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October 2, 2014

NWN OPUC Advice No. 14-7  
SUPPLEMENT D

**VIA ELECTRONIC FILING**

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

Attention: Filing Center

**Re: Replacement Filing: Supplement D  
Schedule 90 "Firm Storage Service with No-Notice Withdrawal"  
Schedule 91 "Firm Storage Service with No-Notice Withdrawal and Direct  
Connection to South Mist Pipeline"**

This Supplement D replaces, in the entirety, the Company's September 26, 2014 submission identified as Supplement B.

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company") files this letter to correct and update information contained in its May 5, 2014, cover letter to NWN OPUC Advice No. 14-7, and also to request that the Commission approve Rate Schedule ("RS") 90 subject to specific conditions discussed below. NW Natural seeks to incorporate these specific conditions to address concerns that have been discussed among the Company, Staff, CUB, and NWIGU related to the Company's application. The Company hopes that these conditions will alleviate the parties' concerns.

Rate Schedule 90 proposes a new service: Firm Storage Service with No-Notice Withdrawal. This rate schedule would provide NW Natural with an ability to deliver a unique storage service to customers that provides them with the ability to rapidly obtain natural gas without the notice provisions that would otherwise apply. NW Natural has negotiated a Precedent Agreement with Portland General Electric Company ("PGE") to provide service under RS 90 to its Port Westward complex generating plants. The approval of Rate Schedule 90 is a condition precedent under the agreement with PGE to proceeding with construction of the facilities needed to provide the service to PGE. The Company does not know at this time whether additional customers will sign up for service under RS 90.

**Corrections to Original Cover Letter**

In its original cover letter to Advice 14-7, NW Natural made two statements that need to be updated and corrected:

First, on page 2, NW Natural stated that RS 90 “is provided from entirely new and separate facilities resulting from an expansion of the Company’s Underground Natural Gas Storage Facility.” In making this statement, NW Natural was referring to the new compression station, new pipeline and new developed storage reservoirs that would be required to provide RS 90 service, all of which the Company would construct specifically to serve the RS 90 customer, and which will be paid for solely by the RS 90 customer. These new assets will be referred to herein as “Non-Core Mist Storage”. However, once service to a RS 90 customer such as PGE is operational, it is possible that NW Natural may rely on utility personnel or other utility assets for certain operations and maintenance services—if such would be the least cost approach to providing the service. If this turns out to be the case, the prudently incurred associated costs of those services will be reasonably allocated and fully recovered from the RS 90 customer. NW Natural anticipates that it would accomplish this through a negotiated shared services-type agreement that would allocate utility costs to the RS 90 customer. NW Natural would work with Staff, the RS 90 customer and other stakeholders in developing the applicable elements of such an agreement.

Second, on page 3, NW Natural stated that new Mist storage facilities would not be needed to serve core customers for at least 30 years into the future. NW Natural believed that statement was correct at the time it was made. However, since filing Advice 14-7, the Company completed its analysis supporting its 2014 IRP. That analysis now shows that that an additional build-out of storage capacity at North Mist for core customers is a component of the least cost portfolio in all future scenarios, although the timing of that build-out varies significantly by scenario. The earliest date on which expanded capacity would be needed from Mist for core customers would be 2020.

The expansion proposed for PGE in the North Mist Field will involve only a portion of the available resources. If North Mist’s Adams reservoir is built out for PGE under this tariff, sufficient capacity remains in the other reservoirs that can be built out to meet forecast requirements for core customers.

### **Requested Conditions to Approval**

Since NW Natural filed RS 90, NW Natural has had several meetings with OPUC Staff, CUB and NWIGU to identify and discuss concerns raised by the filing. In addition, NW Natural has responded to numerous data requests to provide additional detail for the parties’ review. Ultimately, the parties’ concerns fall into two general categories: (1) The parties want to be sure that RS 90 customers will bear all costs—both direct and indirect—incurred by NW Natural to deliver RS 90 service; and (2) The parties want assurance that NW Natural core customers have not paid for the assets that will be used to provide RS 90 service, and that if they have, customers be adequately compensated for the use of those assets to provide RS 90 service.

Through discussions and discovery around these concerns, NW Natural has made or confirmed a number of commitments to the parties regarding RS 90 service. To ensure that these commitments are enforceable by the Commission, NW Natural therefore requests that these commitments be made a part of any Commission order approving RS 90 in the form of conditions. These commitments are as follows:

### **Cost Recovery**

1. As an overarching principle, NW Natural is committed that all direct and indirect costs incurred by the Company to provide RS 90 service will be allocated to and recovered from RS 90 customers. NW Natural agrees to work collaboratively with the parties and to be subject to future processes for Staff and stakeholder review of accounting entries and supporting documentation to ensure an appropriate cost allocation.
2. The costs of any utility personnel that work on the planning and construction of the non-Core Mist Storage for the provision of RS 90 service will be charged to the RS 90 customers as provided in the customer's agreement. *(With respect to PGE, NW Natural and PGE have agreed to implement this commitment through allocating such costs to PGE as capital. NW Natural agrees that there will be a credit provided to core customers to offset the costs that would otherwise be in rates, but which are allocated to PGE. NW Natural will seek to pass that credit through to customers as a one-time credit when the project goes into service, subject to gaining any necessary approvals of the Commission required to effect the credit).*
3. In the event that NW Natural and the applicable RS 90 customer determine that, after RS 90 service is initiated, utility resources will be used in any way to provide ongoing service to that RS 90 customer, the Company will develop a shared services-type agreement that allocates utility costs to the RS 90 customer. NW Natural commits to providing an opportunity for stakeholders to review and comment on such agreement and raise any concerns to the Commission prior to effectiveness of such services-type agreement.
4. NW Natural will further clarify the costs that will be recoverable from RS 90 customers under the general rate formula contained in the service agreement. Specifically, NW Natural confirms that O&M activities such as accounting, financial reporting, customer service, communications and monitoring, control room services and general management are included. NW Natural is currently working with PGE on an amendment to the service agreement that would capture these elements, and NW Natural would add them to the generic service agreement filed with the Commission as part of its original filing on RS 90.

### **Core Customer Interests in Assets Used to Provide RS 90 Service**

5. NW Natural will make appropriate provisions to compensate non-RS 90 customers for any use of assets for which they have paid in providing RS 90 service. *(With respect to PGE's RS 90 service, which will be provided through a development of the Adams Pool at North Mist, NW Natural has confirmed that all costs associated with the Adams Pool have remained in "Construction Work in Progress," and have not affected rates, with one exception. The one exception is that recoverable gas costs associated with the pool have been included in inventories for general customers, included in rate base, and expensed over time at a calendar WACOG or other average-cost rate as used by customers. NW Natural proposes to negotiate with PGE for PGE's purchase of any remaining recoverable gas at market prices taking into account the quality and location of the gas, and credit general customers as though it was a sale of a rate base item).*
6. NW Natural will continue, through its IRP process, to refine cost estimates, timing, and least-cost planning related to any future expansion of North Mist reservoirs, other than the Adams

reservoir, for non-RS 90 customers. NW Natural recognizes that the Staff and stakeholders retain all of their rights to participate in that process and determine their positions on the issues surrounding future expansion of North Mist for non-RS 90 customers, and NW Natural commits to work collaboratively on those issues.

7. NW Natural commits that in any future proceeding regarding the review for prudence of any expansion or proposed expansion of Mist for non-RS 90 customers, it will provide access to information that is required to perform an analysis of the costs that would have been associated with developing the Adams Pool for non-RS 90 customers versus the costs of any other pool that is ultimately developed for non-RS 90 customers.
8. NW Natural's determinations related to the use of the Adams Pool may be raised by any party as an issue during the future prudence review related to any expansion or proposed expansion of Mist for non-RS 90 customers. All parties would reserve their rights to take any position in that future proceeding with respect to any such issues raised, including the relevance of the other parties' arguments.

Again, NW Natural is hopeful that these conditions will relieve the concerns of the Staff and stakeholders that may otherwise prevent them from being able to support the Commission's approval of Rate Schedule 90.

NW Natural respectfully requests that the Commission consider the above updates to its original cover letter, as well as the requested conditions, and is hopeful that the Commission will be able to approve Rate Schedules 90 and 91 by October 15, 2014.

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

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Please do not hesitate to contact me with any questions or concerns.

Sincerely,

*/s/ Mark R. Thompson*

Mark R. Thompson  
Manager, Rates and Regulatory Affairs