

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1635

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Mechanism for Recovery of  
Environmental Remediation Costs.

NOTICE OF EX PARTE  
COMMUNICATION

On February 6, 2014, C. Alex Miller, Vice President of Regulatory Affairs for NW Natural Gas Company, e-mailed a letter to the Commissioners and me regarding NW Natural's receipt of insurance settlement proceeds. In his letter, Mr. Miller states that the company has obtained insurance amounts sufficient to cover past deferred environmental remediation costs, such that those past costs will not need to be borne by customers. A copy of the letter is attached to this notice.

The letter addresses the merits of an issue pending in these proceedings, but was not filed in this docket. As a result, the parties have no formal process by which to respond. Although NW Natural provided a copy of the letter to all docket parties, I provide notice of the letter as an *ex parte* communication to make it part of the official record in these proceedings.<sup>1</sup> Rather than rebutting the communication within 10 days of this notice as provided by OAR 860-001-0340(7), parties will have the opportunity to respond to the content of the letter in testimony and briefs, according to the schedule adopted on February 4, 2014.

As the parties are aware, the Commission has not yet made a determination regarding the regulatory mechanism that will apply to past and future environmental remediation costs, or how insurance proceeds will be used to offset those costs. Those questions will be resolved in this docket.

Dated this 12<sup>th</sup> day of February, 2014, at Salem, Oregon.



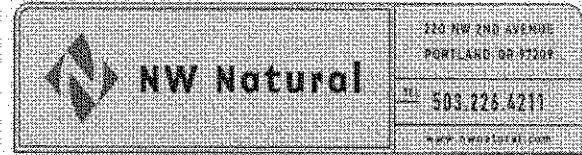
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Shani Pines  
Administrative Law Judge

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<sup>1</sup> See OAR 860-001-0340(1)(b), noting that communications made without an opportunity for rebuttal by all parties shall be noticed as *ex parte* communications.

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February 6, 2014

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

Re: UM 1635 and Receipt of Insurance Settlement

Dear Commissioners and Administrative Law Judge Pines,

NW Natural would like to inform you of some important developments in our efforts to recover insurance proceeds related to the Company's costs of environmental remediation activities from our predecessor's historical manufactured gas facility operations. Because of the impact these developments will have on the ongoing docket in UM 1635 (*In the Matter of NW Natural, Mechanism for Recovery of Environmental Remediation Costs*) we are providing this information by letter, with a copy to the parties to that proceeding.

As you know, NW Natural has been engaged in environmental remediation efforts under the direction of the Oregon Department of Environmental Quality and the Environmental Protection Agency at several locations, most notably the sites of our former Gasco and Portland Manufactured Gas plants, and in the Portland Harbor along the Willamette River. Since 2007, we have been pursuing payment from various insurance companies that provided coverage to NW Natural during periods in which these plants operated. Although we were initially hopeful that the insurers would provide timely payments, they refused to do so, and our early attempts at negotiations were not fruitful. Eventually, in December of 2010, NW Natural initiated litigation against these companies in Multnomah County Circuit Court seeking recovery of our expenses under the relevant insurance policies.

Until recently, we had been able to negotiate reasonable payment terms with only a few of the smaller insurance companies. I am pleased to inform you, however, that in the days leading up to the trial, negotiations finally became productive, and we recently entered into settlement agreements with the remainder of the defendant insurance companies with whom we were engaged in litigation. We believe that the settlements represent a very good outcome for our customers and the Company. With these latest settlements, the Company will have received a

cumulative total of around \$150 million in insurance payments. We are currently in negotiations with one other insurer, who is insolvent and therefore not included in the litigation. We anticipate recovery of between \$1 and \$2 million from that company some time later this year. Additionally, under one of the prior settlement agreements we expect to receive some future insurance recoveries related to our ongoing Natural Resource Damage claim.

We wanted to inform you of these developments in light of your ongoing interest in this matter and because of the impact these settlements will have on the ongoing UM 1635 proceeding.

Because of the magnitude of our remediation costs, since 2003, NW Natural sought and received the Commission's approval to defer these remediation expenses. The deferrals allow NW Natural to seek recovery of its remediation costs through rates to the extent they are not offset by insurance. As it became clear that efforts to receive insurance payments would take longer than expected, the deferral balance grew, and the Commission Staff expressed concerns that this balance was large enough that NW Natural should address cost recovery sooner rather than later. NW Natural agreed with Staff and accordingly requested a mechanism to recover these expenses in our last general rate case (UG 221), which led to the establishment of a Site Remediation and Recovery Mechanism (SRRM). In the Commission's order in UG 221, it stated that the SRRM would incorporate an "earnings test" with a deadband, and opened UM 1635 to address those details. A significant issue in UM 1635 has been the regulatory treatment of the past expenditures NW Natural has deferred. As explained in our testimony in that docket, NW Natural had always expected to receive insurance payments, and was hopeful that they would be sufficient to prevent us from needing to recover our currently deferred amounts from customers.

In light of the recent insurance settlements that we negotiated, NW Natural has now been able to obtain insurance amounts sufficient to cover these past amounts such that they will not need to be borne by customers. We look forward to continued engagement in UM 1635, to resolve details related to the implementation of the SRRM in the future, should our environmental expenditures exceed the insurance receipts.

We appreciate the Commission's support and continued involvement in helping us navigate these important issues for the Company and our customers.

Sincerely,



C. Alex Miller  
Vice President of Regulatory Affairs and Treasurer

cc: Service List, UM 1635