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October 10, 2016

**VIA ELECTRONIC FILING**

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 1088  
Salem, OR 97308-2148

**Re: Docket No. UM 1722 –Investigation into Recovery of Safety Costs by Natural Gas Utilities**

Dear PUC Filing Center:

Attached for filing in the above referenced case is an electronic copy of the Stipulation and the Joint Brief in Support of the Stipulation.

If you have any questions, please do not hesitate to contact this office.

Very truly yours,

Wendy McIndoo  
Office Manager

Attachment



safety and reliability. The SIP cost recovery mechanism was scheduled to expire on October 31, 2014, unless extended by the Commission

3. On October 14, 2014, NW Natural filed Advice No. 14-23 requesting that the Commission continue the SIP cost recovery mechanism. The filing was docketed as UG 286.

4. On March 25, 2015, the Commission issued Order No. 15-093, which suspended NW Natural's Advice No. 14-23 for investigation and opened a generic investigation to examine the recovery of safety costs by local distribution companies (LDC). The generic investigation was docketed as UM 1722 and was consolidated with UG 286. NW Natural, Cascade, Avista, NWIGU, and CUB intervened.

5. On April 15, 2015, Administrative Law Judge Shani Pines held a prehearing conference at which the Parties agreed to hold a workshop on May 20, 2015.

6. Following the May 20, 2015 workshop, Administrative Law Judge Sarah Rowe held a second prehearing conference on September 30, 2015.

7. On October 9, 2015, ALJ Rowe issued a procedural schedule in the docket.

8. Staff and CUB served discovery requests on NW Natural, Avista, and Cascade. The Parties conducted a thorough investigation into the recovery of safety costs by natural gas utilities.

9. On December 1, 2015, NW Natural, Avista, and Cascade filed Joint Testimony that proposed guidelines for safety investment recovery mechanisms. NW Natural also filed testimony on its own behalf supporting its request to extend the SIP cost recovery mechanism.

10. On February 8, 2016, Staff, CUB and NWIGU each filed testimony responding to the Joint Testimony and NW Natural's Testimony.

11. On March 4, 2016, NW Natural withdrew its Advice No. 14-23, which had requested that the Commission extend its SIP cost recovery mechanism. As a result of the withdrawal, the Commission closed docket UG 286 on March 28, 2016.

12. On March 9, 2016, all Parties filed reply testimony.

13. On April 13, 2016, NW Natural, Avista, and Cascade filed Supplemental Reply Testimony to address a new issue raised by Staff and CUB in their Reply Testimony. Specifically, the Joint Utilities were supportive of Staff and CUB's new proposal that natural gas utilities file annual safety plans, subject to certain conditions and modifications.

14. On April 15, 2016, ALJ Rowe issued a ruling vacating the procedural schedule in this docket and instructing the Parties to undertake further settlement discussions.

15. Thereafter, the Parties held several settlement conferences. At the settlement conference held on June 23, 2016, the Parties agreed to resolve all the issues in this docket.

16. This Stipulation, presented on behalf of the Parties to this docket, resolves all issues in this docket.

### **AGREEMENT**

17. Guidelines for Recovery of Safety Costs. The Parties agree that the Commission should adopt the following guidelines to apply to natural gas utilities' requests for an annual mechanism to track safety related costs into rates ("Safety Cost Recovery Mechanism" or "SCRM"):

i. An SCRM may be established in a general rate case ("GRC") or within three years of a final order in a GRC.

ii. An SCRM will be limited to discrete safety related capital investments or other costs that are capitalized and that are identified at the time the SCRM is established. An LDC may request authorization from the Commission to modify an SCRM to include additional discrete safety related capital investments that otherwise meet these guidelines, and other parties are free to support or oppose such a request.

iii. An SCRM shall have a cost recovery cap, which will be set at the time the SCRM is established. The cost recovery cap may be adjusted up or down by the Commission to reflect new safety related projects that may be included in the SCRM in later years, or the removal or modification of safety related projects included in the SCRM.

iv. SCRMs will be subject to an annual earnings test that will allow utility investments to be tracked into rates only where the recovery does not cause the utility to exceed its authorized Return on Equity.

v. An SCRM will only recover eligible costs on an annual basis to the extent the LDC's total annual capital investments in all plant exceeds the annual amount of depreciation for the LDC's Oregon rate base.

vi. The duration of the SCRM will be specified at the time the SCRM is established. The duration may be modified if new safety-related projects are added to the SCRM in later years by the Commission.

18. Deferred Accounting. This Stipulation does not prohibit an LDC from seeking deferred accounting and cost recovery of O&M or capital costs associated with safety related projects at any time.

19. SCRM Annual Reports. If an LDC is authorized by the Commission to utilize an SCRM, the LDC will file an annual report with the Commission providing the status of the safety projects included in the SCRM, including comparisons of projected costs to actual costs, and relevant earnings test information.

20. LDC Annual Safety Plans. The LDCs will file annual system safety plans (SPP) with the Commission. The purpose of the SPP is to:

i. Explain the expected level of capital investment and O&M expense required to mitigate issues identified by risk analysis or to meet newly implemented federal code.

- ii. Demonstrate to ratepayers and the public the LDCs' commitment to and prioritization of safety planning.
- iii. Explain technical reports provided to the Commission's Safety Staff in a manner easily understood by the public, and other regulatory stakeholders.
- iv. Identify when major regulatory changes drive new safety planning priorities and/or changes to existing safety plans.

21. The SPP is not intended to:

- i. Replicate the analysis used for Distribution Integrity Management Program (DIMP) or Transmission Integrity Management Program (TIMP), but the SPP should identify and explain when actions are based on this analysis.
- ii. Provide in-depth descriptions of models and algorithms used to evaluate risks.
- iii. Replicate filings already provided to the Commission's Safety Staff.

22. The elements of the SPP will include:

- i. A twelve-month planning period;
- ii. Identification and narrative description of the LDC's significant safety initiatives and projects for the planning period;
- iii. Identification and narrative description of the perceived risks addressed with the planned safety initiatives and projects;
- iv. Narrative description of the analysis and methodology underlying the decisions to proceed with safety initiatives and projects;
- v. Narrative description of the cost-benefit analysis underlying safety initiatives and projects, including alternatives considered; and
- vi. Explanation of any significant changes in safety plans from the prior year SPP.

23. The procedural process for the SPP will be as follows:

- i. On or before September 31 annually, each LDC will file an SPP, for the upcoming calendar year, with the Commission.
- ii. The Commission will establish a period for interested parties to file comments regarding the SPP with the Commission.
- iii. Staff will file a public meeting memorandum.
- iv. The SPP will be reviewed at a public meeting.
- v. The parties will periodically review the requirements for the content and scope of the SPP to ensure it fulfills the purposes of the plan outlined in paragraph 20.

24. The parties agree that the inclusion of a safety-related project in the SPP is not a prerequisite to recovery of the costs associated with that project in a GRC. Further, the SPP process does not change the standard for a prudence review in a GRC, with respect to either the costs of the project or the determination to proceed with the project.

25. Standard Provisions. The Parties agree to submit this Stipulation to the Commission and request that the Commission approve the Stipulation as presented.

26. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this proceeding and any appeal, (if necessary) provide witnesses to sponsor this Stipulation at the hearing, and recommend that the Commission issue an order adopting the settlements contained herein.

27. If this Stipulation is challenged, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include raising issues that are incorporated in the settlements embodied in this Stipulation.

28. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material part of this Stipulation, or adds any material

condition to any final order that is not consistent with this Stipulation, each Party reserves its right, pursuant to OAR 860-001-0350(9), to present evidence and argument on the record in support of the Stipulation or to withdraw from the Stipulation. Parties shall be entitled to seek rehearing or reconsideration pursuant to OAR 860-001-0720 in any manner that is consistent with the agreement embodied in this Stipulation.

29. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

30. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

31. This Stipulation is entered into by each Party on the date entered below such Party's signature.

SIGNATURE PAGE TO FOLLOW



NW NATURAL

By: 

Printed Name: ZACHARY KRAUTZ

Date: 8-4-16

STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CITIZENS' UTILITY BOARD OF OREGON

By: \_\_\_\_\_

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS USERS

By: \_\_\_\_\_

Date: \_\_\_\_\_

AVISTA CORPORATION

By: \_\_\_\_\_

Date: \_\_\_\_\_

CASCADE NATURAL GAS COMPANY

By: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By: Mike Weirich for Stephanie Andrews

Printed Name: Mike Weirich

Date: 9/23/16

CITIZENS' UTILITY BOARD OF OREGON

By: \_\_\_\_\_

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS USERS

By: \_\_\_\_\_

Date: \_\_\_\_\_

AVISTA CORPORATION

By: \_\_\_\_\_

Date: \_\_\_\_\_

CASCADE NATURAL GAS COMPANY

By: \_\_\_\_\_

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NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CITIZENS' UTILITY BOARD OF OREGON

By: *Michael P. Gutz*

Date: 8/2/16

NORTHWEST INDUSTRIAL GAS USERS

By: \_\_\_\_\_

Date: \_\_\_\_\_

AVISTA CORPORATION

By: \_\_\_\_\_

Date: \_\_\_\_\_

CASCADE NATURAL GAS COMPANY

By: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CITIZENS' UTILITY BOARD OF  
OREGON

By: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS  
USERS

By:  \_\_\_\_\_

Date: 8/2/2016 \_\_\_\_\_

AVISTA CORPORATION

By: \_\_\_\_\_

Date: \_\_\_\_\_

CASCADE NATURAL GAS COMPANY

By: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CITIZENS' UTILITY BOARD OF OREGON

By: \_\_\_\_\_

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS USERS

By: \_\_\_\_\_

Date: \_\_\_\_\_

AVISTA CORPORATION

By: [Signature]

Date: 8/2/16

CASCADE NATURAL GAS COMPANY

By: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

STAFF

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

CITIZENS' UTILITY BOARD OF  
OREGON

NORTHWEST INDUSTRIAL GAS  
USERS

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

AVISTA CORPORATION

CASCADE NATURAL GAS COMPANY

By: \_\_\_\_\_

By: *Michael Pan*

Date: \_\_\_\_\_

Date: 8/4/16