, and the parties subsequently briefed the remaining issues in the case.

The 2016 Order, which decided the remaining contested issues in the docket, directed NW Natural to file this Amended Compliance Filing. This Amended Compliance Filing amends the September 21, 2015, Revised Compliance Filing and is intended to capture all compliance requirements of the 2015 Order and the 2016 Order. This filing

¹ The 2015 Order at 20.

² On March 19, 2015, NW Natural filed a petition for extension of time to make the compliance filing from March 23, 2015 to March 31, 2015, which was approved by the Commission on March 20, 2015.

retains language from the September Revised Compliance Filing where unaffected by the 2016 Order, and modifies it where necessary to reflect the 2016 Order.

A discussion of each action directed by the Commission, as well as a description of how NW Natural proposes to implement each action, is provided in detail below. Where appropriate, references are made to spreadsheets, workpapers, and tariffs.

I. Allocation of Environmental Costs and Insurance Proceeds.³

A. Reconciliation of Amounts in the Order and Actual Amounts included in the Compliance Filing.

In the 2015 Order, the Commission referred to the amounts of environmental costs incurred, and insurance proceeds received, based on information provided to the Commission in NW Natural's filings, made earlier in this docket. NW Natural adjusts the amounts of the environmental costs and insurance proceeds described in the 2015 Order to reflect actual amounts on NW Natural's books, and other appropriate adjustments as follows:

First, NW Natural adjusts the \$94.3 million pre-2013 deferral balance in order to reflect the transfer of amounts into a capital account in connection with the authorization for the Company to capitalize the Gasco Source Control facility costs.⁴ This is further discussed in Section I, Part (B).

Second, NW Natural allocates the environmental costs and the Insurance Proceeds based on the state allocation factors clarified in the 2016 Order, discussed in the following Section I, Parts (C) and (D).

Third, NW Natural adjusts the Insurance Proceeds amount to recognize the receipt of an additional \$1.685 million of proceeds received in December 2014 under the Company's settlement with insurers. This addition results in a total Insurance Proceeds amount of \$152.2 million rather than the \$150.5 million stated in the 2015 Order.

Fourth, NW Natural adjusts the Insurance Proceeds to reflect the \$2.5 million applied as an offset to the Company's costs associated with the Gasco Source Control in accordance with the Commission's Order 14-077 in Docket UG 263.

Last, the Commission ordered NW Natural to hold the Insurance Proceeds attributable to the future period in a secure account, with interest accruing at the highest rate the Company is able to obtain while reasonably minimizing risk to principal. In a Stipulation

³ In its testimony in this docket, the Company explained that in addition to insurance proceeds, the Company also expected to receive reimbursement for certain expenses from other "potentially responsible parties"—or PRPs. NWN/200, Wyatt/6. These funds will be treated identically to insurance proceeds for the purposes of the SSRM, and the "Insurance Proceeds" will refer to both insurance payments and reimbursements from PRPs.

⁴ See Commission Order Nos. 13-424 and 14-077 (authorizing NW Natural to capitalize and include in rates the costs associated with the Gasco Source Control, or "Pumping Station," upon initiation of operations at the plant).

filed on July 31, 2015, the parties to this docket jointly proposed that in lieu of holding the insurance proceeds in a secure account, the Company would accrue interest on the pre-tax insurance proceeds at the Prudence-Reviewed Unamortized Environmental Remediation Expense ("PURE") rate – 5 year treasury plus 100 basis points – beginning on the date the Commission issued the Order. The Commission adopted that stipulation on September 11, 2015, in Order No. 15-276.

These calculations and adjustments, among others, are detailed throughout this Amended Compliance Filing and in the attached exhibits.

B. Adjustment for Capital Costs associated with Gasco Source Control.

NW Natural adjusts the pre-2013 deferral balance (identified as \$94.3 million in the 2015 Order⁵) to reflect a decrease of \$5.6 million of deferred expense as shown in Exhibit A. This adjustment is necessary in order to remove from the balance of capital costs associated with 2010 through 2012 Gasco Source Control spend that the Company subsequently included in the transfer to plant in 2013, in accordance with Orders No. 13-424 and 14-077. As shown in **Exhibit A** at page 2, the \$5.6 million decrease to the pre-2013 deferral balance represents Gasco Source Control capital costs of \$72,819 in 2010, \$931,065 in 2011, \$4.4 million in 2012, and the related interest of \$252,351. The Company notes that all of the environmental remediation expenses incurred pre-2013 and in 2013 have been reviewed by the Commission for prudence.

Also shown in **Exhibit A** at page 2, the Company reduced the pre-2013 deferral balance by the disallowed expense of \$33,400, related to NW Natural's inability to provide accounting information for this amount,⁶ plus the related accrued interest on the disallowed amount. Based on the above adjustments, the Company reduced the pre-2013 deferral balance by a total of \$5.7 million. With these adjustments, the pre-2013 deferral balance is \$88.6 million.

C. State Allocation of Environmental Costs.

On page 6 of the 2015 Order, the Commission adopted the method for state allocation of environmental remediation costs agreed to in the parties' Prudence and Earnings Test Stipulation filed with the Commission on July 7, 2013, in this Docket. The Stipulation states that "[t]he parties agree that 96.68% of the deferred costs amortized through the SRRM will be allocated to Oregon customers."⁷ In the 2016 Order, the Commission confirmed that it intended to allocate 96.68% of the costs to Oregon and 3.32% to Washington, including costs associated with remediation sites that historically only served Oregon.

⁵ The 2015 Order at 17.

⁶ On page 6 of the 2015 Order, the Commission found that all but \$33,400 of NW Natural's environmental remediation costs incurred from April 7, 2003 through December 31, 2012 were prudent.

⁷ UM 1635, Prudence and Earnings Test Stipulation at 6 (July 7, 2013)(rejected by Commission in Order No. 13-424).

Applying Oregon's state allocation percentage to the April 7, 2003 through December 31, 2012 ("Past Period") environmental costs and associated interest, which have been deemed prudent, Oregon customers' allocated share is \$88.6 million, as shown on page 2 of **Exhibit A**.⁸ For 2013 and 2014, Oregon customers' allocated share of the total environmental expenditures is \$13.0 million and \$14.2 million, respectively, as shown on page 1 of **Exhibit A**. For 2015 forward, the state allocation will be applied each year after the Commission determines whether the expenditures incurred by NW Natural are prudent.

D. Allocation of Insurance Proceeds.

The Commission ordered NW Natural to "allocate the \$150.5 million in Insurance Proceeds across the entire estimated period of the remediation project."⁹ Under the 2015 Order, one-third of the Insurance Proceeds are to be allocated to costs incurred in the Past Period and two-thirds are to be allocated to 2013 and forward ("Future Period").¹⁰ The Commission found that the intergenerational allocation resulted in "approximately \$50.2 million being used to offset the past period deferrals, and the allocation of roughly \$5 million a year, plus interest earned on the balance each year, for the remaining estimated 20 years of the project."¹¹

The 2015 Order does not expressly prescribe a specific methodology for the state allocation of the Insurance Proceeds. In the 2016 Order, the Commission clarified that "NW Natural should use the same allocation factor to allocate insurance proceeds that it uses to allocat[e] costs."¹² In this Amended Compliance Filing NW Natural allocates 96.68% of the Insurance Proceeds to Oregon customers.

Based on the state allocation of Insurance Proceeds described above, and the removal of the \$2.5 million from the Insurance Proceeds in accordance with Commission Order 14-077 in Docket UG 263, NW Natural allocated \$144.6 million of the \$152.2 million of Insurance Proceeds to Oregon customers. These calculations and adjustments are detailed in **Exhibit B**. In accordance with the 2015 Order, NW Natural will allocate one-third, or \$48.2 million, of the \$144.6 million to the Past Period and two-thirds, or \$96.4 million, to the Future Period.

Finally, in the 2015 Order, the Commission ordered NW Natural to "hold the insurance proceeds [attributable to the future period] in a secure account, with interest accruing at the highest rate the company is able to obtain while reasonably minimizing risk to principal."¹³ On March 31, 2015, NW Natural filed an application for reconsideration, or clarification ("Application"), requesting authorization to place the after-tax amount of its

⁸ In the Company's Revised Compliance Filing, the Company proposed to allocate 100% of the costs incurred to remediate Oregon specific sites only to Oregon customers. Page 3 of Exhibit A includes the Company's determination of the initial SRRM and amortization amounts that were filed as part of the Revised Compliance Filing. Also on page 3 of Exhibit A, the Company provides line item adjustments representing the difference between the state allocation applied in the Revised Compliance Filing and the Amended Compliance Filing.

⁹ The 2015 Order at 6.

¹⁰ The 2015 Order at 6.

¹¹ The 2015 Order at 6.

¹² Order No. 16-029 at 6.

insurance receipts into the secure account ordered by the Commission. On April 15, 2015, Staff, CUB, and NWIGU filed responses to NW Natural's Application, and on April 22, 2015, NW Natural filed a reply in support of its Application.

Following settlement conferences held on May 19, 2015 and May 22, 2015, NW Natural and the parties agreed that NW Natural would withdraw its Application, and NW Natural and the parties would enter a stipulation requesting that the Commission amend its 2015 Order pursuant to its authority under ORS 756.568. On July 31, 2015, NW Natural filed the Stipulation with the Commission. The Stipulation provides that the value of the pre-tax insurance proceeds will be used as an offset against prudently incurred environmental remediation. The parties further requested that the Commission amend the Order "to eliminate the directive to NW Natural to hold insurance proceeds for future environmental remediation costs in a secure account." Additionally, the parties agreed the interest on the pre-tax insurance proceeds will accrue at the PURE rate beginning on the date the Commission issued the 2015 Order. Additional provisions are detailed in the stipulation, which was adopted by the Commission on September 11, 2015, in Order No. 15-276.

II. Recovery of Past Environmental Remediation Costs (4/7/2003 - 12/31/2012).

A. Application of the Earnings Test to the Past Period.

On page 18 of the 2015 Order, the Commission stated:

Exercising our discretion in a manner consistent with our regulatory duties, and in consideration of all of the issues discussed above, we reduce NW Natural's share of past costs to \$15 million. NW Natural will amortize the remaining \$29.2 million through its SRRM.

On page 5 of the 2016 Order, the Commission clarified that NW Natural could not retain the interest accrued on the disallowed \$15 million for the period January 1, 2013, through the date of the 2015 Order because the Commission "required that \$15 million be deducted from the \$44.2 million balance as of December 31, 2012." Based on the Commission's application of the earnings test for this period, NW Natural has reduced the deferred amounts for the Past Period by \$15 million. NW Natural has also reduced the deferred amounts by an additional \$2.8 million to reflect the disallowance of interest that the Company accrued on the \$15 million beginning January 1, 2013.

III. Recovery of Future Environmental Remediation Costs: 2013 Forward.

A. Tariff Rider

On page 6 of the 2015 Order, the Commission adopted Staff's recommendation to divide remediation expenses into two time periods, using a cut-off date of December 31, 2012 to demark the two periods.¹⁴ Environmental costs incurred before December 31, 2012, are to be considered as past costs; environmental costs incurred after December 31, 2012,

¹⁴ The 2015 Order at 6.

are to be treated as future costs.¹⁵ With respect to the future time period, the 2015 Order also directed NW Natural to collect \$5 million per year in base rates through a tariff rider and directed “NW Natural to file a compliance tariff to add this rider using sales estimates and allocation factors from docket UG 221, its last general rate case.”¹⁶

The Company proposed the Schedule 182 tariff, also filed in NWN OPUC Advice 15-11, which will collect \$5 million in base rates on a prospective basis using sales estimates and allocation factors from Docket UG 221, the Company’s last general rate case, as directed by the Commission. The rate effects of the collection of \$5 million in base rates under Schedule 182 tariff rider was filed for parties’ review and the Commission’s approval as part of NWN OPUC Advice 15-11 with a requested effective date of November 1, 2015.¹⁷ On October 19, 2015, in Order No. 15-329, the Commission approved the filing.¹⁸

In Order No. 15-329, the Commission approved of the Company’s approach to implementing the Commission’s directive relating to the addition of \$5 million in base rates to the period of January 1, 2013 through October 31, 2015. As shown on Page 2 of **Exhibit A**, NW Natural captured these amounts in the Schedule 183 SRRM account for recovery using the same method as the deferred expenses. This results in \$13.8 million being placed into the SRRM Amortization Account. In the 2016 Order, the Commission confirmed that the Company’s approach is consistent with the Commission’s intent.

B. Timing of Prudence Reviews.

In order to synchronize the annual prudence review of environmental remediation costs (“Prudence Review”), which covers 12-months, with the annual earnings review, which covers 12-months, NW Natural proposed to change the timing of the annual Prudence Review filing from May 15 to March 15, and to report environmental expenditures on a calendar year basis. NW Natural’s SRRM tariff currently provides that NW Natural must file its annual report of environmental costs by May 15 each year. Under the existing tariff, NW Natural reports on four quarters of expenses, ending the first quarter of a year, or March 31. Pursuant to OAR 860-022-0070(6), NW Natural must file test year results of operations for purposes of conducting an earnings review by May 1. This is done on a 12-month calendar year basis. This change will allow more time for the parties’ review and will synchronize the prudence review period with the earnings test period so that the earnings test can apply to the same 12 months.

For 2015, however, because March 15th had already passed when the March 31st Compliance Filing was made, the Company proposed to file its Prudence Review for the period April 1, 2014 through December 31, 2014, on May 15, 2015, and subsequently submitted that filing on May 15, 2015. For expenses incurred in 2015 and subsequent years,

¹⁵ The 2015 Order at 6.

¹⁶ The 2015 Order at 11.

¹⁷ NW Natural will forego accruing interest on the first \$5 million of deferred expenses each year under Schedule 183, beginning January 1, 2016, in recognition of the recovery of the \$5 million collection from customers to cover these expenses. .

¹⁸ *In the Matter of Northwest Natural Gas Co. Schedule 182, Rate Adjustment for Environmental Cost Recovery and Schedule 183, Site Remediation Recovery Mechanism (SRRM)*, Docket UG 297, Order No. 15-329 (Oct. 19, 2015).

NW Natural will file the annual Prudence Review for the entire calendar year on or before March 15 of the following year. The proposed changes to the SRRM tariff for the timing of prudence reviews were included in the Company's filing, NWN OPUC Advice 15-11, and approved in Order 15-329.¹⁹

C. Earnings Test.

On page 12 of the 2015 Order, the Commission adopted an earnings test set at NW Natural's Return on Equity ("ROE"). For purposes of the annual earnings review, the 2015 Order states that NW Natural is to include 100% of the WACOG sharing mechanism revenues and losses and 50% of shareholder AMA Optimization revenues derived from ratepayer-supported assets.²⁰ The 2015 Order discusses implementation of the earnings test as follows:

NW Natural will continue to defer its remediation expenses. Each year, [the Commission] will examine the prudence of those expenditures. [The Commission] will offset prudently incurred amounts first by applying the amounts collected under the tariff rider. If amounts collected under the tariff rider in any year exceed remediation costs for that year, NW Natural will credit the excess amounts against the SRRM balance. [The Commission] will then offset any remaining expenditures by applying that year's insurance proceeds and interest accrued on insurance proceeds. If the remaining expenditures in any year are less than the amount of \$5 million in rates and \$5 million, plus interest, in insurance proceeds, then the balance of the insurance proceeds will roll forward to offset the next year's costs.

[The Commission] will then apply an annual earnings test on the remaining deferred expenses incurred in that previous 12-month period. NW Natural will be allowed to amortize deferred amounts as necessary to bring its earnings up to its authorized ROE. The company will be required to offset each year's environmental expenses with any earnings above its ROE for that year.²¹

NW Natural will apply an earnings test for 2013 forward as follows:

Each year, the amount (if any) by which NW Natural earns more than its authorized ROE will be calculated. To the extent NW Natural is earning over its authorized ROE (inclusive of WACOG sharing mechanism revenues and losses and 50% of shareholder AMA Optimization revenues derived from ratepayer-supported assets), NW Natural will offset any remaining deferred environmental remediation expense with that amount (to the extent NW Natural's deferred environmental expenses are greater than the \$5 million tariff rider and

¹⁹ *In the Matter of Northwest Natural Gas Co. Schedule 182, Rate Adjustment for Environmental Cost Recovery and Schedule 183, Site Remediation Recovery Mechanism (SRRM)*, Docket UG 297, Order No. 15-329 (Oct. 19, 2015).

²⁰ The 2015 Order at 12.

²¹ The 2015 Order at 13.

application of the \$5 million of insurance proceeds plus interest in that year and any carryover insurance proceeds from prior years).

NW Natural will recover interest, accrued at its cost of capital, on only the recoverable deferred amount, until the deferred amount is collected. The “recoverable deferred amount” refers to total deferred expense in a year, minus any over-earnings in that year.

D. Implementation of 2013 Earnings Test.

On page 6 of the 2015 Order, the Commission found that NW Natural’s environmental remediation costs from January 1, 2013 through March 31, 2014, were prudently incurred. In 2013, NW Natural recorded \$13.04 million of deferred environmental spend. NW Natural will offset the \$13.04 million first by the \$5 million base rate adjustment, and then by the annual \$5 million of insurance proceeds, and interest accrued on insurance proceeds in 2013 (\$3.7 million). In total, the Company has \$13.7 million to offset expenditures in 2013, which fully offsets the \$13.04 million deferral balance in 2013. As there is no further 2013 environmental spend to subject to an earnings test, the Earnings Test for this specific year is not applicable.²² Consequently, NW Natural will recover accrued interest on the entire deferred expense from 2013, which totals \$0.45 million. The \$0.45 million in interest is then offset by the remaining \$0.6 million of insurance in 2013, leaving \$0.17 million of unused insurance in 2013. This unused insurance will be carried forward to apply to 2014 spend. See **Exhibit A**, page 1 of this Amended Compliance Filing for a demonstration of these steps for the 2013 environmental costs.

E. Implementation of 2014 Earnings Test.

The Commission found that the Company’s environmental remediation costs for the period from January 1, 2014 through March 31, 2014, were prudently incurred.²³ These amounts and the associated interest have been transferred to the SRRM Post-Prudence Account, and are earning interest at the lower PURE rate. On May 31, 2015, NW Natural filed its annual Prudence Review for the period April 1, 2014 through December 31, 2014. On February 23, 2016, in Order No. 16-069, the Commission issued an order finding those costs to be prudent.²⁴ Following that Order, the Company transferred the environmental remediation costs incurred from April 1, 2014 through December 31, 2014, to the SRRM Post-Prudence Account. NW Natural will include the 2014 costs in the SRRM at the time of the Company’s annual rate change, effective November 1, 2016.

Exhibit A, page 1 shows the application of the 2014 earnings test. In 2014, NW Natural recorded \$14.2 million of environmental spend. NW Natural will first offset the \$14.2 million by the \$5 million base rate adjustment, and then the 2013 insurance carryover of \$0.17 million, the annual \$5 million of insurance proceeds, and interest accrued on insurance proceeds in 2014 (\$10.6 million). In total, the Company has \$20.8 million to offset

²² For presentation purposes, NW Natural has provided **Exhibit C**, which is confidential and subject to the protective order in this docket, to show the results of the Earnings Test after adding in 50% of AMA Optimization revenues derived from ratepayer-supported assets.

²³ The 2015 Order at 6.

²⁴ *In the Matter of Northwest Natural Gas Co. Application for Annual Prudence Review of Environmental Remediation Costs*, Docket UM 1732, Order No. 16-069 (Feb. 23, 2016).

expenditures in 2014, which fully offsets the \$14.2 million deferral balance in 2014. As there is no further 2014 environmental spend to subject to an earnings test, the Earnings Test for 2014 is not applicable. NW Natural therefore will recover accrued interest on the entire deferred expense from 2014, which totals \$0.7 million. The \$0.7 million interest is then offset by the remaining \$6.6 million of insurance in 2014, leaving \$5.9 million of unused insurance in 2014. This unused insurance will be carried forward to apply to 2015 spend.

F. Implementation of 2015 (and Future Years) Earnings Test.

In accordance with the 2015 Order and Schedule 183, NW Natural will continue to defer environmental remediation expenses in its deferral account, accruing interest at the Company's authorized rate of return. NW Natural will file its Prudence Review for 2015 expenditures and subsequent years' environmental remediation expenses by March 15 each year. Upon Commission determination that the environmental expenses are prudent, NW Natural will transfer these amounts, offset first by the \$5 million in base rates and the \$5 million of insurance proceeds, plus interest accrued on the insurance proceeds and any applicable carry-over insurance, to the SRRM Post-Prudence Account. The balance of each year's expenses will be subject to the applicable year's earnings test if the Company earns over its authorized ROE after adding in 50% of AMA Optimization revenues derived from ratepayer-supported assets. Effective November 1 of each year, NW Natural will move one-fifth of the SRRM Post-Prudence Account into the SRRM Amortization Account coincident with the Company's annual PGA filings. NW Natural will account for the interest associated with the deferral and SRRM Post-Prudence Account and the SRRM Amortization Account in accordance with Schedule 183.

For illustrative purposes, page 1 of **Exhibit A** details the above described process for a hypothetical year "20XX" where the hypothetical assumption is that NW Natural defers \$17 million of environmental expense, and over-earns by \$4 million. As shown in the example, \$4 million of the environmental expense would be disallowed, and NW Natural would collect interest accrued on the recoverable amount only.

G. Proposed Treatment of the SRRM.

In order to include some of the environmental costs in rates concurrently with the PGA adjustment on November 1, 2015, and with the agreement of the parties to this docket, NW Natural filed Advice No. OPUC 15-11 on July 31, 2015, which transferred \$41.8 million into the SRRM Post-Prudence Account. In the Advice Filing, the Company moved one-fifth of the \$41.8 million, or \$8.4 million, of the balance in the SRRM Post-Prudence Account into the SRRM Amortization Account for amortization beginning November 1, 2015. Exhibit A at page 5, of NWN Advice OPUC 15-11 detailed the amounts currently in the SRRM Post-Prudence Account and the amounts amortized in the SRRM Amortization Account.

The Company's SRRM Post-Prudence Account balance in **Exhibit A at page 2**, of this Amended Compliance Filing differs from the SRRM-Post Prudence Account balance in the Advice Filing, as a result of the contested issues in the compliance phase of this docket that delayed a final decision in the docket beyond November 1, 2015. As described in the Company's Revised Compliance Filing, **the Company will adjust the SRRM Amortization Account in future years to reconcile the difference between the Advice Filing and this Amended Compliance Filing.**

Following the 2016 Order, which directed NW Natural to change its state allocation methodology and reduce the interest accrued in the Past Period by \$2.8 million, NW Natural will adjust the balance of the SRRM Amortization Account to reflect the amended calculations. For the pre-2013 deferral balance, **Exhibit A** at page 2 demonstrates that \$51.2 million is transferred into the SRRM Post-Prudence Account. The calculation is described as follows: First, NW Natural reduced in customers' favor the pre-2013 \$88.6 million deferral balance by the Commission's past period disallowance of \$15 million. Then NW Natural applied \$48.2 million of insurance proceeds to offset the remaining pre-2013 deferral balance. This represents one-third of the Oregon-allocated share of the Insurance Proceeds and the deduction of that amount of insurance proceeds applied against the costs of the Gasco Source Control (\$2.5 million).

NW Natural is also offsetting the pre-2013 deferral balance with \$3.3 million of interest accrued on the insurance proceeds in 2012, to customers' benefit, at NW Natural's cost of capital. NW Natural applies this interest in customers' favor because it is appropriate to net against the interest that was accrued on the spend in 2012, so that customers bear only the net financing costs incurred by the Company.

The amount in the SRRM is not increased with respect to the \$13.5 million of 2013 environmental expenses and related interest, because the Company fully offset the expenses and interest by the base rate adjustment, Insurance Proceeds, and interest on the Insurance Proceeds applicable to that year.

The Company added to the SRRM Post-Prudence Account \$13.4 million of interest accumulated on the pre-2013 deferral balance in 2013, 2014, and the first two months of 2015 because those amounts were deemed recoverable after the application of the earnings test.²⁵ The Company also added \$1.3 million of interest accumulated on the 2013 deferred expense in 2014 and the first two months of 2015 to the SRRM Post-Prudence Account.

As described above, in lieu of a tariff rider covering the period 2013 through October 31, 2015, \$13.8 million has been added to the SRRM Post-Prudence Account in order to collect \$5 million for 2013, \$5 million for 2014, and \$3.8 million for 2015 (the pro-rated amount of the tariff rider applicable to the first 10 months of 2015). The tariff rider amounts associated with 2014 and 2015 will be applied to costs at the time of implementation of the applicable year's earnings test, and when those expenses would otherwise be allocated to the SRRM. The final adjustment to the SRRM Post-Prudence Account is the addition of the interest accrued at the PURE rate on post-prudence costs (\$0.7 million). This final adjustment represents the interest that accrued on the amount of recoverable deferred amounts through 2013, from the time the Commission's 2015 Order was issued through the effective date of NW Natural's 2015 PGA (during which time the lower PURE rate applied to the deferrals).

IV. Request for Approval

The Company respectfully requests that the Commission approve NW Natural's Amended Compliance Filing.

²⁵ This amount reflects the Commission's directive in the 2016 Order to reduce the interest accrued on the disallowed \$15 million by \$2.8 million.

Copies of this letter and the filing made herewith are available in the Company's main office in Portland, Oregon, and on the Company's website at www.nwnatural.com.

The Company waives paper service in this proceeding.

Please address correspondence on this matter to me with copies to the following:

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Sincerely,

/s/ Mark R. Thompson

Mark R. Thompson
Rates & Regulatory Affairs

EXHIBIT A

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

NW NATURAL SUPPORTING MATERIALS

UM 1635 Amended Compliance Filing
NWN OPUC Advice No. 15-03B/ADV 18

March 11, 2016

NW NATURAL

EXHIBIT A

Supporting Material

UM 1635 – Amended Compliance Filing

NWN OPUC Advice No. 15-03B/ADV 18

March 11, 2016

Description	Page
Application of Earnings Test	1
Determination of Initial SRRM and Amortization Amounts	2

MARCH 2016 FILING				
	2013	2014	20XX [1]	
	(A)	(B)	(C)	
1	\$ 13,042,063	\$ 14,165,978	\$ 17,000,000	
2	\$ (5,000,000)	\$ (5,000,000)	\$ (5,000,000)	
3	\$ -	\$ (167,224)	\$ -	
4	\$ (5,000,000)	\$ (5,000,000)	\$ (5,000,000)	
5	\$ (3,657,302)	\$ (10,597,129)	\$ (2,088,000)	
6	\$ (13,657,302)	\$ (20,764,353)	\$ (12,088,000)	
7	\$ (13,042,063)	\$ (14,165,978)	\$ (12,088,000)	
8	\$ (615,239)	\$ (6,598,375)	\$ -	
9	\$ -	\$ -	\$ 4,912,000	
10	\$ -	\$ -	\$ 4,000,000	
11	\$ -	\$ -	\$ 4,000,000	
12	\$ -	\$ -	\$ 912,000	
13	\$ 448,016	\$ 674,350	\$ 661,300	
14	\$ -	\$ -	\$ 155,600	
15	\$ 448,016	\$ 674,350	\$ 505,700	
16	\$ (448,016)	\$ (674,350)	\$ -	
17	\$ -	\$ -	\$ 505,700	
18	\$ -	\$ -	\$ 1,417,700	
19	\$ (167,224)	\$ (5,924,025)	\$ -	

Notes:

[1] Sample year 20XX assumes \$80 million proceed balance @ 2.61%.

NW Natural
Determination of Initial SRRM and Amortization Amounts
Exhibit A page 2

	MARCH 2016 FILING
1	<u>Pre-2013 deferral balance</u>
2	Pre-2013 spend and interest @ 12/31/12 \$ 88,562,992 [1]
3	Disallowance per Order (15,000,000)
4	Interest in 2013 related to pre-2013 deferred expenses 7,147,133
5	Interest in 2014 related to pre-2013 deferred expenses 7,723,442
6	Jan-Feb 2015 interest related to pre-2013 deferred expenses 1,346,490
7	Application of 1/3 of insurance proceeds (48,216,213)
8	Interest in 2012 related to insurance proceeds (3,319,623)
9	Pre-2013 deferral balance to SRRM Post Prudence <u>38,244,220</u>
	<u>2013 Deferrals</u>
10	2013 spend and interest as of 12/31/13 13,490,078
11	Application of tariff rider, insurance proceeds, and interest on insurance
12	(sum of Exhibit A, lines 2, 4, 5, and 13) (13,490,078)
13	Interest in 2014 related to 2013 deferred expenses 1,087,773
14	Jan-Feb 2015 interest related to 2013 deferred expenses 189,639
15	Life-to-date 2013 deferrals to Post Prudence <u>1,277,413</u>
16	Total to SRRM Post Prudence 39,521,633
17	Interest accrued on post prudence costs through 10/31/15 692,934
18	Payments towards 2013 deferred costs (2013 tariff rider) 5,000,000
19	Payments towards 2014 deferred costs (2014 tariff rider) 5,000,000
20	Payments towards 2015 deferred costs (pro-rated 2015 tariff rider) <u>3,776,931</u>
21	SRRM Post-Prudence 53,991,499
22	Less: Disallowance of interest on \$15M (line 3) (2,804,729)
23	SRRM Post-Prudence (as of 10/31/2015) <u>\$ 51,186,770</u>

Notes:

[1] *Pre-2013 balance is reduced by the amount of Gasco Source Control capitalized in 2010, 2011, and 2012 and the state allocation as discussed in Order 16-030*

12/31/12 balance per March 2015 compliance filing	\$ 94,370,821
Excluding Source Control Spend for 2010, 2011, and 2012 (OR Allocated):	
2010 Source Control Spend	\$ (72,819)
2011 Source Control Spend	(931,065)
2012 Source Control Spend	(4,380,752)
Total Source Control Spend adjustment	<u>(5,384,636)</u>
Source Control Interest on pre 2013 spend	(252,351)
Total Source Control adjustments	<u>(5,636,987)</u>
Disallowance of \$33,400 plus interest	(72,566)
Total Source Control and \$33,400 disallowance	<u>(5,709,553)</u>
Removal of 3.32% of costs of certain sites in accordance with Order 16-030	(98,276)
Total adjustment	<u>\$ (5,807,829)</u>
Adjusted Amount (line 2)	\$ 88,562,992

EXHIBIT B

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

NW NATURAL SUPPORTING MATERIALS

UM 1635 Amended Compliance Filing
NWN OPUC Advice No. 15-03B/ADV 18

March 11, 2016

NW NATURAL

EXHIBIT B

Supporting Material

UM 1635 – Amended Compliance Filing

NWN OPUC Advice No. 15-03B/ADV 18

March 11, 2016

Description	Page
Insurance and Third Party Recoveries – Oregon Allocation	1

Exhibit B
NW Natural
Order 15-049 Compliance Filing
Insurance and Third Party Recoveries - Oregon Allocation

<u>Line</u>			
1	Total proceeds received as of 12/31/2014	152,201,738	[a]
2			
3	Oregon portion of proceeds (96.68%)	147,148,640	
4	Less: insurance applied to Source Control [b]	<u>(2,500,000)</u>	
5	Total remaining Oregon proceeds	144,648,640	
6			
7	1/3 of proceeds applied to life-to-date 2012 balances	48,216,213	
8			
9	2/3 of proceeds applied to future periods	96,432,427	
10	Insurance proceeds applied to 2013 expenditures	<u>(5,000,000)</u>	
11	Remaining insurance to be applied to future periods	91,432,427	
12			
13	<u>Notes:</u>		
14	[a] This amount does not include accrued interest on insurance proceeds.		
15	[b] Per Order 14-077, \$2.5 million of insurance was applied to the Source Control		
16	investment included in rate base.		

EXHIBIT C

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

NW NATURAL SUPPORTING MATERIALS

UM 1635 Amended Compliance Filing
NWN OPUC Advice No. 15-03B/ADV 18

March 11, 2016

NW NATURAL

EXHIBIT C

Supporting Material

UM 1635 – Amended Compliance Filing

NWN OPUC Advice No. 15-03B/ADV 18

March 11, 2016

Description	Page
2013 Oregon Earnings Review – Pro Forma with 50% AMA Revenues	1

Exhibit C - REDACTED
NW Natural
Order 15-049 Compliance Filing
2013 Oregon Earnings Review - Pro Forma with 50% AMA Revenues
(\$000's)

Line No.	OREGON EARNINGS TEST REVIEW				
	Test Year Results AS FILED	50% of NWN's Share of AMA Revenues	Test Year Results ADJUSTED	TYPE I Adjustments	Results after Type I
	(a)	(a1)	(a2)	(b)	(c)
	Operating Revenues				
1	Sale of Gas	\$667,918		(\$10,670)	
2	WARM Revenues	(13,240)		13,240	
3	Revenue & Technical Adjustments	(9,004)		0	
4	Decoupling Adjustments	8,411		(8,411)	
5	Transportation	14,083		0	
	Miscellaneous Revenues	4,027		(1)	
6	50% of NWN's Share of AMA Revenues	0		0	
7	Total Operating Revenues	672,195		(5,843)	
	Operating Revenue Deductions				
8	Gas Purchased	338,979		(5,559)	
9	Uncollectible Accrual for Gas Sales	175		1,115	
10	Other Operating & Maintenance Expenses	116,051		(3,465)	
11	Total Operating & Maintenance Exp.	455,205		(7,909)	
12	Federal Income Tax	26,743		606	
13	State Excise	6,252		140	
14	Property Taxes	18,364		169	
15	Other Taxes	22,675		69	
16	Depreciation & Amortization	62,329		0	
17	Total Operating Revenue Deductions	591,569		(6,925)	
18	Net Operating Revenues	\$80,626		\$1,083	
	Average Rate Base				
19	Utility Plant in Service	\$2,349,248	\$2,349,248	(\$1,306)	\$2,347,942
20	Accumulated Depreciation	(1,005,403)	(1,005,403)	0	(1,005,403)
21	Net Utility Plant	1,343,845	1,343,845	(1,306)	1,342,539
22	Aid in Advance of Construction	(3,214)	(3,214)	0	(3,214)
23	Customer Deposits	(5,027)	(5,027)	0	(5,027)
24	Materials & Supplies	68,440	68,440	0	68,440
25	Leasehold Improvements	1,120	1,120	0	1,120
26	Accumulated Deferred Income Taxes	(336,756)	(336,756)	0	(336,756)
27	Total Rate Base	\$1,068,408	\$1,068,408	(\$1,306)	\$1,067,102
28	Rate of Return	<u>7.55%</u>			
29	Return on Common Equity	<u>9.27%</u>			
30	SHARING THRESHOLD	<u>9.50%</u>			<u>9.50%</u>
31	Over Threshold - ROE				
32	Over Threshold - After Tax Operating Rev				
33	Over Threshold - Before Tax Operating Rev				
34	2013 Deferred Environmental Spend				
35	Base Rate Adjustment				
36	Insurance Applied				
37	Deferred Environmental Spend Subject to Earnings Test				
38	Overearnings Applied to Environmental Spend (Lesser of Lines 37 and 33)				



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing via US MAIL in NW Natural Docket UM 1635, the un-redacted confidential portions of Exhibit A and Exhibit C to NW Natural's OPUC Advice No. 15-03B/ADV 18 Amended Compliance Filing upon the parties below that have signed protective order 13-030.

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DATED at Portland, Oregon, this 11th day of March 2016

/s/ Shannon L. Seagondollar
Shannon L. Seagondollar
Rates & Regulatory Affairs – Staff Assistant 3
NW NATURAL