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May 2, 2014

v***ia Electronic Filing and U.S. Mail***

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 1088
SALEM OR 97308-1088

RE: Docket No. UM 1635 Phase II – In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL Mechanism for Recovery of Environmental Remediation Costs.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff Redacted Response Testimony.

/s/ Kay Barnes
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Filing on Behalf of Public Utility Commission Staff
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c: UM 1635 Service List (parties)

PUBLIC UTILITY COMMISSION
OF OREGON

UM 1635 Phase II

STAFF RESPONSE TESTIMONY OF

JUDY JOHNSON
BRIAN BAHR

In the Matter of
NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL
Mechanism for Recovery of Environmental Remediation Costs.

May 2, 2014

CASE: UM 1635
WITNESS: JOHNSON-BAHR

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 200

Response Testimony

May 2, 2014

Q. PLEASE STATE YOUR NAME, PRESENT POSITION WITH THE OREGON PUBLIC UTILITY COMMISSION, AND BUSINESS ADDRESS.

A. My name is Judy Johnson. I am employed as a Senior Economist in Energy - Rates, Finance and Audit Division of the Utility Program. My business address is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97308.

My name is Brian Bahr. I am employed as a Senior Economist in Energy - Rates, Finance and Audit Division of the Utility Program. My business address is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97308.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. Our Witness Qualification Statements are found in Exhibit Staff/101 and Exhibit Staff/203.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. Staff presents recommendations and alternative recommendations on the issues in this proceeding.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. The testimony is organized as follows:

1. Allocation of Insurance Proceeds
2. Historic Period, 2003 - 2012, Earnings Test
3. Future Treatment of Costs
4. Future Deferrals vs an Amount in Base Rates

1. Allocation of Insurance Proceeds

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO ALLOCATE THE INSURANCE PROCEEDS.

A. Northwest Natural Gas Company (NWN or Company) states that it will receive $150.5 million in insurance proceeds.[1] The Company proposes that the amount be used to pay the entirety of the deferred environmental remediation costs occurring in the past (2003-2012), which are approximately $94 million[2], leaving a balance of approximately $61.5 million to be used towards offsetting expected future environmental remediation costs.

Q. DOES STAFF SUPPORT THIS APPROACH?

A. No. Staff does not support this approach because it does not treat current and future customers equitably given that environmental remediation costs have already occurred and are likely to continue to occur for many more years. An intergenerational equity issue already exists, as costs incurred in the past will have to be borne to some degree by current and future customers. However, future customers should not bear more inequality than necessary to pay for the costs of benefits received in the past; they are entitled to a fair share of the insurance proceeds for future environmental remediation costs. The Company's proposal to use insurance proceeds to pay the historic costs would only exacerbate the intergenerational equity issue and leave shattered the principle of matching costs and benefits.

[1] *See* NWN/800, Miller/7, lines 4-12.
[2] Although the Company posits in its testimony, NWN/800, Miller/12, that $113 million in costs have been incurred through 2013, this number has not been reviewed yet, so Staff is using $94 million through 2012 to represent past costs for the purposes of testimony.

The Company cites Order No. 12-437 in support of its contention that the Commission expressly found that the deferred costs should be borne by customers.[3] However, the Company's assertion is an overstatement. In the Order, the Commission approved the Site Remediation Recovery Mechanism (SRRM) with conditions and created this docket. These actions suggest that the Commission expects customers to bear a portion of the costs, but it does not suggest that customers should bear the entirety of the costs.

Q. HAS STAFF REVIEWED FOR PRUDENCE THE COSTS INCURRED BETWEEN 2003 AND 2012?

A. Yes, Staff reviewed the prudency of the environmental remediation costs incurred by the Company between 2003 and 2012. Staff's recommendation has not changed from that described in Part III of Staff's opening testimony.[4] In summary, $33.4 thousand of past costs should be excluded due to the Company's inability to sufficiently explain and support the accounting of those costs.

Q. WHAT IS STAFF'S PROPOSAL REGARDING THE $19 MILLION INCURRED IN 2013 NOT YET REVIEWED FOR PRUDENCE?

A. Staff recommends that the $19 million be amortized over a four-year period beginning January 1, 2015. This method results in approximately $5 million per year of costs, which parallels Staff's recommendation of the amount to include in base rates. See discussion below for details of Staff's recommendation for inclusion of an expense amount in base rates.

[3] *See* NWN/800, Miller/10, at lines 19-20.
[4] *See* Staff/100, Johnson-Bahr/14, beginning on line 5.

Q. WHAT DOES STAFF RECOMMEND REGARDING THE ALLOCATION OF COSTS BETWEEN OREGON AND WASHINGTON?

A. Staff's recommendation has not changed from that described in Part V of Staff's opening testimony.[5] In summary, Staff believes using the historic allocation factor, rather than the current one, is more consistent with the benefits and burdens of the site.

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING THE RATE SPREAD AND DESIGN?

A. Staff's recommendation has not changed from that described in the testimony supporting the stipulation filed with the Commission on August 7, 2013.[6] In summary, Staff recommends the rate allocation be based on an equal percentage margin basis.

Q. HOW DOES STAFF PROPOSE TO ALLOCATE INSURANCE PROCEEDS BETWEEN THE PAST AND FUTURE COSTS?

A. Staff proposes to allocate the insurance proceeds roughly proportionally to the time periods in which costs occur. The Company has stated that its environmental remediation costs are expected to continue well into the future, perhaps as long as 20 years.[7] Staff calculated a simple ratio using the number of past years in which costs were incurred and the number of years in the future costs are expected to occur. Calculated this way, the ratio is 10:20, or one-third of the total proceeds to be allocated to the past. Applying the one-

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[5] *See* Staff/100, Johnson-Bahr/17, beginning on line 16.
[6] *See* Joint Testimony/100, Joint Parties/3, beginning on line 18.
[7] *See* NWN/800, Miller/3, lines 10-11.

third percentage to the insurance proceeds of $150.5 million results in an amount of $50.167 million that should be applied to offset costs occurring between 2003 and 2012.

Alternatively, Staff compared the dollar amount of the costs occurring between 2003 and 2012 to Company-estimated high-end total expected future costs for environmental remediation of $369 million (including $19 million of costs in 2013).[8] This equates to 20 percent of the total past and future costs occurring between 2003 and 2012. Multiplying 20 percent by the $150.5 million of insurance proceeds yields a value of $30.1 million to be applied to past costs.

Staff recommends a maximum of $50.167 million and a minimum of $30.1 million be allocated for use in offsetting the environmental remediation costs incurred from 2003 to 2012. For purposes of this testimony, Staff will use $50.167 million as the amount to allocate to the historical period from 2003 to 2012.

The remaining insurance proceeds should be held by the Company in an account that accumulates interest at the Company's authorized rate of return and be used to pay a portion of each future year's environmental remediation costs. This interest rate parallels the rate at which deferral costs accrue interest.

[8] *See* NWN/800, Miller/12, lines 18-20.

Q. PLEASE DESCRIBE HOW STAFF PROPOSES TO ALLOCATE THE $50.167 MILLION OF INSURANCE PROCEEDS BETWEEN EACH YEAR OF THE HISTORIC PERIOD?

A. The historic period is the years between 2003 and 2012. Insurance proceeds apportioned to past costs should be allocated roughly proportionally to the amount of environmental remediation costs that were incurred in each year. An earnings test for each year would then determine the customers' share of that year's costs and the Company's share of that year's costs (See discussion below on Historic Earnings Test). This method results in a fair allocation between the Company and customers, as it incorporates an earnings test and an application of insurance proceeds for each year of the historic period.

In this situation, a year-by-year earnings test is more appropriate than a cumulative earnings test. While the Commission recently did employ a cumulative average earnings period in UE 233, that situation involved a tax refund for activities that were spread over a long period of time and that were hard to isolate to particular years. For these deferrals, we have information for exactly how much was spent in each of the historic years and we also know the earnings for each year. If the purpose of an earnings test is to determine whether or not a utility can absorb some or all of the extraordinary costs captured in a deferral application, the best policy is to match the costs and earnings in the year they occurred.

Q. DID STAFF REVIEW AN ALTERNATIVE METHOD TO ALLOCATING THE INSURANCE PROCEEDS TO HISTORIC COSTS?

A. Yes, Staff also reviewed allocating the $50.167 million of insurance proceeds apportioned to the historic costs equally between each year in the period. The outcome did not appear to allocate fairly the insurance proceeds between the Company and its customers as the allocation had nothing to do with when the costs were incurred. Staff discarded this methodology in favor of the one recommended above.

Q. WHY HAS STAFF RECOMMENDED ITS PROPOSED METHODOLOGY?

A. This proposal presents a balanced approach between the Company and its customers of paying for the historic environmental remediation costs. The Company cites Order No 12-408 to support that that the entirety of past costs should be paid using insurance proceeds.[9] However, Staff disagrees with the Company on the interpretation of the Order, which only states that insurance proceeds will appropriately offset expenses, not that they will offset all past expenses entirely.

Q. HAS THE COMPANY FULLY COLLECTED ALL IT CAN FROM ITS INSURERS?

A. In its response to Staff's Data Request No. 17 about this matter, the Company stated that it has entered into settlement agreements with all but one of its insurers. The single remaining insurer was insolvent and a small company. The Company is currently working with the insurer's liquidator to see if the Company can acquire any additional insurance proceeds.[10]

[9] *See* NWN/800, Miller/23, at line 20.
[10] *See* Exhibit Staff/200, Johnson-Bahr/1.

Q. PLEASE ADDRESS THE COMPANY'S CONTENTION THAT IT IS STAFF'S FAULT THAT THE ALLOCATION OF INSURANCE IS IN DISPUTE.

A. The Company states in its testimony that absent Staff voicing its concern about the growing balance of the deferral, the Company would have continued deferring costs and offset the entirety of past costs with insurance proceeds when settled.[11] Therefore, it is the Company's contention that the amount of insurance proceeds to allocate to the past costs should not be in dispute - the entirety of past costs should be paid by insurance proceeds.

The Company is correct that Staff became concerned about the size of the balance in the deferral account. When Staff and the Company initially discussed the deferral of environmental remediation costs, there was no indication at that time that the deferral would carry on for as long as it has. Staff was concerned not only with the size of the balance, but also that the environmental remediation costs were accruing a significant amount of interest at the Company's authorized rate of return. Staff believed that amortization should begin soon so that the interest would be moderated.

Although the Company suggests that it would have been allowed to allocate the entire insurance proceeds against the deferral balance, Staff disagrees. Given that the deferral has continued as long as it has and the forecast indicates costs continuing another twenty years, Staff would have opened a proceeding to investigate how insurance proceeds should be allocated. In addition, none of the deferrals would have been declared prudent until the

[11] *See* NWN/800, Miller/4, lines 4-9.

amortization phase began. In spite of the Company's belief that Staff's concern about the size of the balance and accruing interest has resulted in the Company being subject to an earnings review, a similar docket would have occurred regardless due to the circumstances of the deferral.

2. HISTORIC PERIOD, 2003-2012, EARNINGS TEST

Q. WHAT IS THE COMPANY'S POSITION ON A HISTORIC EARNINGS TEST?

A. The Company states in its testimony that it would support an earnings test as long as the Company is allowed to recover 100 percent of its prudently-incurred environmental remediation costs up to 100 basis points above its authorized return on equity (ROE).[12] The Company also states its recommendation that a backward-looking earnings test should be applied on the Company's cumulative or average ROE, rather than on each individual year's ROE.[13]

Q. DOES STAFF SUPPORT THIS APPROACH?

A. No. Staff supports an annual earnings test following the appropriate allocation of the insurance proceeds. Staff also supports an earnings test that would allow the Company to collect 100 percent of its prudently incurred costs up to 50 basis points below its authorized ROE. Above that point, the Company would pay 100 percent of its environmental remediation costs.

Q. WHY DOES STAFF RECOMMEND THIS PROPOSED METHODOLOGY?

[12] *See* NWN/800, Miller/6, lines 1-5.
[13] *See* NWN/800, Miller/6, lines 22-24.

A. In principle, Staff would recommend a threshold of 100 basis points below authorized ROE on this deferral given that the deferral appears to Staff to be more of an "emergency" category that warrants a benchmark of 100 basis points below authorized ROE. However, Staff recommends 50 basis points below authorized ROE be set as the earnings test threshold in this case because the results of the application of a threshold 100 basis points below authorized ROE yields results that Staff is uncomfortable in recommending.

As illustrated by Tables 1 through 3 later in this testimony, a threshold 100 basis points below authorized ROE results in the Company bearing between approximately 90 and 95 percent of the historic deferred cost amounts after application of a pro-rated portion of insurance proceeds, depending on the inclusion of WACOG and AMA Optimization revenues. Therefore Staff is moderating its recommendation to a threshold of 50 basis points below ROE. This benchmark results in the company bearing between approximately 71 and 87 percent using Staff's primary recommendation, as shown in Tables 1 through 3.

The Company cites Order No. 08-504 in support of its argument for a threshold 100 basis points above its authorized ROE, similar to its Spring earnings review.[14] However, the Company does not elucidate how the current issue is similar to the Spring earnings review and why it should be treated similarly. In fact, the circumstances of the current docket, and the accompanying proposal for an earnings test, are very dissimilar to a Spring

[14] *See* NWN/800, Miller/11, beginning on line 20.

earnings review, other than in name only. The Commission allows the gas utilities 100 basis points above authorized ROE based on the sharing that gas utilities choose for the Weighted Average Cost Of Gas (WACOG) revenues in their annual Purchased Gas Adjustment (PGA). These two mechanisms bear no resemblance to each other.

The Company also cites Order No. 99-272 in support of its proposal that it should be allowed to earn up to a threshold higher than authorized ROE due to good management incentives.[15] However, similar to the previous citation, there is no link drawn between this docket and a PGA. Again, the circumstances of each are different, and should an earnings test be implemented by the Commission, there is no reason why it should necessarily be akin to those in the Company's PGA.

Staff recommends an annual earnings test on each year's earnings rather than an earnings test applied on the Company's cumulative or average earnings from 2003 to 2012 because this method is more consistent with Commission principles. The purpose of deferred accounting is to allow recovery of extraordinary costs that could not fairly be absorbed by the utility company. In this case, environmental remediation costs were incurred in different years at different amounts, and the Company had different earnings levels in each year. The only way to fairly determine whether the Company could have absorbed some or all of the costs is to review the earnings during the year the costs were incurred.

[15] *See* NWN/800, Miller/18, beginning at line 15.

Q. WHAT IS THE MAXIMUM THRESHOLD STAFF COULD SUPPORT FOR HISTORIC EARNINGS TESTS?

A. While staff recommends the threshold be set at 50 basis points below the Company's authorized ROE given the circumstances of this case, Staff could support a threshold as high as authorized ROE. This would allow the Company to earn at its authorized ROE on a retrospective basis. In addition, regarding expected future costs, Staff is recommending the threshold for an earnings test be set at the Company's authorized ROE, so some symmetry between past and future methods would be achieved.

Q. HAS STAFF REVIEWED ALTERNATIVE EARNINGS TEST THRESHOLDS?

A. Yes. Staff looked at alternatives that set the threshold at 0, 50, and 100 basis points below and above authorized ROE. Table 1 illustrates the cumulative results of an earnings test applied to each year of the Company's earnings between 2003 and 2012. For example, if an earnings test were set at 100 basis points above the Company's authorized ROE, the Company's earnings would be above the threshold in five of the 10 years, and the Company would be responsible for approximately $21.489 million of the $94.3 million in costs (insurance proceeds would pay $50.167 million and customers would be responsible for the other $22.664 million).

Table 1. Summary Results of Staff's Primary Recommendation for Treatment of Past Costs[16]

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg of Annual ROEs
100	2009	Company	$115	0.26%	10.12%
		Customers	$44,037	99.74%	
50	2009, 2010, 2011	Company	$11,271	25.53%	9.89%
		Customers	$32,881	74.47%	
0	2006, 2009, 2010, 2011	Company	$19,116	43.30%	9.72%
		Customers	$25,036	56.70%	
-50	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$31,335	70.97%	9.48%
		Customers	$12,817	29.03%	
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$41,002	92.87%	9.28%
		Customers	$3,150	7.13%	

Q. DOES STAFF SUPPORT INCLUDING WACOG AND AMA OPTIMIZATION REVENUES FOR THE SAKE OF THE EARNINGS TEST?

A. Yes, Staff supports the inclusion of 100 percent of WACOG Revenues and 90 percent of Optimization Revenues in order to calculate an earnings test. Given that there is no upfront sharing in the backward looking earnings test, Staff is recommending 90 percent of Optimization Revenues to assure the Company is retaining at least a portion of such revenues.

Q. WHY DOES STAFF SUPPORT USING WACOG AND OPTIMIZATION REVENUES?

A. Although the Company's business activities include both regulated and unregulated operations, the Company's earnings in these two situations are directly attributable to its regulated operations. The Company should reveal its

[16] The table was created in part using information provided by the Company in its response to the September 17, 2013 bench request. Additional details, including assumptions and calculations, can be found in Exhibit Staff/201, Johnson-Bahr/1.

entire revenue picture in order to allow the calculation of a meaningful earnings test. If WACOG and Optimization Revenues are not included in the earnings test, an extremely skewed earnings test would likely be the result. The Commission should have access to all the Company's revenue in order to make a decision regarding application of the earnings test. Should customers be forced to pay for environmental remediation if the Company is earning large returns on its Optimization Program? Staff believes the answer is no.

Q. HAS STAFF REVIEWED THE EFFECTS OF INCLUDING IN ITS ANALYSIS THE COMPANY'S SHARE OF NET WACOG REVENUE?

A. Yes. In addition to the analysis Staff performed resulting in Table 1, Staff also performed analyses that include in the Company's revenue its share of net WACOG revenue. Table 2 presents the results of that analysis.

Table 2. Summary Results of Staff's Primary Recommendation for Treatment of Past Costs (including WACOG) [17]

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg of Annual ROEs
100	2006, 2007, 2009, 2010, 2011	Company	$12,114	27.44%	10.40%
		Customers	$32,039	72.56%	
50	2006, 2007, 2009, 2010, 2011	Company	$22,215	50.31%	10.18%
		Customers	$21,938	49.69%	
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$28,124	63.70%	10.06%
		Customers	$16,028	36.30%	
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$35,841	81.18%	9.90%
		Customers	$8,311	18.82%	
-100	2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$39,846	90.25%	9.82%
		Customers	$4,306	9.75%	

[17] The table was created in part using information provided by the Company in its response to the September 17, 2013 bench request. Additional details, including assumptions and calculations, can be found in Exhibit Staff/201, Johnson-Bahr/1.

Q. HAS STAFF REVIEWED THE EFFECTS OF INCLUDING IN ITS ANALYSIS THE COMPANY'S SHARE OF AMA OPTIMIZATION?

A. Yes. In addition to the analyses Staff performed resulting in Table 1 and Table 2, Staff also performed analyses that include in the Company's revenue 90 percent of the Company's share of AMA Optimization. Table 3 presents the results of that analysis.

Table 3. Summary Results of Staff's Primary Recommendation for Treatment of Past Costs (including WACOG and 90 percent of Optimization) [18]

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg of Annual ROEs
100	2006, 2007, 2009, 2010, 2011	Company	$21,489	48.67%	10.51%
		Customers	$22,664	51.33%	
50	2006, 2007, 2009, 2010, 2011, 2012	Company	$26,218	59.38%	10.41%
		Customers	$17,935	40.62%	
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$32,306	73.17%	10.29%
		Customers	$11,846	26.83%	
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$38,662	87.56%	10.16%
		Customers	$5,491	12.44%	
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$42,128	95.41%	10.09%
		Customers	$2,024	4.59%	

Q. HAS STAFF CONSIDERED AN ALTERNATIVE METHOD OF ALLOCATING INSURANCE PROCEEDS TO PAST EXPENSES?

A. Yes. Staff considered an approach that allocated the insurance proceeds only following the annual earnings test. Under this method, the sharing percentage between customers and Company would be determined annually by an earnings test. The insurance proceeds would then be allocated between customers and Company based on the cumulative sharing percentage

[18] The table was created in part using information provided by the Company in its response to the September 17, 2013 bench request. Additional details, including assumptions and calculations, can be found in Exhibit Staff/201, Johnson-Bahr/1.

determined by the earnings test. In other words, the allocation of the insurance proceeds would be determined by the results of the earnings test, rather than factored into the earnings test.

Table 4 indicates potential results given various earnings test thresholds using this approach. For example, if an earnings test were set at 100 basis points above the Company's authorized ROE, the Company's earnings would be above the threshold in five years, and the Company would be responsible for $14.568 million of the $94.3 million in costs (insurance proceeds would pay $50.167 million and customers would be responsible for the other $29.584 million).[19]

Table 4. Summary Results of Staff's Alternative Recommendation for Past Costs

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2009	Company	$115	0.12%	$61	$54
		Customers	$94,204	99.88%	$50,106	$44,099
50	2009, 2010, 2011	Company	$11,271	11.95%	$5,995	$5,276
		Customers	$83,048	88.05%	$44,172	$38,876
0	2006, 2009, 2010, 2011	Company	$24,180	25.64%	$12,861	$11,319
		Customers	$70,139	74.36%	$37,306	$32,833
-50	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$47,314	50.16%	$25,165	$22,148
		Customers	$47,006	49.84%	$25,002	$22,004
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$74,527	79.02%	$39,640	$34,887
		Customers	$19,793	20.98%	$10,527	$9,265

Q. HAS STAFF REVIEWED THE EFFECTS OF INCLUDING IN ITS ANALYSIS THE COMPANY'S SHARE OF NET WACOG REVENUE?

[19] The table was created in part using information provided by the Company in its response to the September 17, 2013 bench request. Additional details, including assumptions and calculations, can be found in Exhibit Staff/201, Johnson-Bahr/2.

A. Yes. In addition to the analysis Staff performed resulting in Table 4, Staff also performed analyses that include in the Company's revenue its share of net WACOG revenue. Table 5 presents the results of that analysis.

Table 5. Summary Results of Staff's Alternative Recommendation for Treatment of Past Costs (including WACOG) [20]

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2006, 2007, 2009, 2010, 2011	Company	$18,670	19.79%	$9,930	$8,740
		Customers	$75,650	80.21%	$40,237	$35,413
50	2006, 2007, 2009, 2010, 2011	Company	$33,935	35.98%	$18,050	$15,886
		Customers	$60,384	64.02%	$32,117	$28,267
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$46,108	48.88%	$24,524	$21,584
		Customers	$48,212	51.12%	$25,643	$22,569
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$61,974	65.71%	$32,963	$29,011
		Customers	$32,345	34.29%	$17,204	$15,141
-100	2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$75,476	80.02%	$40,144	$35,331
		Customers	$18,844	19.98%	$10,023	$8,821

Q. HAS STAFF REVIEWED THE EFFECTS OF INCLUDING IN ITS ANALYSIS THE COMPANY'S SHARE OF AMA OPTIMIZATION?

A. Yes. In addition to the analyses Staff performed resulting in Table 4 and Table 5, Staff also performed analyses that include in the Company's revenue 90 percent of the Company's share of AMA Optimization. Table 6 presents the results of that analysis.

[20] The table was created in part using information provided by the Company in its response to the September 17, 2013 bench request. Additional details, including assumptions and calculations, can be found in Exhibit Staff/201, Johnson-Bahr/2.

Table 6. Summary Results of Staff's Primary Recommendation for Treatment of Past Costs (including WACOG and 90 percent of Optimization)[21]

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2006, 2007, 2009, 2010, 2011	Company	$31,121	33.00%	$16,553	$14,568
		Customers	$63,199	67.00%	$33,614	$29,584
50	2006, 2007, 2009, 2010, 2011, 2012	Company	$43,858	46.50%	$23,327	$20,531
		Customers	$50,462	53.50%	$26,840	$23,622
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$57,676	61.15%	$30,677	$26,999
		Customers	$36,644	38.85%	$19,490	$17,154
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$69,316	73.49%	$36,868	$32,448
		Customers	$25,004	26.51%	$13,299	$11,705
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$80,986	85.86%	$43,075	$37,911
		Customers	$13,334	14.14%	$7,092	$6,242

Q. HOW HAS THE COMPANY REPRESENTED TO SHAREHOLDERS ITS ENVIRONMENTAL REMEDIATION COSTS?

A. The Company responded to Staff's Data Request 12, in which Staff asked the Company this question.[22] Staff also reviewed the annual reports of the Company for recent years.[23] In summary, it appears that the Company has included the deferred environmental costs in its financial results, along with a note stating that recovery of the costs is probable. However, as a result of this docket, the Company could be required to share in a portion of the costs. Recovering less than the full amount of the deferral would likely cause the Company to have to write off a portion of the regulatory asset it has recorded.

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[21] The table was created in part using information provided by the Company in its response to the September 17, 2013 bench request. Additional details, including assumptions and calculations, can be found in Exhibit Staff/201, Johnson-Bahr/2.
[22] *See* Exhibit Staff/202, Johnson-Bahr/2.
[23] *See* Exhibit Staff/202, Johnson-Bahr/3-6, which shows selected relevant pages from the Company's 2013 10K report, including the Company's consolidated balance sheet, the page in the financial statement footnotes showing a breakout of the Regulatory Assets account found on the balance sheet, and the pages of the footnotes on which the Company discusses its treatment of environmental remediation costs.

The Company's treatment of deferred costs differs from the way regulated utilities in Oregon typically account for deferred costs. Because of this unique treatment, the Commission finds itself in a position in which granting anything less than the Company's proposal will result in a write off by the Company, lowering its earnings. Typically, however, the Commission's decision to approve for amortization deferred costs results in a company recognizing a previously unrecorded regulatory asset, thereby raising earnings. Staff includes in its exhibits a simplified example illustrating the difference between the Company's treatment of the deferred costs and the typical treatment by utilities.[24]

3. FUTURE TREATMENT OF COSTS

Q. WHAT IS THE COMPANY'S POSITION ON THE FUTURE TREATMENT OF EXPECTED ENVIRONMENTAL REMEDIATION COSTS?

A. The Company states in testimony that on a going-forward basis, the Commission should conduct annual earnings tests based on the previous 12-month period.[25] Staff agrees with the Company on this issue.

The Company also proposes that the insurance proceeds be allocated first to offset all past costs and the excess proceeds should offset future expenses as they are incurred. Staff disagrees with the Company on this issue. Please see Staff testimony above on the allocation of insurance proceeds.

[24] *See* Exhibit Staff/202, Johnson-Bahr/7.
[25] *See* NWN/800, Miller/29.

Q. WHAT IS STAFF'S PROPOSAL REGARDING THE APPLICATION OF INSURANCE PROCEEDS FOR FUTURE EARNINGS TESTS?

A. Staff proposes to allocate approximately $50.167 million to historic costs, which leaves approximately $100 million for expected future environmental remediation costs. Staff recommends that the approximate $100 million (as well as accumulated interest) be allocated evenly over the next 20 years. This would be approximately $5 million of insurance proceeds, plus interest on the balance, allocated each year for the next 20 years.

Q. PLEASE DESCRIBE STAFF'S RECOMMENDATION FOR CALCULATING CUSTOMER RESPONSIBILITY FOR FUTURE ENVIRONMENTAL REMEDIATION COSTS.

A. In calculating customers' share, an earnings test should be conducted each year using revenues, including 100 percent of WACOG and 90 percent of AMA Optimization revenues. Staff would also reduce the cost of environmental remediation each year by the $5 million of insurance proceeds, plus accumulated interest, allocated to that year. Of the amount of environmental remediation costs remaining at that point, ten percent would be allocated to the Company to ensure the Company has the incentive to control costs.

The reason Staff is recommending a threshold at authorized ROE going forward and 50 basis points below authorized ROE going backward is because Staff's recommended method going forward also includes 90/10 sharing of costs prior to the earnings test. The earnings test would be performed annually, and rates would be set each year based upon the new calculation for the next year.

Q. WHAT IS THE PURPOSE OF THE 90/10 COST SHARING BEFORE THE EARNINGS TEST IS APPLIED?

A. The purpose is to provide the Company an incentive to minimize costs and maximize revenues even with the prospect of an earnings test that has a benchmark set at the Company's authorized rate of return.

Q. UNDER STAFF'S PROPOSAL, IS IT STILL POSSIBLE FOR THE COMPANY TO EARN GREATER THAN ITS AUTHORIZED ROE?

A. Yes. The Company can earn above it authorized ROE if the Company has healthy earnings to the point that it can absorb the environmental remediation costs less the insurance proceeds and customer tariff rider.

Q. DOES STAFF RECOMMEND A CAP ON TIME OR COSTS BEFORE WHICH THE COMPANY'S ENVIRONMENTAL REMEDIATION COSTS SHOULD BE REVIEWED AGAIN?

A. Yes, Staff recommends the decision by the Commission in this docket be reviewed in five years or when expenditures reach $100 million, whichever comes first. This cap will prevent a situation in which costs accelerate like a stone rolling down a mountain and future customers become beasts of burden to the exponentially accumulating interest balance. The cap also will allow sufficient time to pass in order to review incurred costs, cost forecast updates, and evaluate whether the deferral and its mechanisms are working effectively for cost recovery of the environmental remediation costs.

4. FUTURE DEFERRALS VERSUS A PERMANENT AMOUNT IN RATES

Q. WHAT IS THE COMPANY'S POSITION ON A PERMANENT AMOUNT OF ENVIRONMENTAL REMEDIATION COSTS IN RATES?

A. In NW Natural's testimony, the Company states that if the Commission decides to place an amount into permanent rates, it should engage in an annual process to estimate what that level should be to be included in rates.[26]

Q. DOES STAFF SUPPORT THIS APPROACH?

A. No. Staff believes that the Commission should put $3 million in permanent rates on a going forward basis in the form of a tariff rider. Should the Commission decide to include more than Staff's $3 million recommended amount, Staff's recommendation is not to include in permanent rates an amount more than $5 million. Under this tariff rider, which would grow in time proportional to sales until the rate is reset, the Company would track revenues received each year.

Q. WHY DOES STAFF RECOMMEND THIS AMOUNT?

A. Staff reviewed the environmental remediation costs incurred in recent years. These costs, including interest, were $8.2 million in 2008, $10.0 million in 2009, $13.7 million in 2010, $15.3 million in 2011, and $19.4 million in 2012. In an effort to be conservative and to reduce the possibility of a situation in which the Company must refund an amount to customers, Staff recommends a very conservative amount be put into permanent rates. This amount will help offset the deferred costs on an annual basis and help prevent the accumulation of an

[26] *See* NWN/800, Miller/30, lines 13-17.

excessively large deferral balance. Taking into account the cost offset of allocated insurance proceeds and

For example (Scenario 1), assume $15 million of environmental costs were incurred in a given year, $5 million were included in base rates, and the Company earned an ROE of 10.58 percent (assuming an authorized ROE of 10.08 percent). First, insurance proceeds would offset $5 million of the $15 million cost. Second, the remaining $10 million would be reduced by the $5 million included in base rates. This would leave $5 million to be subject to 90/10 sharing and the earnings test. In this scenario, because the Company is earning above the earnings test threshold, the Company would bear the entirety of the remaining $5 million, and the Company's final ROE would be 9.7 percent.[27]

Q. PLEASE SUMMARIZE STAFF'S RECOMMENDATIONS.

A. Staff recommends approximately $50.167 of insurance proceeds be applied to the $94 million of environmental costs incurred by the Company between 2003 and 2012. The remainder of costs incurred during this time should be shared between customers and the Company following an earnings test set at 50 basis points below the Company's authorized ROE. All WACOG and 90 percent of Optimization earnings should be included in the revenues for the purposes of the test.

Staff also recommends that $5 million be put into base rates for recovery from customers going forward. Environmental costs incurred in the future will be

[27] *See* Exhibit Staff/201, Johnson-Bahr/9 for the assumptions and calculations used in Staff's example, as well as three other potential scenarios under Staff's recommended approach.

offset by the approximately $100 million of insurance proceeds. The sharing between customers and Company should be determined by an earnings test set at the Company's authorized ROE, and WACOG and AMA Optimization revenues should be included.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

CASE: UM 1635 Phase II
WITNESS: JOHNSON - BAHR

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 201

Exhibits in Support
Of Testimony

REDACTED
May 2, 2014

Exhibit Staff/201, Johnson-Bahr/1
Summary Table of Results based on Staff's Primary Recommendation for Historic Costs
Note that all dollar figures are in thousands

Including WACOG and Optimization

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg of Annual ROEs
100	2006, 2007, 2009, 2010, 2011	Company	$21,489	48.67%	10.51%
		Customers	$22,664	51.33%	
50	2006, 2007, 2009, 2010, 2011, 2012	Company	$26,218	59.38%	10.41%
		Customers	$17,935	40.62%	
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$32,306	73.17%	10.29%
		Customers	$11,846	26.83%	
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$38,662	87.56%	10.16%
		Customers	$5,491	12.44%	
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$42,128	95.41%	10.09%
		Customers	$2,024	4.59%	

See Confidential Exhibit Staff 201.3

Including WACOG and Excluding Optimization

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg of Annual ROEs
100	2006, 2007, 2009, 2010, 2011	Company	$12,114	27.44%	10.40%
		Customers	$32,039	72.56%	
50	2006, 2007, 2009, 2010, 2011	Company	$22,215	50.31%	10.18%
		Customers	$21,938	49.69%	
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$28,124	63.70%	10.06%
		Customers	$16,028	36.30%	
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$35,841	81.18%	9.90%
		Customers	$8,311	18.82%	
-100	2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$39,846	90.25%	9.82%
		Customers	$4,306	9.75%	

See Exhibit Staff 201.4

Excluding WACOG and Optimization

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg of Annual ROEs
100	2009	Company	$115	0.26%	10.12%
		Customers	$44,037	99.74%	
50	2009, 2010, 2011	Company	$11,271	25.53%	9.89%
		Customers	$32,881	74.47%	
0	2006, 2009, 2010, 2011	Company	$19,116	43.30%	9.72%
		Customers	$25,036	56.70%	
-50	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$31,335	70.97%	9.48%
		Customers	$12,817	29.03%	
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$41,002	92.87%	9.28%
		Customers	$3,150	7.13%	

See Exhibit Staff 201.5

Exhibit Staff/201, Johnson-Bahr/2
Table of Results based on Staff's Alternative Recommendation for Historic Costs
**Note that all dollar figures are in thousands*

Including WACOG and Optimization

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2006, 2007, 2009, 2010, 2011	Company	$31,121	33.00%	$16,553	$14,568
		Customers	$63,199	67.00%	$33,614	$29,584
50	2006, 2007, 2009, 2010, 2011, 2012	Company	$43,858	46.50%	$23,327	$20,531
		Customers	$50,462	53.50%	$26,840	$23,622
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$57,676	61.15%	$30,677	$26,999
		Customers	$36,644	38.85%	$19,490	$17,154
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$69,316	73.49%	$36,868	$32,448
		Customers	$25,004	26.51%	$13,299	$11,705
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$80,986	85.86%	$43,075	$37,911
		Customers	$13,334	14.14%	$7,092	$6,242

See Confidential Exhibit Staff 201.6

Including WACOG and Excluding Optimization

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2006, 2007, 2009, 2010, 2011	Company	$18,670	19.79%	$9,930	$8,740
		Customers	$75,650	80.21%	$40,237	$35,413
50	2006, 2007, 2009, 2010, 2011	Company	$33,935	35.98%	$18,050	$15,886
		Customers	$60,384	64.02%	$32,117	$28,267
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$46,108	48.88%	$24,524	$21,584
		Customers	$48,212	51.12%	$25,643	$22,569
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$61,974	65.71%	$32,963	$29,011
		Customers	$32,345	34.29%	$17,204	$15,141
-100	2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	$75,476	80.02%	$40,144	$35,331
		Customers	$18,844	19.98%	$10,023	$8,821

See Exhibit Staff 201.7

Excluding WACOG and Optimization

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2009	Company	$115	0.12%	$61	$54
		Customers	$94,204	99.88%	$50,106	$44,099
50	2009, 2010, 2011	Company	$11,271	11.95%	$5,995	$5,276
		Customers	$83,048	88.05%	$44,172	$38,876
0	2006, 2009, 2010, 2011	Company	$24,180	25.64%	$12,861	$11,319
		Customers	$70,139	74.36%	$37,306	$32,833
-50	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$47,314	50.16%	$25,165	$22,148
		Customers	$47,006	49.84%	$25,002	$22,004
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	$74,527	79.02%	$39,640	$34,887
		Customers	$19,793	20.98%	$10,527	$9,265

See Exhibit Staff 201.8

This page 3 is confidential.

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Exhibit Staff/201, Johnson-Bahr/4
Inputs and Calculations for Staff's Primary Recommendation for Historic Costs (including WACOG, excluding Optimization)
Note that all dollar figures are in thousands

Variable Inputs

insurance proceeds	$50,167
earnings test adjustment (basis points above AROE)	-50

Provided by Company in Response to Bench Request

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total	
Net Op Rev	$61,541	$71,694	$78,821	$82,753	$83,957	$83,918	$89,513	$84,845	$86,680	$82,251		
Rate Base	$814,052	$858,497	$940,148	$958,767	$975,963	$978,907	$986,180	$967,308	$993,165	$1,028,353		
AROE	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.08%		
After Tax Rate	60.71%	60.71%	60.71%	60.71%	60.71%	60.71%	59.87%	59.87%	60.06%	60.06%		
Capital Structure												
Long term debt	49.70%	46.75%	47.43%	47.69%	46.50%	45.54%	47.77%	52.14%	53.28%	52.50%		
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Common Equity	50.30%	53.25%	52.57%	52.31%	53.50%	54.46%	52.23%	47.86%	46.72%	47.50%		
Weighted Cost of Capital												
Long term debt	3.51%	3.30%	3.25%	3.24%	3.16%	3.10%	3.22%	3.46%	3.50%	3.31%		
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Common Equity	5.13%	5.43%	5.36%	5.34%	5.46%	5.55%	5.33%	4.88%	4.77%	4.80%		
total environmental deferral cost (cost + interest)	$1,034	$2,205	$9,209	$6,560	$8,762	$8,165	$9,967	$13,675	$15,320	$19,423	$94,319	
Provided by Company in Response to Staff Data Request No. 19 (*See* Exhibit Staff/202, Johnson-Bahr/8)												
NWN Pre-Tax WACOG Share	$272	$559	$4,195	$8,083	$14,190	-$7,493	$15,946	$1,051	$2,471	$3,760		
Calculated by Staff												
NWN Post-Tax WACOG Share	$165	$339	$2,547	$4,907	$8,615	-$4,549	$9,546	$629	$1,484	$2,258		
Net Op Rev w/ WACOG & Optimization	$61,706	$72,033	$81,368	$87,660	$92,572	$79,369	$99,059	$85,474	$88,164	$84,509		
ROR	7.58%	8.39%	8.65%	9.14%	9.49%	8.11%	10.04%	8.84%	8.88%	8.22%		
ROE	8.09%	9.56%	10.28%	11.28%	11.82%	9.20%	13.07%	11.23%	11.51%	10.33%		
% of annual cost to total past cost	1.10%	2.34%	9.76%	6.96%	9.29%	8.66%	10.57%	14.50%	16.24%	20.59%		
Insurance proceeds allocation	$550	$1,173	$4,898	$3,489	$4,660	$4,343	$5,301	$7,273	$8,149	$10,331	$50,167	
Net environmental cost	$484	$1,032	$4,311	$3,071	$4,102	$3,822	$4,666	$6,401	$7,172	$9,092	$44,152	
points above threshold	(160.83)	(14.01)	58.11	158.47	212.28	(50.44)	336.67	153.34	180.92	75.24		
$ above threshold	-$10,847	-$1,055	$4,731	$13,091	$18,257	-$4,429	$28,967	$11,858	$13,977	$6,119		
$ per basis point	$67.45	$75.30	$81.41	$82.61	$86.01	$87.81	$86.04	$77.33	$77.26	$81.33		
reduction to ROE in basis points	-	-	87.22	61.23	78.55	-	90.58	138.27	154.56	125.28		
ROE after earnings test	8.09%	9.56%	9.41%	10.67%	11.04%	9.20%	12.16%	9.85%	9.96%	9.08%	**Total $**	**Total %**
Final Company $ cost	$0	$0	$4,311	$3,071	$4,102	$0	$4,666	$6,401	$7,172	$6,119	$35,841	81.18%
Final Customer $ cost	$484	$1,032	$0	$0	$0	$3,822	$0	$0	$0	$2,973	$8,311	18.82%
Avg of annual ROEs	9.90%											

Exhibit Staff/201, Johnson-Bahr/5

Inputs and Calculations for Staff's Primary Recommendation for Historic Costs (including WACOG, excluding Optimization)

**Note that all dollar figures are in thousands*

Variable Inputs	
insurance proceeds	$50,167
earnings test adjustment (basis points above AROE)	-50

Provided by Company in Response to Bench Request	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total	Total %
Net Op Rev	$61,541	$71,694	$78,821	$82,753	$83,957	$83,918	$89,513	$84,845	$86,680	$82,251		
Rate Base	$814,052	$858,497	$940,148	$958,767	$975,963	$978,907	$986,180	$967,308	$993,165	$1,028,353		
AROE	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.08%		
After Tax Rate	60.71%	60.71%	60.71%	60.71%	60.71%	60.71%	59.87%	59.87%	60.06%	60.06%		
Capital Structure												
Long term debt	49.70%	46.75%	47.43%	47.69%	46.50%	45.54%	47.77%	52.14%	53.28%	52.50%		
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Common Equity	50.30%	53.25%	52.57%	52.31%	53.50%	54.46%	52.23%	47.86%	46.72%	47.50%		
Weighted Cost of Capital												
Long term debt	3.51%	3.30%	3.25%	3.24%	3.16%	3.10%	3.22%	3.46%	3.50%	3.31%		
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Common Equity	5.13%	5.43%	5.36%	5.34%	5.46%	5.55%	5.33%	4.88%	4.77%	4.80%		
total environmental deferral cost (cost + interest)	$1,034	$2,205	$9,209	$6,560	$8,762	$8,165	$9,967	$13,675	$15,320	$19,423	$94,319	
Calculated by Staff												
ROR	7.56%	8.35%	8.38%	8.63%	8.60%	8.57%	9.08%	8.77%	8.73%	8.00%		
ROE	8.05%	9.49%	9.77%	10.31%	10.17%	10.05%	11.21%	11.10%	11.19%	9.87%		
% of annual cost to total past cost	1.10%	2.34%	9.76%	6.96%	9.29%	8.66%	10.57%	14.50%	16.24%	20.59%		
Insurance proceeds allocation	$550	$1,173	$4,898	$3,489	$4,660	$4,343	$5,301	$7,273	$8,149	$10,331	$50,167	
Net environmental cost	$484	$1,032	$4,311	$3,071	$4,102	$3,822	$4,666	$6,401	$7,172	$9,092	$44,152	
points above threshold	(164.86)	(21.44)	6.58	60.62	47.29	34.89	151.34	139.75	148.93	29.01		
$ above threshold	-$11,119	-$1,614	$536	$5,008	$4,067	$3,064	$13,021	$10,807	$11,506	$2,360		
$ per basis point	$67.45	$75.30	$81.41	$82.61	$86.01	$87.81	$86.04	$77.33	$77.26	$81.33		
reduction to ROE in basis points	-	-	10.84	61.23	77.89	57.47	90.58	138.27	154.56	48.31		
ROE after earnings test	8.05%	9.49%	9.66%	9.69%	9.39%	9.47%	10.31%	9.71%	9.64%	9.39%	Total $	Total %
Final Company $ cost	$0	$0	$536	$3,071	$4,067	$3,064	$4,666	$6,401	$7,172	$2,360	$31,335	70.97%
Final Customer $ cost	$484	$1,032	$3,775	$0	$35	$758	$0	$0	$0	$6,732	$12,817	29.03%
Avg of annual ROEs	9.48%											

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Exhibit Staff/201, Johnson-Bahr/7
Inputs and Calculations for Staff's Alternative Recommendation for Historic Costs (including WACOG, excluding Optimization)
Note that all dollar figures are in thousands

Variable Inputs

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earnings test adjustment (basis points above AROE)	-50

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Rate Base	$814,052	$858,497	$940,148	$958,767	$975,963	$978,907	$986,180	$967,308	$993,165	$1,028,353	
AROE	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.08%	
After Tax Rate	60.71%	60.71%	60.71%	60.71%	60.71%	60.71%	59.87%	59.87%	60.06%	60.06%	
Capital Structure											
Long term debt	49.70%	46.75%	47.43%	47.69%	46.50%	45.54%	47.77%	52.14%	53.28%	52.50%	
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Common Equity	50.30%	53.25%	52.57%	52.31%	53.50%	54.46%	52.23%	47.86%	46.72%	47.50%	
Weighted Cost of Capital											
Long term debt	3.51%	3.30%	3.25%	3.24%	3.16%	3.10%	3.22%	3.46%	3.50%	3.31%	
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Common Equity	5.13%	5.43%	5.36%	5.34%	5.46%	5.55%	5.33%	4.88%	4.77%	4.80%	
total environmental deferral cost (cost + interest)	$1,034	$2,205	$9,209	$6,560	$8,762	$8,165	$9,967	$13,675	$15,320	$19,423	$94,319
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Calculated by Staff											
NWN Post-Tax WACOG Share	$165	$339	$2,547	$4,907	$8,615	-$4,549	$9,546	$629	$1,484	$2,258	
Net Op Rev w/ WACOG	$61,706	$72,033	$81,368	$87,660	$92,572	$79,369	$99,059	$85,474	$88,164	$84,509	
ROR	7.58%	8.39%	8.65%	9.14%	9.49%	8.11%	10.04%	8.84%	8.88%	8.22%	
ROE	8.09%	9.56%	10.28%	11.28%	11.82%	9.20%	13.07%	11.23%	11.51%	10.33%	
points above threshold	(160.83)	(14.01)	58.11	158.47	212.28	(50.44)	336.67	153.34	180.92	75.24	
$ above threshold	-$10,847	-$1,055	$4,731	$13,091	$18,257	-$4,429	$28,967	$11,858	$13,977	$6,119	
$ per basis point	$67.45	$75.30	$81.41	$82.61	$86.01	$87.81	$86.04	$77.33	$77.26	$81.33	
reduction to ROE in basis points	-	-	95.72	130.80	167.81	-	193.50	256.15	301.23	125.28	
ROE after earnings test	8.09%	9.56%	9.32%	9.98%	10.14%	9.20%	11.13%	8.67%	8.50%	9.08%	
Final Company $ cost	$0	$0	$4,731	$6,560	$8,762	$0	$9,967	$11,858	$13,977	$6,119	
Final Customer $ cost	$1,034	$2,205	$4,478	$0	$0	$8,165	$0	$1,816	$1,343	$13,303	

	Total $	Total %	Insurance Proceeds	Cost After Insurance
Final Company $ cost	$61,974	65.71%	$32,963	$29,011
Final Customer $ cost	$32,345	34.29%	$17,204	$15,141

Exhibit Staff/201, Johnson-Bahr/8

Inputs and Calculations for Staff's Alternative Recommendation for Historic Costs (excluding WACOG, excluding Optimization)

**Note that all dollar figures are in thousands*

<u>Variable Inputs</u>

insurance proceeds	$50,167
earnings test adjustment (basis points above AROE)	-50

<u>Provided by Company in Response to Bench Request</u>

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Net Op Rev	$61,541	$71,694	$78,821	$82,753	$83,957	$83,918	$89,513	$84,845	$86,680	$82,251	
Rate Base	$814,052	$858,497	$940,148	$958,767	$975,963	$978,907	$986,180	$967,308	$993,165	$1,028,353	
AROE	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.08%	
After Tax Rate	60.71%	60.71%	60.71%	60.71%	60.71%	60.71%	59.87%	59.87%	60.06%	60.06%	
Capital Structure											
Long term debt	49.70%	46.75%	47.43%	47.69%	46.50%	45.54%	47.77%	52.14%	53.28%	52.50%	
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Common Equity	50.30%	53.25%	52.57%	52.31%	53.50%	54.46%	52.23%	47.86%	46.72%	47.50%	
Weighted Cost of Capital											
Long term debt	3.51%	3.30%	3.25%	3.24%	3.16%	3.10%	3.22%	3.46%	3.50%	3.31%	
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Common Equity	5.13%	5.43%	5.36%	5.34%	5.46%	5.55%	5.33%	4.88%	4.77%	4.80%	
total environmental deferral cost (cost + interest)	$1,034	$2,205	$9,209	$6,560	$8,762	$8,165	$9,967	$13,675	$15,320	$19,423	$94,319
<u>Calculated by Staff</u>											
ROR	7.56%	8.35%	8.38%	8.63%	8.60%	8.57%	9.08%	8.77%	8.73%	8.00%	
ROE	8.05%	9.49%	9.77%	10.31%	10.17%	10.05%	11.21%	11.10%	11.19%	9.87%	
points above threshold	(164.86)	(21.44)	6.58	60.62	47.29	34.89	151.34	139.75	148.93	29.01	
$ above threshold	-$11,119	-$1,614	$536	$5,008	$4,067	$3,064	$13,021	$10,807	$11,506	$2,360	
$ per basis point	$67.45	$75.30	$81.41	$82.61	$86.01	$87.81	$86.04	$77.33	$77.26	$81.33	
reduction to ROE in basis points	-	-	10.84	99.86	77.89	57.47	193.50	233.44	247.97	48.31	
ROE after earnings test	8.05%	9.49%	9.66%	9.31%	9.39%	9.47%	9.28%	8.76%	8.71%	9.39%	
Final Company $ cost	$0	$0	$536	$5,008	$4,067	$3,064	$9,967	$10,807	$11,506	$2,360	
Final Customer $ cost	$1,034	$2,205	$8,673	$1,552	$4,695	$5,101	$0	$2,868	$3,814	$17,063	

	Total $	Total %	Insurance Proceeds	Cost After Insurance
Final Company $ cost	$47,314	50.16%	$25,165	$22,148
Final Customer $ cost	$47,006	49.84%	$25,002	$22,004

Exhibit Staff/201, Johnson-Bahr/9
Inputs and Calculations for Four Potential Scenarios using Staff's Recommended Approach for Expected Future Costs
Note that all dollar figures are in thousands

	Scenario 1 $5m in base rates and ROE > AROE	Scenario 2 $5m in base rates and ROE < AROE	Scenario 3 $3m in base rates and ROE > AROE	Scenario 4 $3m in base rates and ROE < AROE
Variable Inputs				
Insurance proceeds (applied to future)	$100,000	$100,000	$100,000	$100,000
pre-earnings test sharing (customer % of cost)	90%	90%	90%	90%
earnings test adjustment (basis points from AROE)	0	0	0	0
annual cost amount in recoverable through base rates	$5,000	$5,000	$3,000	$3,000 *
total future environmental remediation cost	$300,000	$300,000	$300,000	$300,000
total future years	20	20	20	20
Net Op Rev (including WACOG and optimization revenue)	$100,000	$90,000	$100,000	$90,000 *
Rate Base	$1,200,000	$1,200,000	$1,200,000	$1,200,000
Assumptions				
AROE	10.08%	10.08%	10.08%	10.08%
After Tax Rate	60.06%	60.06%	60.06%	60.06%
Capital Structure				
Long term debt	52.50%	52.50%	52.50%	52.50%
Preferred stock	0.00%	0.00%	0.00%	0.00%
Common Equity	47.50%	47.50%	47.50%	47.50%
Weighted Cost of Capital				
Long term debt	3.31%	3.31%	3.31%	3.31%
Preferred stock	0.00%	0.00%	0.00%	0.00%
Common Equity	4.80%	4.80%	4.80%	4.80%
Calculations				
ROR	8.33%	7.50%	8.33%	7.50%
ROE	10.58%	8.82%	10.58%	8.82%
total environmental deferral cost (cost + interest)	$15,000	$15,000	$15,000	$15,000
Amount recoverable through base rates	$5,000	$5,000	$3,000	$3,000
Insurance proceeds	$5,000	$5,000	$5,000	$5,000
Net cost subject to sharing and earnings test	$5,000	$5,000	$7,000	$7,000
pretest sharing (customer)	$4,500	$4,500	$6,300	$4,500
pretest sharing (company)	$500	$500	$700	$500
points above threshold	49.54	(125.90)	49.54	(125.90)
$ above threshold	$4,702	-$11,948	$4,702	-$11,948
$ per basis point	$94.91	$94.91	$94.91	$94.91
reduction to ROE in basis points	87.72	8.77	94.77	8.77
Calculations				
ROE after earnings test and sharing	9.70%	8.73%	9.63%	8.73%
Final Company $ cost	$5,000	$500	$5,402	$500
Final Customer $ cost (surcharge only)	$0	$4,500	$1,598	$6,500
Final Customer $ cost (surcharge and base rates)	$5,000	$9,500	$4,598	$9,500

CASE: UM 1635 Phase II
WITNESS: JOHNSON - BAHR

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 202

Exhibits in Support
Of Testimony

REDACTED

May 2, 2014

NW Natural

Rates & Regulatory Affairs

Mechanism for Recovery of
Environmental Remediation Costs
UM 1635

Data Request Response

Request No. UM 1635-OPUC-DR 17:
Has the Company permanently settled all claims with any and all insurance companies that provided coverage related to environmental remediation costs? If not, describe the current activities underway and planned to take place at some future time?

Response: 04/16/2014

The Company has entered into settlement agreements with all of the insurance company defendants in our coverage litigation and the payments are coming in according to schedule. One small insurer was not included in the litigation because it is insolvent. Our litigation team is currently attempting to negotiate a settlement with that insurer's liquidator. If we achieve that settlement, and assuming the insurers fully comply with all settlement terms, we will have permanently settled all claims with any and all insurance companies that provided coverage related to environmental remediation costs.

NW Natural

Rates & Regulatory Affairs

Mechanism for Recovery of
Environmental Remediation Costs
UM 1635

Data Request Response

Request No. UM 1635-OPUC-DR 12:
When environmental remediation deferrals are authorized, does NW Natural inform investors that recovery of the deferrals is guaranteed or likely and then recognizes revenues related to the deferrals even though they have not been approved for amortization?

Response: 04/16/2014

Environmental contingencies and the recovery of these costs through insurance settlement and customer rates are considered a critical accounting policy by management. A critical accounting policy is an area that management exercises judgment in the selection and application of accounting principles, including making estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures in the financial statements. Management considers our critical accounting policies to be those which are most important to the representation of our financial condition and results of operations and which require management's most difficult and subjective or complex judgments, including accounting estimates that could result in materially different amounts if we reported under different conditions or used different assumptions.

As a regulatory deferral under ASC 980-340 and a loss contingency under ASC 450-20, we communicate any material changes to the estimates of the environmental amounts and describe if there has been a change in the probability of the recovery of these costs. On February 28, 2014, we reported in our 2013 Form 10-K, "We continue to seek recovery of such [environmental] costs through insurance and through customer rates, and we believe recovery of these costs is probable." In addition, we also disclosed, "If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then we would be required to write off the net unrecoverable balances in the period such determination is made."

Revenues related to deferrals are recognized when ordered or approved by the Commission.

Staff/202
Johnson-Bahr/3

NORTHWEST NATURAL GAS COMPANY
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
In thousands	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	$ 9,471	$ 8,923
Accounts receivable	81,889	61,229
Accrued unbilled revenue	61,527	56,955
Allowance for uncollectible accounts	(1,656)	(2,518)
Regulatory assets	22,635	52,448
Derivative instruments	5,311	1,950
Inventories	60,669	67,602
Gas reserves	20,646	14,966
Income taxes receivable	3,534	2,552
Deferred tax assets	45,241	—
Other current assets	21,181	19,592
Total current assets	330,448	283,699
Non-current assets:		
Property, plant, and equipment	2,918,739	2,786,008
Less: Accumulated depreciation	855,865	812,396
Total property, plant, and equipment, net	2,062,874	1,973,612
Gas reserves	121,998	84,693
Regulatory assets	369,603	382,255
Derivative instruments	1,880	3,639
Other investments	67,851	67,667
Restricted cash	4,000	4,000
Other non-current assets	12,257	13,555
Total non-current assets	2,640,463	2,529,421
Total assets	$ 2,970,911	$ 2,813,120

See Notes to Consolidated Financial Statements

At December 31, the amounts deferred as regulatory assets and liabilities were as follows:

	Regulatory Assets	
In thousands	2013	2012
Current:		
Unrealized loss on derivatives(1)	$ 1,891	$ 10,796
Other(2)	20,744	41,652
Total current	$ 22,635	$ 52,448
Non-current:		
Unrealized loss on derivatives(1)	$ 615	$ 578
Pension balancing(3)	25,713	14,727
Income tax asset	51,814	55,879
Pension and other postretirement benefit liabilities(3)	125,855	182,688
Environmental costs(4)	148,389	121,144
Other(2)	17,217	7,239
Total non-current	$ 369,603	$ 382,255

	Regulatory Liabilities	
In thousands	2013	2012
Current:		
Gas costs	$ 7,510	$ 9,100
Unrealized gain on derivatives(1)	5,290	1,950
Other(2)	15,535	9,742
Total current	$ 28,335	$ 20,792
Non-current:		
Gas costs	$ 2,172	$ —
Unrealized gain on derivatives(1)	1,880	3,639
Accrued asset removal costs	296,294	281,213
Other(2)	3,139	3,261
Total non-current	$ 303,485	$ 288,113

(1) Unrealized gains or losses on derivatives are non-cash items and, therefore, do not earn a rate of return or a carrying charge. These amounts are recoverable through utility rates as part of the annual PGA mechanism when realized at settlement.

(2) Other primarily consists of several deferrals and amortizations under other approved regulatory mechanisms. The accounts being amortized typically earn a rate of return or carrying charge.

(3) Certain utility pension costs are approved for regulatory deferral, including amounts recorded to the pension balancing account, to mitigate the effects of higher and lower pension expenses. Pension costs that are deferred include an interest component when recognized in net periodic benefit costs. See Note 8.

(4) Environmental costs relate to specific sites approved for regulatory deferral by the OPUC and WUTC. In Oregon, we earn a carrying charge on amounts paid, whereas amounts accrued but not yet paid do not earn a carrying charge until expended. In Washington, a carrying charge related to deferred amounts will be determined in a future proceeding. For further information on environmental matters, see Note 15.

The amortization period for our regulatory assets and liabilities ranges from less than one year to an indeterminable period. Our regulatory deferrals for gas costs payable are generally amortized over 12 months beginning each November 1 following the gas contract year during which the deferred gas costs are recorded. Similarly, most of our regulatory deferred accounts are amortized over 12 months. However, certain regulatory account balances, such as income taxes, environmental costs, pension liabilities and accrued asset removal costs, are large and tend to be amortized over longer periods once we have agreed upon an amortization period with the respective regulatory agency.

We believe all costs incurred and deferred at December 31, 2013 are prudent. We annually review all regulatory assets and liabilities for recoverability and more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets or liabilities no longer meet the criteria for continued application of regulatory accounting, then we would be required to write off the net unrecoverable balances in the period such determination is made.

New Accounting Standards

Recently Adopted Standards

BALANCE SHEET OFFSETTING. In December 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding the offsetting of assets and liabilities on the balance sheet. The standard is intended to provide more comparable guidance between the GAAP and international accounting standards by requiring entities to disclose both gross and net amounts for assets and liabilities offset on the balance sheet as well as other disclosures concerning their enforceable master netting arrangements. This guidance was effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this standard did not have a material effect on our financial statement disclosures. See Note 13.

RECLASSIFICATIONS FROM ACCUMULATED OTHER COMPREHENSIVE INCOME. In February 2013, the FASB issued authoritative guidance, which requires an entity to present significant amounts reclassified from each component of accumulated other comprehensive income (AOCI). This standard is intended to improve the reporting of these reclassifications by presenting the information concerning amounts reclassified into net income from AOCI in a single location. This information has historically has been presented throughout the financial statements. This guidance was effective for reporting periods beginning after December 15, 2012. The adoption of this standard did not have a material effect on our financial statement disclosures. See Note 8.

to be eligible for regulatory deferral and rate recovery, subject to prudence review. All of our existing counterparties currently have investment-grade credit ratings.

Fair Value

In accordance with fair value accounting, we include nonperformance risk in calculating fair value adjustments. This includes a credit risk adjustment based on the credit spreads of our counterparties when we are in an unrealized gain position, or on our own credit spread when we are in an unrealized loss position. The inputs in our valuation techniques include natural gas futures, volatility, credit default swap spreads and interest rates. Additionally, our assessment of non-performance risk is generally derived from the credit default swap market and from bond market credit spreads. The impact of the credit risk adjustments for all outstanding derivatives was immaterial to the fair value calculation at December 31, 2013. As of December 31, 2013 and 2012, the net fair value was an asset of \$4.7 million and a liability of \$5.8 million, respectively, using significant other observable, or level 2, inputs. We have used no level 3 inputs in our derivative valuations. We did not have any transfers between level 1 or level 2 during the years ended December 31, 2013 and 2012. See Note 2.

14. COMMITMENTS AND CONTINGENCIES

Leases

We lease land, buildings, and equipment under agreements that expire in various years, including a 99-year land lease that extends through 2108. Rental expense under operating leases was \$5.1 million, \$4.8 million and \$5.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. The following table reflects the future minimum lease payments due under non-cancelable leases at December 31, 2013. These commitments relate principally to the lease of our office headquarters, underground gas storage facilities, and computer equipment.

In thousands	Operating leases	Capital leases	Minimum lease payments
2014	$ 5,611	$ 462	$ 6,073
2015	5,530	196	5,726
2016	5,510	82	5,592
2017	5,506	12	5,518
2018	2,858	—	2,858
Thereafter	34,836	—	34,836
Total	$ 59,851	$ 752	$ 60,603

Gas Purchase and Pipeline Capacity Purchase and Release Commitments

We have signed agreements providing for the reservation of firm pipeline capacity under which we are required to make fixed monthly payments for contracted capacity. The pricing component of the monthly payment is established, subject to change, by U.S. or Canadian regulatory bodies. In addition, we have entered into long-term sale agreements to release firm pipeline capacity. We also enter into short-term and long-term gas purchase agreements. The aggregate amounts of these agreements were as follows at December 31, 2013:

In thousands	Gas Purchase Agreements	Pipeline Capacity Purchase Agreements	Pipeline Capacity Release Agreements
2014	$ 60,692	$ 94,923	$ 3,739
2015	—	77,433	—
2016	—	66,146	—
2017	—	52,084	—
2018	—	42,263	—
Thereafter	—	216,995	—
Total	60,692	549,844	3,739
Less: Amount representing interest	20	113,437	—
Total at present value	$ 60,672	$ 436,407	$ 3,739

Our total payments for fixed charges under capacity purchase agreements were \$98.2 million in 2013, \$94.3 million in 2012, and \$94.2 million in 2011. Included in the amounts were reductions for capacity release sales of \$4.5 million for 2013, \$4.2 million for 2012, and \$3.1 million for 2011. In addition, per-unit charges are required to be paid based on the actual quantities shipped under the agreements. In certain take-or-pay purchase commitments, annual deficiencies may be offset by prepayments subject to recovery over a longer term if future purchases exceed the minimum annual requirements.

Environmental Matters

See Note 15 Environmental Matters for a discussion of environmental commitments and contingencies.

15. ENVIRONMENTAL MATTERS

We own, or previously owned, properties that may require environmental remediation or action. We estimate the range of loss for environmental liabilities based on current remediation technology, enacted laws and regulations, industry experience gained at similar sites and an assessment of the probable level of involvement and financial condition of other potentially responsible parties. Due to the numerous uncertainties surrounding the course of environmental remediation and the preliminary nature of several site investigations, in some cases, we may not be able to reasonably estimate the high end of the range of possible loss. In those cases, we have disclosed the nature of the possible loss and the fact that the high end of the range cannot be reasonably estimated. Unless there is an estimate within a range of possible losses that is more likely than other cost estimates within that range, we record the liability at the low end of this range. It is likely that changes in these estimates and ranges will occur throughout the remediation process for each of these sites due to our continued evaluation and clarification concerning our responsibility, the complexity of environmental laws and regulations and the determination by regulators of remediation alternatives.

In the 2012 Oregon general rate case, the new SRRM mechanism was approved to recover the Company's deferred environmental costs. The Commission ordered a separate docket to determine the prudence of deferred costs, the allocation of insurance proceeds, and an earnings test that would be applied to past and future deferred costs. In July 2013, all parties filed a settlement agreement with the OPUC to address how to apply the new mechanism. In November, the Commission rejected the settlement and ordered further proceedings. We have established a schedule with parties for 2014 and are working toward resolution of this matter.

In Washington, cost recovery and carrying charges on amounts deferred for costs associated with services provided to Washington customers will be determined in a future proceeding. We annually review all regulatory assets for recoverability and more often if circumstances warrant. If we should determine that all or a portion of these regulatory assets no longer meet the criteria for continued application of regulatory accounting, then we would be required to write off the net unrecoverable balances against earnings in the period such determination is made.

In December 2010, NW Natural commenced litigation against certain of its historical liability insurers in Multnomah County Circuit Court, State of Oregon (see Part I, Item 3 "Legal Proceedings"). In the complaint, NW Natural sought damages in excess of $50 million in losses it incurred through the date of the complaint, as well as declaratory relief for additional losses it expects to incur in the future. As of February 6, 2014, we had settled with all defendant insurance companies in this litigation. As a result of this settlement, the Company expects to receive additional payments aggregating approximately $102 million in 2014 related to the settlements. Such payments are to be made in the first and second quarters of 2014. Through December 31, 2013, we have received approximately $48 million. See Note 17 for additional information.

Environmental Sites

The following table summarizes information regarding liabilities related to environmental sites, which are recorded in other current liabilities and other noncurrent liabilities on the balance sheet at December 31:

	Current Liabilities		Non-Current Liabilities	
In thousands	2013	2012	2013	2012
Portland Harbor site:				
Gasco/Siltronic Sediments	$ 1,278	$ 2,207	$ 37,954	$ 36,087
Other Portland Harbor	1,766	1,767	3,478	3,160
Gasco Upland site	11,010	18,722	39,508	5,028
Siltronic Upland site	763	637	406	379
Central Service Center site	85	140	248	396
Front Street site	1,274	993	122	—
Oregon Steel Mills	—	—	179	185
Total	$ 16,176	$ 24,466	$ 81,895	$ 45,235

The following table presents information regarding the total amount of cash paid for environmental sites and the total regulatory asset deferred as of December 31:

In thousands	2013	2012
Cash paid[1]	$ 98,817	$ 71,124
Total regulatory asset deferral[2]	148,389	121,144

[1] Includes $20.1 million reclassified to utility plant in 2013 associated with the water treatment station of which a portion was paid in 2012.
[2] Includes cash paid, remaining liability, and interest, net of insurance reimbursement and amounts reclassified to utility plant for the water treatment station.

PORTLAND HARBOR SITE. The Portland Harbor is an EPA listed Superfund site that is approximately 11 miles long on the Willamette River and is adjacent to NW Natural's Gasco upland and Siltronic upland sites. We have been notified that we are a potentially responsible party to the Superfund site and we have joined with other potentially responsible parties (the Lower Willamette Group or LWG) to develop a Portland Harbor Remedial Investigation/Feasibility Study (RI/FS). The LWG submitted a draft Feasibility Study (FS) to the Environmental Protection Agency (EPA) in March 2012 that provides a range of remedial costs for the entire Portland Harbor Superfund Site, which includes the Gasco/Siltronic Sediment site, discussed below. The range of costs estimated for various remedial alternatives for the entire Portland Harbor, as provided in the draft FS, is $169 million to $1.8 billion. NW Natural's potential liability is a portion of the costs of the remedy the EPA will select for the entire Portland Harbor Superfund site. The cost of that remedy is expected to be allocated among more than 100 potentially responsible parties. NW Natural is participating in a non-binding allocation process in an effort to settle this potential liability. We manage our liability related to the Superfund site as two distinct remediation projects, the Gasco/Siltronic Sediment and Other Portland Harbor projects.

Gasco/Siltronic Sediments. In 2009, NW Natural and Siltronic Corporation entered into a separate Administrative Order on Consent with the EPA to evaluate and design specific remedies for sediments adjacent to the Gasco upland and

Simplified Example of Company's Cost Recovery Representation to Shareholders

1. Utilities typically do not recognize recovery of a deferred expense until approved for amortization.
2. The Company has already recognized (to investors) 100% recovery of its deferred expense by including it in its financial statements, even though it hasn't been approved for amortization in rates yet.
3. Therefore, on a backward looking basis, anything less than full recovery (as determined by the Commission) will result in the Company having to lower its stated annual ROE.

   For example:

   $1,000,000 Rate Base
   $200,000 Revenue
   $120,000 Expense
   $20,000 Deferred Expense

   Given above assumptions, a utility would tyically report a return of 6 percent:
   6% =(200,000 - 120,000 - 50,000) / 1000000

   However, the Company would have reported a return of 8 percent:
   8% =(200,000 + 50,000 - 120,000 - 50,000) / 1,000,000

4. Typically, when the Commission grants recovery of a deferred expense, a company's return will increase.

   For example:

   $1,000,000 Rate Base
   $200,000 Revenue
   $120,000 Expense
   $20,000 Deferred Expense
   $10,000 amount of deferred expense approved for recovery in rates (50% sharing)

   The utility that previously had reported a return of 6 percent would now report a return of 7 percent:
   7% =(200,000 + 25,000 - 120,000 - 50,000) / 1,000,000

5. The Company would also report the same 7 percent return, but it would be a decrease from its previously reported 8 percent, rather than an increase from what should have been reported as 6 percent.
6. In this scenario, the Commission does not have the ability to raise the Company's ROE through granting recovery of the deferral, only potentially decreasing the Company's ROE with anything less than recovery of 100 percent of the deferral amount.

NW Natural
UM 1635 OPUC DR 19 Attachment-1
NWN Share of WACOG Gains and Losses - 2003-2012

	Note 1						Note 2			
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Decrease (Increase) to Gas Costs for shareholder portion of savings	272,052	559,171	4,194,813	8,083,140	14,190,485	(7,492,654)	15,946,152	1,051,364	2,471,016	3,759,762

Notes
1 - From 2003 to 2008, these amounts were shown as exclusion adjustments to the Spring Earnings Review (refer to "R&C Norm" tab of each annual fiing).
2 - From 2009 to 2012 the retained portion of gas cost savings was included in the calculation of ROE in the annual Spring Earnings Review.

This page 9 is confidential.

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CASE: UM 1635 Phase II
WITNESS: JOHNSON-BAHR

PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 203

Witness Qualifications Statement

May 2, 2014

WITNESS QUALIFICATION STATEMENT

NAME:	BRIAN BAHR
EMPLOYER:	PUBLIC UTILITY COMMISSION OF OREGON
TITLE:	SENIOR UTILITY ANALYST
ADDRESS:	3930 FAIRVIEW INDUSTRIAL DR SE., SALEM, OR 97308-1088
EDUCATION:	Certificate of Public Management, Willamette University, Salem OR Bachelor of Science, Accountancy, Brigham Young University, Provo UT
EXPERIENCE:	Employed with the Oregon Public Utility Commission from March 2011 to present, currently serving as Senior Utility Analyst in the Rates, Finance, & Audit Section of the Energy Division. Employed by Modern Seouf Plastics in Alexandria, Egypt as a Managerial Intern from January 2010 to June 2010. Assisted in variety of duties including supervision of production facilities and staff, market analysis, budget forecasting, sales, and office administration. Employed by PricewaterhouseCoopers LLP in New York City as a Financial Assurance Associate from October 2007 to November 2009. Performed audits of various financial institutions, including investment banks, hedge funds, and insurance companies. Employed by TESRA, SA in Antofagasta, Chile as a Project Management Assistant from September 2005 to April 2006. Assisted in design process and implementation of rail road crossing and other civil engineering projects.

CERTIFICATE OF SERVICE

UM 1635

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 2nd day of May, 2014 at Salem, Oregon

Kay Barnes

Kay Barnes
Public Utility Commission
3930 Fairview Industrial Drive SE
Salem, Oregon 97302
Telephone: (503) 378-5763

UM 1635 – SERVICE LIST

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