

Mark Thompson, Manager
Rates & Regulatory Affairs
Tel: 503.721.2476
Fax: 503.721.2516
email: mark.thompson@nwnatural.com



September 6, 2013

VIA ELECTRONIC FILING

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

Attn: Filing Center

**Re: UM 1635: Testimony In Support of Request for Prudency Review
Recovery of Gasco Source Control System Costs**

Enclosed for filing in the above-captioned docket are an original and five copies of NW Natural's Testimony of C. Alex Miller and Robert Wyatt.

This filing is made pursuant to the Prudence and Earnings Test Stipulation ("Stipulation") entered into by the parties in the above referenced docket, and which was filed on July 11, 2013. Although the Stipulation has not yet been approved, we are filing this testimony now so that the parties can begin their prudence review in time for the project costs to be added to rates at the same time as the upcoming PGA.

A copy of this filing has been served on all parties to this proceeding as indicated on the enclosed Certificate of Service.

Please address correspondence on this matter the following:

Kelley C. Miller, Regulatory Specialist
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, Oregon 97209
Telecopier: (503) 721-2516
Telephone: (503) 226-4211, x3589
kelley.miller@nwnatural.com and
eFiling@nwnatural.com

Mark R. Thompson, Manager
Rates & Regulatory Affairs
NW Natural
220 NW Second Avenue
Portland, Oregon 29709
Telecopier: (503) 721-2516
Telephone: (503) 721-2476
mark.thompson@nwnatural.com

Sincerely,

NW NATURAL

/s/ Mark R. Thompson

Mark R. Thompson, Manager
Rates & Regulatory Affairs

Attachments: Exhibit 600 – Testimony of C. Alex Miller
Exhibit 700 – Testimony of Robert Wyatt

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UM 1635

NW Natural

Direct Testimony of C. Alex Miller

**RECOVERY OF GASCO SOURCE CONTROL
SYSTEM COSTS**

EXHIBIT 600

September 2013

EXHIBIT 600 –TESTIMONY OF C. ALEX MILLER – GASCO SOURCE CONTROL SYSTEM

Table of Contents

I. Introduction and Summary 1

II. Stipulated Treatment of Gasco Source Control Costs 3

III. Request for Recovery 6

IV. Application of Insurance Proceeds..... 6

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and position with NW Natural Gas Company (“NW**
3 **Natural” or “the Company”).**

4 A. My name is C. Alex Miller. My current position is Treasurer and Vice President of
5 Regulation for NW Natural. I am responsible for Rates & Regulatory Affairs, as well as
6 Treasury operations.

7 **Q. Please summarize your educational background and business experience.**

8 A. I received a B.A. in economics from the University of Oregon in 1980. I received an
9 M.B.A. from Claremont Graduate School in 1984. From 1981 through 1997, I worked at
10 Southern California Edison in various rate and finance positions, including Vice
11 President and Treasurer. From 1997 to 2001, I worked at PacifiCorp in various
12 positions, including Vice President of Business Development. I joined NW Natural in
13 2003. Since 2005, I have been a member of the environmental steering committee at
14 NW Natural, a group of executives and managers that monitors and helps in decision-
15 making regarding NW Natural’s ongoing environmental remediation activities and cost
16 recovery efforts.

17 **Q. What is the purpose of your testimony?**

18 A. NW Natural’s filing is being made pursuant to the Prudence and Earnings Test
19 Stipulation entered into by the parties in UM 1635, and which was filed on July 11, 2013
20 (“Stipulation”).¹ In that Stipulation, the parties came to an agreement as to the
21 appropriate methods for recovery of the capital costs associated with constructing a

¹ The parties filed Joint Testimony supporting the Stipulation on August 7, 2013.

1 water treatment plant at the Company's Gasco site ("Gasco Source Control").² The
2 purpose of my testimony is to describe the requirements of the Stipulation with respect
3 to the Gasco Source Control project, and to explain how the Company proposes the
4 costs of the project be recovered in rates through the upcoming Purchased Gas
5 Adjustment process that will be implemented on November 1, 2013.

6 **Q. Has the Stipulation been approved by the Commission?**

7 A. No, it has not yet been acted upon by the Commission.

8 **Q. Please explain why you are filing this testimony in advance of the Commission's**
9 **action on the Stipulation.**

10 A. Under the terms of the Stipulation, the parties agreed that NW Natural would put into
11 rates at the time of the upcoming PGA the capital costs associated with the Gasco
12 Source Control project, which is to be completed by the end of the 2013 third quarter. In
13 order for that to happen, we need to provide an opportunity for the parties and the
14 Commission to review the prudence of the project, and the costs that NW Natural has
15 incurred in constructing it. Even though the Stipulation has not yet been approved, we
16 are filing this testimony now, so that the parties can begin their prudence review in time
17 for the project costs to be added to rates at the same time as the upcoming PGA,
18 pursuant to their agreement. Assuming that the Stipulation is approved, this testimony
19 and subsequent review will therefore allow the terms of the Stipulation to be
20 implemented and avoid unreasonable time constraints on the prudence review.

21 **Q. Please summarize your testimony?**

22 A. In my testimony I will:

² In the Stipulation, the parties referred to the project as the "Gasco Pumping Station."

2 – DIRECT TESTIMONY OF C. ALEX MILLER

- 1 • Describe the parties’ agreement as to the appropriate treatment of the capital costs
2 associated with the construction of Gasco Source Control, and the process for
3 recovery of those costs, as reflected in the Stipulation and supporting testimony filed
4 in UM 1635; and
- 5 • Present the Company’s proposal for the appropriate application of any future
6 insurance proceeds (or other third-party recoveries) to be applied to the Gasco
7 Source Control capital costs.

8 **Q. Is the Company providing any other testimony in support of its request?**

9 A. Yes. The Company is also providing the testimony of Robert Wyatt in support of its
10 request. Mr. Wyatt’s testimony will explain why the Company was required to construct
11 the Gasco Source control and present the costs for which recovery is requested.

12 **II. STIPULATED TREATMENT OF GASCO SOURCE CONTROL COSTS**

13 **Q. Please provide some background for the parties’ Stipulation with respect to the**
14 **Gasco Source Control costs.**

15 A. In NW Natural’s last general rate case—UG 221—the Company proposed that the
16 Public Utility Commission of Oregon (“Commission”) adopt a mechanism for the
17 recovery of its costs to remediate environmental impacts associated with its historic
18 manufactured gas plants (MGP). Specifically the Company asked for approval of a Site
19 Remediation Recovery Mechanism (SRRM) through which past deferred and future
20 costs would be tracked into rates over a five-year amortization period, through the PGA
21 process. However, the Company requested a different treatment for the capital costs
22 associated with the construction of the Gasco Source Control. Specifically, the
23 Company proposed that once that project was complete, that the project costs be

3 – DIRECT TESTIMONY OF C. ALEX MILLER

1 treated as an addition to rate base, to allow amortization over a longer period of time,
2 matching more closely the expected life of the facilities.³

3 **Q. Did the Commission approve NW Natural's requested treatment for the costs to**
4 **construct the Gasco Source Control?**

5 A. No. The Commission found that the request was premature given that the project had
6 not yet been constructed. Accordingly the Commission stated: "When the plant is
7 completed, the company may seek cost recovery through the SRRM or through inclusion
8 of the plant in rate base in a future rate proceeding."⁴

9 **Q. Did the Company raise the issue again in UM 1635?**

10 A. Yes. In UM 1635, the Company clarified that it had never intended to request that the
11 Gasco Source Control costs be added to rate base *before* the investments were made or
12 judged prudent—only that the Commission adopt a rate base treatment for the costs that
13 would be applied *after* the project was in service and the costs had been judged prudent.
14 Given that the Company expected the project to be complete by the end of the third
15 quarter of 2013, the Company hoped to secure approval of the process, which could
16 then be carried out coincident with the PGA process. Additionally, the Company was
17 hoping for clarity with respect to the appropriate accounting for the costs of the Gasco
18 Source control—given that it did not have certainty under the Commission's order in UG
19 221 whether it should account for the costs as capital (appropriate for rate base
20 treatment) or whether it should include the capital costs in the deferred amounts eligible
21 for recovery through the SRRM.

³ UG 221, NWN/1500, Miller/18.

⁴ Order No. 12-437, p. 32.

4 – DIRECT TESTIMONY OF C. ALEX MILLER

1 **Q. Did the Stipulation address NW Natural's request?**

2 A. Yes. In Paragraph 15 of the Stipulation the parties agreed that:

3 (a) The capital costs associated with the Gasco Source Control will be evaluated
4 for prudence following its completion—which is expected by the end of the third
5 quarter of 2013;

6 (b) If the Commission determines that the costs associated with the Gasco
7 Source Control were prudently incurred, those costs will be included in base
8 rates at the same time as the first subsequent Purchased Gas Adjustment; and

9 (c) The parties will work collaboratively to determine the extent to which any
10 insurance amounts received in the future should be applied against the amounts
11 of rate base included in base rates for the Gasco Source Control.

12 **Q. Will the ongoing operations and maintenance costs of the Gasco Source Control**
13 **also be added to rate base?**

14 A. No. By its terms, Paragraph 15 of the Stipulation applies only to the capital
15 (construction) costs associated with the Gasco Source Control. The ongoing costs to
16 operate and maintain the project will be recovered through the SRRM, as described in
17 the Final Order issued in UG 221,⁵ and not added to rate base.

18 **Q. When exactly will the Gasco Source Control be complete and operational?**

19 A. As described in more detail in Mr. Wyatt's testimony, the Gasco Source Control is nearly
20 complete and will be operational this month.

21 ///

22 ///

⁵ See Order No. 12-437, pp. 32

1 **III. REQUEST FOR RECOVERY**

2 **Q. Is the Company requesting a prudence determination in this filing for the Gasco**
3 **Source Control costs incurred to date?**

4 A. Yes. Through his testimony, Mr. Wyatt demonstrates the prudence of the costs the
5 Company has incurred as of the end of August, as well as the costs that will be incurred
6 through completion. Therefore the Company is asking that the Commission approve
7 these costs for recovery.

8 **Q. Given that the costs proposed for recovery include estimates of costs to be**
9 **incurred through completion this month, how is the Company proposing to deal**
10 **with any variances between its forecast and actual expenses?**

11 A. We are providing our best estimate for the total costs that will be incurred through the
12 end of September. We believe our estimate of the total capital costs will prove quite
13 accurate. However, we propose that the costs be subject to true-up so that the
14 Company can refund or recover any appropriate variances at the time of its next PGA.

15 **IV. APPLICATION OF INSURANCE PROCEEDS**

16 **Q. How does NW Natural propose that insurance proceeds or other third-party**
17 **recoveries be applied to the capital costs associated with the Gasco Source**
18 **Control?**

19 A. As described above, NW Natural and the parties agreed to work collaboratively to
20 determine an appropriate allocation of future insurance proceeds to the capital costs of
21 the Gasco Source Control. NW Natural will look forward to discussions with the parties
22 on this topic. Given that we are asking for prudence review and cost recovery of those
23 costs at this time, we felt it appropriate to propose an allocation of insurance proceeds,

6 – DIRECT TESTIMONY OF C. ALEX MILLER

1 as was agreed to in the Stipulation. NW Natural proposes that 10% of all insurance or
2 other third-party recoveries received in 2013, be used to offset the Gasco Source
3 Control capital costs included in rate base once such insurance receipts are reviewed by
4 the Commission in the annual SRRM process, through a future adjustment to rates. The
5 Company is of course willing to consider other alternatives and, as mentioned above,
6 looks forward to working with the parties.

7 **Q. Does this conclude your testimony?**

8 A. Yes.

7 – DIRECT TESTIMONY OF C. ALEX MILLER

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

UM 1635

NW Natural

Direct Testimony of Robert Wyatt

**RECOVERY OF GASCO SOURCE CONTROL
SYSTEM COSTS**

EXHIBIT 700

September 2013

EXHIBIT 700–TESTIMONY OF ROBERT WYATT – GASCO SOURCE CONTROL SYSTEM

Table of Contents

I.	Introduction and Summary	1
II.	Background.....	2
III.	Purpose of the Gasco Source Control System	2
IV.	Requirement to Construct Gasco Source Control.....	4
V.	Status of Construction of the Source Control System.....	6
VI.	Costs of Construction.....	6
VII.	Conclusion	7

1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and position with NW Natural Gas Company (“NW**
3 **Natural” or “the Company”).**

4 A. My name is Robert J. Wyatt. I am Environmental Manager of NW Natural. I manage all
5 aspects of environmental remediation and compliance at NW Natural's former
6 manufactured gas plant (MGP) sites.

7 **Q. Please describe your educational and professional background.**

8 A. I earned a Bachelor of Science degree in Geology in 1984 from Lafayette College in
9 Easton, Pennsylvania. I studied hydrogeology at Temple University in Philadelphia,
10 Pennsylvania from 1984 to 1986 and conducted additional graduate studies on coastal
11 habitats at East Carolina University in North Carolina. I am a Licensed and Registered
12 Geologist in Oregon, North Carolina, and Pennsylvania, and have also been a Licensed
13 and Registered Geologist in Tennessee, Kentucky, and Georgia. In the mid-1980s, I
14 began working as an environmental consultant focused primarily on Superfund and
15 Resource Conservation and Recovery Act (RCRA) sites. I became Vice President of
16 Front Royal Environmental Services, Inc. in 1989 and served as Senior Scientist and
17 Principal in Charge for a number of large scale projects. I became Environmental
18 Manager of NW Natural in 2000.

19 **Q. Please summarize your testimony?**

20 A. In my testimony, I:

- 21 • Provide a description of the reasons for which NW Natural has constructed a
22 water treatment plant on its Gasco site (“Gasco Source Control”); and
23 • Describe the construction of that plant and the associated costs.

1 – DIRECT TESTIMONY OF ROBERT WYATT

1 **II. BACKGROUND**

2 **Q. For what purpose are you providing this testimony?**

3 A. I understand that in a stipulation the Company and several parties recently filed in
4 Docket No. UM 1635, it was agreed that the capital costs associated with the Gasco
5 Source Control system (referred to in the stipulation as the Gasco Pumping Station)
6 would be evaluated for prudence following the completion of the plant, expected by the
7 end of the third quarter of 2013, and that those costs would be included in rates at the
8 same time as the first subsequent Purchased Gas Adjustment. My testimony is offered
9 to provide evidence regarding placing the treatment system in service, which is expected
10 to occur by the end of the third quarter 2013, to provide a description of the requirements
11 under which the source control system was constructed, and to set forth the costs of the
12 project. This information is being provided so that the relevant parties, Commission
13 Staff, and Commissioners can conduct the prudence review that was called for in the
14 stipulation in UM 1635, and which is to occur before the costs of the Gasco Source
15 Control system are put into rates in the PGA.

16 **Q. Have you provided testimony on this topic before?**

17 A. Yes. I provided testimony in NW Natural's general rate case, UG 221, regarding the
18 general framework that governs NW Natural's environmental mitigation obligations at the
19 Gasco and other sites. See NWN/Wyatt 1300, UG 221. That testimony provides
20 relevant background, which I will not repeat here. In that testimony, I also described
21 generally the Gasco Source Control project.

22 **III. PURPOSE OF THE GASCO SOURCE CONTROL SYSTEM**

23 **Q. Please generally describe the Gasco Source Control system.**

2 – DIRECT TESTIMONY OF ROBERT WYATT

1 A. In general, the system serves to capture groundwater contaminants before they reach
2 the Willamette River. The Oregon Department of Environmental Quality (DEQ) selected
3 hydraulic control and containment (HC&C) as the method for groundwater source control
4 at the Gasco site and part of the adjacent Siltronic site. The Gasco Source Control
5 system implements that selected method.

6 The Gasco Source control system achieves hydraulic control and containment by
7 the installation and operation of a series of groundwater recovery wells along the
8 shoreline. Water from the wells is pumped via pipelines to a treatment plant. The
9 treatment plant is designed to then remove groundwater contaminants to levels specified
10 by the site specific National Pollution Discharge Elimination System (NPDES) permit.
11 The hydraulic controls are monitored using observation points, and recovery wells.
12 There are currently a total of 21 recovery wells and 107 observation points in the
13 system.

14 The Gasco Source control system is one component of the remediation of the
15 Gasco uplands. DEQ has the role of managing source control for the Portland Harbor
16 Superfund Site, and has prioritized source control requirements in the Portland Harbor
17 based on an agency ranking system. Due to the high-priority ranking DEQ gave to
18 Gasco source control, this construction project has been implemented under agency
19 direction in advance of a comprehensive upland clean-up. The upland clean-up is
20 described in more detail in my prior testimony (NWN/Wyatt 1300, UG 221).

21 The Gasco Source Control is on track to be placed in service sometime in
22 September 2013, in accordance with the project schedule approved by DEQ. This

3 – DIRECT TESTIMONY OF ROBERT WYATT

1 means that by this month the recovery wells, pumps, controls, piping, and treatment
2 plant will all be operational.

3 **IV. REQUIREMENT TO CONSTRUCT GASCO SOURCE CONTROL**

4 **Q. Please describe why and how NW Natural was required to construct the Gasco**
5 **Source Control project.**

6 A. Oregon's Environmental Cleanup Law authorizes DEQ to require the owner or operator
7 of any facility from which a release of a hazardous substance has occurred to perform or
8 pay for cleanup of property contaminated by the release. In 1993, DEQ proposed that
9 the Gasco Site be added to the Oregon Confirmed Release List (the "CRL"). The CRL is
10 the state law equivalent of EPA's Superfund list and DEQ may require owners and
11 operators of listed sites to clean them up. Accordingly, in 1994, NW Natural entered
12 DEQ's voluntary cleanup program for the Gasco Site by signing a Voluntary Agreement
13 with DEQ. It is important to note that such an agreement is "voluntary" in name only. A
14 failure on our part to enter into the voluntary program would have resulted in immediate
15 enforcement action. Further, in 2006, DEQ required an amendment to the Voluntary
16 Agreement that added stipulated penalties and other provisions typical of consent
17 orders. The Voluntary Agreement requires NW Natural to investigate contamination
18 from the former Gasco manufactured gas plant (MGP) at both the Gasco Site and the
19 adjacent Siltronic Site and, where necessary, to perform cleanup work or take measures
20 to prevent contamination from spreading.

21 In 2000, DEQ issued an Order Requiring Remedial Investigation and Source
22 Control Measures at the Siltronic Site. NW Natural and Siltronic are both subject to the
23 Order. NW Natural's work on the Gasco Uplands Project and the Source Control Project

4 – DIRECT TESTIMONY OF ROBERT WYATT

1 are being performed pursuant to these orders. Under these orders, DEQ requested that
2 NW Natural use information specific to groundwater and Dense Non Aqueous Liquid
3 (DNAPL) contamination from the Gasco Uplands Remedial Investigation and Risk
4 Assessment to prepare a Focused Feasibility Study (FFS) for groundwater and DNAPL
5 source control.

6 The FFS was submitted in 2007, after which DEQ issued a series of regulatory
7 requirements and decisions related to the source control actions for the Gasco Site and
8 the Siltronic Site, including the hydraulic control and containment system. NW Natural
9 has complied with these requirements and designed and constructed the system
10 accordingly. Key DEQ decisions include:

- 11 • March 21, 2008 letter – DEQ selected hydraulic control and containment as a
12 primary source control action and instructed NW Natural to complete design of
13 the system.
- 14 • August 9, 2012 letter – DEQ approved ordering long-lead equipment items for
15 source control system construction.
- 16 • August 9, 2012 letter – DEQ conditionally approved the design and initiation of
17 the HC&C system construction. NW Natural responded in an August 31, 2013
18 letter, agreeing to DEQ's conditions.

19 **Q. Can you please describe the oversight that DEQ has exercised over the**
20 **construction of the Gasco Source Control system?**

21 A. DEQ has provided detailed oversight over all aspects of the system design and
22 construction. This oversight includes weekly and often daily DEQ interaction with design
23 and construction team members, and DEQ-required design modifications for both major

5 – DIRECT TESTIMONY OF ROBERT WYATT

1 and very minor system components. So, in addition to approving design elements, DEQ
2 has also provided ongoing, substantive and frequent direction on construction methods
3 and materials after the design was approved. For example, DEQ even provided
4 direction to NW Natural to exceed industry standard recovery well construction
5 protocols, and at times interfaced directly with NW Natural's subcontractors and
6 vendors. Substantial additions and modifications to the original design have been
7 required by DEQ throughout the construction period, and NW Natural has complied with
8 those requirements.

9 **V. STATUS OF CONSTRUCTION OF THE SOURCE CONTROL SYSTEM**

10 **Q. What is the status of the construction of the Gasco Source Control system?**

11 A. The construction of the source control system is nearing completion. All of the
12 groundwater recovery and observation wells have been constructed, and the associated
13 pumps and electronic controls have been installed. The treatment plant building has
14 been built, and the majority of the treatment system components have been installed.
15 Two pre-treatment facilities have also been constructed. All construction elements
16 required to place the system in service are scheduled to be completed in September
17 2013. The system will therefore be operating in September 2013 in accordance with the
18 DEQ approved construction schedule.

19 **VI. COSTS OF CONSTRUCTION**

20 **Q. Can you please describe the capital costs associated with the construction of the**
21 **Gasco Source Control?**

22 A. NW Natural estimates that the total capital cost to place the source control system in
23 service in September 2013 will be \$19,048,300.

6 – DIRECT TESTIMONY OF ROBERT WYATT

1 **Q. Can you describe the efforts that NW Natural has undertaken to ensure that the**
2 **costs incurred to construct the Gasco Source Control are as low as reasonably**
3 **possible?**

4 A. To ensure project costs are as low as reasonably possible we have implemented a
5 number of controls. These include:

- 6 • Negotiating the selection of a cost-effective source control system for Gasco,
7 including disputing DEQ direction to construct a design that was technically
8 flawed and that would have cost significantly more. That dispute was resolved
9 when DEQ withdrew that direction.
- 10 • A bid process for key project construction elements implemented by our
11 contractors and consultants but overseen and confirmed by the NW Natural
12 Purchasing Department.
- 13 • Review and evaluation of all agency requirements to modify or supplement the
14 design and to negotiate alternative outcomes with more cost-effective
15 resolutions.
- 16 • A contract management review of all construction contractor payment
17 applications to verify labor, equipment and material charges are appropriate and
18 consistent with the terms of the contract.

19 **VII. CONCLUSION**

20 **Q. Does this conclude your direct testimony?**

21 A. Yes, it does.

7 – DIRECT TESTIMONY OF ROBERT WYATT



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing NW NATURAL'S DIRECT TESTIMONY, upon all parties of record in the UM 1635 proceeding by electronic mail.

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

CHAD M STOKES **W**
CABLE HUSTON BENDICT
HAAGENSEN & LLOYD
cstokes@cablehuston.com

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

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

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

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

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

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

RICHARD GEORGE **W**
PORTLAND GENERAL ELECTRIC
richard.george@pgn.com

JAY TINKER **W**
PORTLAND GENERAL ELECTRIC
pge.opuc.filings@pgn.com

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

DATED at Portland, Oregon, this 6th day of September 2013.

/s/ Kelley C. Miller
Kelley C. Miller
Rates & Regulatory Affairs
NW NATURAL