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May 15, 2015

VIA ELECTRONIC FILING AND US MAIL

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

**RE: UM_____ Application for Prudence Review of Environmental Remediation Costs
Schedule 183 Annual Report**

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or “Company”), files herewith its report of Environmental Remediation Costs for the period April 1, 2014 through December 31, 2014. The Commission made a determination of prudence for the environmental remediation costs incurred through March 31, 2014 in Order No. 15-049 in Docket UM 1635/UM 1706. NW Natural now submits this report to assist the Commission and parties in their review of the remainder of NW Natural’s 2014 expenditures for prudence, before inclusion in the Company’s Site Remediation and Recovery Mechanism.

In accordance with Rate Schedule 183 “Site Remediation Recovery Mechanism (SRRM)” and the Commission’s Order No. 12-137 in Docket UG 221 approving Schedule 183, the Company is required to submit a report of environmental site remediation costs recorded in the deferral account through March 31 of the report year. The Company proposed to change this reporting cycle to a calendar year cycle with its compliance filing to Commission Order No. 15-049 in Docket UM 1635 which was filed with the Commission on March 31, 2015. While the Commission’s review of the Company’s compliance filing is still pending, the Company understands that the parties are supportive of adopting the proposed change in the reporting cycle to a calendar year cycle with the May 2015 report.

For the reasons stated above, the May 15, 2015 report represents the period April 1, 2014 through December 31, 2014, and future years’ reports will cover whole calendar year periods, beginning with January 1st of each year.

Please feel free to call me at 503.226.4211 ext. 5858 if you have any questions.

Sincerely,

/s/ Kyle Walker, CPA

Kyle Walker, CPA
Rates Analyst

Attachments: Report Narrative
Exhibit A
Exhibit B
Exhibit C (CD by U.S. mail)

NW NATURAL
SCHEDULE 183 ANNUAL REPORT: May 15, 2015
ENVIRONMENTAL SITE REMEDIATION AND RECOVERY MECHANISM (SRRM)
Report period: 9-months ended December 31, 2014

In accordance with Rate Schedule 183 and the Commission's Order No. 12-137 in Docket UG 221, implementing NW Natural's Site Remediation and Recovery Mechanism (SRRM), NW Natural provides the following information to allow the Commission, Staff, and any parties to review NW Natural's environmental remediation expenses incurred between April 1 of 2014 and December 31 of 2014. NW Natural submits this information so that review of the expenses can be conducted before the implementation of NW Natural's SRRM, which is expected to be implemented on November 1, 2015.

NW Natural notes that in Order No. 15-049 in Docket No. UM 1635, the Commission determined how several components of the SRRM would be implemented, including how an earnings test will apply, how the costs will be allocated among Oregon and Washington customers, and how insurance receipts will be applied against the expenses that are otherwise recovered through the SRRM. In that Order, the Commission directed NW Natural to make a filing demonstrating how it would implement the Order. NW Natural made that filing on March 31, 2015. NW Natural understands that Staff and other parties will raise challenges to NW Natural's filing. However, NW Natural understands that the ongoing annual prudence review of environmental expenses under the SRRM has been finally established by the Commission, and that this process is not under dispute. And, under the expectation that the SRRM will be operative beginning November 1, 2015, NW Natural believes it is appropriate and necessary to submit this filing at this time.

Please also note that in its compliance filing in UM 1635, NW Natural proposed to implement the annual prudence review of NW Natural's expenses on a calendar year basis, so that the reviewed expenses can all be subjected to the earnings test ordered by the Commission (which also operates on a calendar year basis). For that reason, this filing submits for review the expenses NW Natural incurred through calendar year 2014 that had not previously been reviewed for prudence. Upon implementation of the SRRM on November 1, 2015, only the costs that have been reviewed for prudence, and subjected to the earnings test applicable to 2014 will be added to the SRRM account.

Remediation Activities

NW Natural has eight sites at which the Oregon Department of Environmental Quality (DEQ) or the Environmental Protection Agency (EPA) has required clean-up. These include: Portland Harbor, Portland Gas Manufacturing (PGM), Gasco, Siltronic, Central, Eugene Water Electric Board, French American International School, and Oregon Steel. NW Natural also incurs some litigation costs related to recovery of insurance proceeds, and incurred minor litigation costs related to collections under the settlement agreements.

Total expenditures by site (or activity) for the period of April 1, 2014 through December 31, of 2015 are as follows:

| <u>SITE (activity)</u> | <u>AMOUNT</u> |
|-----------------------------|---------------|
| Portland Harbor | \$480,656 |
| PGM | 513,373 |
| Gasco | 1,857,122 |
| Source Control Construction | 4,026,874 |
| Siltronic | 335,299 |
| Central | 86,572 |
| Litigation | 63,378 |
| | <hr/> |
| | \$7,363,273 |

A description of the significant activities at these sites for this period is described below.

Portland Harbor

The Portland Harbor site is a stretch of approximately ten miles along the Willamette River that is listed as a Superfund site by the Environmental Protection Agency (EPA). Investigation of the site as a whole is being managed by a consortium of potentially responsible entities known as the Lower Willamette Group (LWG), under EPA's oversight. NW Natural is a member of the LWG and is funding the work performed along with other members of the group. The Portland Harbor site is still in the feasibility study phase of remediation.

NW Natural also participates in the Portland Harbor Natural Resource Damage (NRD) cooperative assessment process. During the period of April through December 2014, the Company worked with the Trustees of the NRD cooperative process on restoration plan development, and reviewed and evaluated proposals put forth by the Trustees regarding pathways to reach settlement.

PGM

The PGM site covers approximately 3.7 upland acres and is located on the Willamette River near the Steel Bridge. The location of the former MGP is now a fully developed part of downtown Portland. NW Natural is managing this site as the PGM Project under DEQ's oversight.

PGM transitioned from the remedial investigation phase into the feasibility study phase. During the period of April through December 2014, NW Natural conducted a Feasibility Study investigation and began work on the Feasibility Study itself.

Gasco

The Gasco site covers approximately 45 acres and is located on the Willamette River between the St. Johns Bridge and the Railroad Bridge. The manufacturing facility is gone, and the site is currently occupied by the Company's Portland liquefied natural gas storage facility and two tenant facilities. Work at this site consists of various projects: the Uplands Project, the Sediments Project, and the Source Control Project. These projects are subject to EPA and DEQ oversight.

The Gasco Upland site is still in the investigation phase. The primary work activities conducted during the period of April through December 2014 were finalizing the risk assessment and performing upland groundwater monitoring activities. Offshore boom maintenance and work on the temporary treatment unit for LNG containment basin storm water and groundwater were also performed.

The Sediments site is still in the Engineering Evaluation/Cost Analysis (EE/CA) phase. During the period of April through December 2014, NW Natural continued to work with EPA on its regulatory requirements for the site. Although revision of the EE/CA has been delayed due to a delay in the EPA Portland Harbor Superfund Site Feasibility Study, several other activities were performed. A porewater temperature monitoring program off shore of Gasco was initiated to evaluate the effectiveness of potential remediation alternatives. The Company also conducted monthly visual monitoring of the shoreline area in the direct vicinity of the pilot cap area.

Construction of the Source Control wells was completed in October 2013. The costs of this construction were found to be prudent (per the Commission's order in Docket UG 263) and \$19.0 million was allowed to be included in base rates effective November 1, 2013. DEQ-required testing of the source control system is ongoing. The Company will continue to incur costs associated with operating the wells and environmental regulatory oversight.

Siltronic

The Siltronic site is adjacent to the Gasco site. The land is now owned by Siltronic Corporation ("Siltronic"), but approximately 38.5 acres of it was previously owned by NW Natural's predecessor company, Portland Gas & Coke. Some of the contamination at the site resulted from PG&C's use of approximately 400 feet of the property adjacent to the Gasco site for storage and management of MGP residuals. Subsequent owners of the Siltronic site placed a significant amount of fill on the property and redistributed MGP material across the property. Other contaminants from different sources, including Siltronic's own operations, also exist at the site. The Siltronic site is managed by Siltronic and NW Natural under DEQ's oversight. The Siltronic Project consists of all of NW Natural's work on the site that is not covered by the other two Gasco site projects.

Siltronic is still in the investigation phase. The primary work performed during the period of April through December 2014 was quarterly routine groundwater monitoring activities. The Company is awaiting DEQ approval of three DEQ required field sampling plans.

Central

The Central Service Center is the former site for company operations including as a gas holder site and other activities. At the end of 2006, the Central Service Center site was identified by DEQ for cleanup and ranked as a high priority site.

During the period January 2013 to March 2014 the company conducted investigative work at the site to determine any possible future remediation. As required by DEQ, the Company decommissioned three Underground Injection Control (UIC) wells, and installed and tested six monitoring wells.

Major Reports and Communications with Environmental Regulators

To assist the Commission, Staff, and any parties in reviewing NW Natural's costs for the April 12014 to December 31 2014 period, we have sent concurrently with this report an electronic version (refer to Exhibit C) of the major reports and communications with environmental regulators related to some of the activities described above.

Insurance Litigation Efforts

As described in NW Natural's last filing for review of annual environmental remediation expenses, filed in Docket UM 1706, NW Natural brought litigation against several insurers, and was able to achieve settlements that resulted in significant proceeds. The treatment of those proceeds was determined by the Commission in UM 1635. During the time period of April 1, 2014 through December 31, 2014, NW Natural engaged in limited litigation activity, which was related to collection of funds from settlement agreements.

**NW Natural
UM _____ - Exhibit A**

Deferred Environmental Remediation Costs and Insurance Proceeds

For the period of April 1, 2014 through December 31, 2014

1 **Refer to Exhibit B for the deferred costs for each site broken out by work tasks**

2

3 Debit (Credit)

4

| SYSTEM TOTAL | | | | | | | | | | |
|---------------------|---------------------------------|--------------|-----------------|---------------------|-------------------|-------------------|-------------------|-------------------------------|-----------------------|----------------------------|
| | | | | | | | | TOTAL | | |
| Month/Year | Gasco Remediation (1) | Litigation | TOTAL GASCO | HARBOR | SILTRONIC | FRONT (PGM) | CENTRAL | REMEDICATION SPEND | INSURANCE RECOVERY | |
| (a) | (b) | (c) | (d) = (b) + (c) | (e) | (f) | (g) | (h) | (i) = sum (d)-(h) | (j) | |
| 9 | Apr-14 | 584,127.73 | 3,840.06 | 587,967.79 | (1,340.25) | 0.00 | 5,916.56 | - | 592,544.10 | (996,614.53) (2) |
| 10 | May-14 | 759,214.85 | 14,025.22 | 773,240.07 | 61,636.00 | 95,705.50 | 44,600.81 | 5,824.44 | 981,006.82 | (10,266,475.48) (2) |
| 11 | Jun-14 | 655,892.00 | 7,222.98 | 663,114.98 | 124,427.00 | 38,753.80 | 15,946 | 3,475 | 845,716.39 | (7,846.64) |
| 12 | Jul-14 | 691,589.75 | 8,271.85 | 699,861.60 | 44,129.00 | 25,382.96 | 30,050 | 0 | 799,423.34 | 0.00 |
| 13 | Aug-14 | 516,675.30 | 5,502.98 | 522,178.28 | 93,512.50 | 56,047.17 | 181,204 | 8,214 | 861,155.97 | 0.00 |
| 14 | Sep-14 | 848,483.13 | 3,611.90 | 852,095.03 | (58,752.00) | 33,845.46 | 75,248 | 8,314 | 910,750.25 | (4,839.50) |
| 15 | Oct-14 | 556,414.68 | 6,588.35 | 563,003.03 | 123,037.45 | 9,140.81 | 28,769 | 11,375 | 735,326.04 | 0.00 |
| 16 | Nov-14 | 512,646.67 | 10,289.30 | 522,935.97 | (8,519.75) | 20,350.59 | 130 | 49,136 | 584,032.65 | 0.00 |
| 17 | Dec-14 | 758,951.36 | 4,025.12 | 762,976.48 | 102,525.98 | 56,072.37 | 131,510 | 233 | 1,053,318.15 | (1,684,487.75) (3) |
| 18 | | 5,883,995.47 | 63,377.76 | 5,947,373.23 | 480,655.93 | 335,298.66 | 513,373.41 | 86,572.48 | 7,363,273.71 | (12,960,263.90) |

19

20 Notes:

21 (1) Includes the operating costs of Gasco Source Control.

22 (2) The insurance proceeds received in April and May 2014 were included in the previous year's prudence review filing. Please note that
23 these amounts are part of the total approx. \$150M of proceeds noted in testimony submitted in UM 1635.

24 (3) Represents an insurance settlement received from insolvent insurers. Please note this is included in the total insurance proceeds noted in
25 the UM 1635 compliance filing submitted on 3/31/15.

NW Natural**UM_____ - Exhibit B****Task Detail - Deferred Environmental Remediation Costs and Insurance Proceeds**

For the period of April 1, 2014 through December 31, 2014

Note: Montly totals by site agree to the amounts presented in the Exhibit A Summary

| Sum of Amount Row Labels | Column Labels | | | | | | | | | Grand Total |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| | 2014 Apr-14 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sep-14 | Oct-14 | Nov-14 | Dec-14 | |
| Central | | | | | | | | | | |
| Study | | 5,824.44 | 3,474.90 | | 8,214.40 | 8,314.05 | 11,375.37 | 49,135.84 | 233.48 | 86,572.48 |
| Central Total | | 5,824.44 | 3,474.90 | | 8,214.40 | 8,314.05 | 11,375.37 | 49,135.84 | 233.48 | 86,572.48 |
| Front | | | | | | | | | | |
| DEQ | | 3,135.72 | 4,108.46 | 1,097.03 | | 929.94 | 2,457.60 | | 4,643.43 | 16,372.18 |
| Legal - PLG | 2,502.50 | 1,040.00 | | | 975.00 | 555.00 | 530.00 | 130.00 | 4,485.00 | 10,217.50 |
| Sediment Investigation 2nd Ph Implement | | | | | | | | | 731.40 | 731.40 |
| Sediment Investigation 2nd Ph Work Plan | 3,414.06 | | | | 2,464.00 | 8,162.25 | 6,118.75 | | 7,643.55 | 27,802.61 |
| Upland Investigation 2nd Ph Implement | | 7,223.85 | 6,142.00 | 2,623.00 | 1,306.87 | 1,079.25 | 2,495.50 | | 12,308.04 | 33,178.51 |
| Upland Investigation 2nd Ph Work Plan | | 33,201.24 | 5,695.25 | 26,329.75 | 176,457.75 | 64,521.27 | 17,167.53 | | 101,698.42 | 425,071.21 |
| Front Total | 5,916.56 | 44,600.81 | 15,945.71 | 30,049.78 | 181,203.62 | 75,247.71 | 28,769.38 | 130.00 | 131,509.84 | 513,373.41 |
| Gasco | | | | | | | | | | |
| DEQ | | 73,373.08 | 38,927.61 | 49,200.64 | | 58,000.85 | 15,872.44 | | 24,730.27 | 260,104.89 |
| EE/CA and Data Report | | 1,685.00 | 4,598.75 | 1,754.25 | | 1,319.04 | 575.00 | 4,094.25 | 4,246.25 | 18,272.54 |
| Final RI | | 102,332.30 | 48,611.29 | 4,131.07 | 3,526.94 | 9,983.17 | 6,389.10 | 46,676.70 | 21,390.94 | 243,041.51 |
| Finalize Risk Assessment | | 1,819.00 | 31,583.75 | 30,006.29 | 1,072.50 | 27,257.16 | 14,514.63 | 39,583.30 | 57,713.05 | 203,549.68 |
| Gasco Other | | | 5,000.00 | | | 10,000.00 | | | | 15,000.00 |
| Interim Action Maintenance | 10,467.00 | 15,282.15 | 20,548.72 | 30,558.63 | 45,635.24 | 7,487.91 | 6,853.69 | 7,000.81 | 3,941.05 | 147,775.20 |
| Legal - PLG - Gasco Sediments Remedy | (975.00) | 2,145.00 | (5,334.00) | 877.50 | 1,300.00 | (2,882.00) | 1,462.50 | (130.00) | 2,275.00 | (1,261.00) |
| Legal - PLG - Gasco Site Remedy | (1,060.00) | 23,872.00 | 18,551.00 | 13,959.50 | 26,425.00 | (1,900.35) | 25,535.20 | 1,696.70 | 48,158.50 | 155,237.55 |
| Meetings, Budget, Schedule | | 468.75 | 4,464.60 | 946.25 | | 991.25 | 927.00 | 346.25 | 1,216.00 | 9,360.10 |
| Preliminary Design | | 11,803.75 | 16,815.00 | 15,367.92 | | 34,420.66 | 90,525.38 | 14,897.53 | 6,230.98 | 190,061.22 |
| Restoration Evaluation | | 4,711.25 | 3,643.50 | 206.25 | | 165.00 | 4,532.75 | 25,669.75 | 3,391.63 | 42,320.13 |
| Sediments - LWG Related | | 2,913.75 | 4,498.75 | 3,509.75 | | 18,378.50 | 415.00 | 115.00 | 1,355.75 | 31,186.50 |
| Site Wide FS | | 5,514.80 | 19,703.35 | 4,639.23 | | 11,019.46 | 5,048.64 | 1,026.92 | 20,497.48 | 67,449.88 |
| Technical Coordination | 1,329.20 | 72,456.28 | 94,791.28 | 57,555.32 | 3,741.09 | 71,187.10 | 60,571.87 | 56,654.83 | 56,736.74 | 475,023.71 |
| Gasco Total | 9,761.20 | 318,377.11 | 306,403.60 | 212,712.60 | 81,700.77 | 245,427.75 | 233,223.20 | 197,632.04 | 251,883.64 | 1,857,121.91 |
| Gasco Source Control | | | | | | | | | | |
| DEQ | | | | | | 812.50 | (812.50) | | | - |
| Groundwater Pilot Study | 22.35 | 22.35 | 21.68 | 21.80 | 22.01 | 22.11 | 22.66 | 24.29 | 24.41 | 203.66 |
| NWN Direct Costs | 61,167.06 | 47,936.27 | 4,735.38 | 15,538.52 | 25,025.47 | 20,046.11 | 16,599.39 | 14,812.73 | 33,365.62 | 239,226.55 |
| Optimization of Source Control | 513,177.12 | 392,879.12 | 344,731.39 | 463,316.83 | 409,927.05 | 582,174.61 | 307,381.93 | 300,177.61 | 473,677.69 | 3,787,443.35 |
| Gasco Source Control Total | 574,366.53 | 440,837.74 | 349,488.45 | 478,877.15 | 434,974.53 | 603,055.33 | 323,191.48 | 315,014.63 | 507,067.72 | 4,026,873.56 |

NW Natural
UM_____ - Exhibit B
Task Detail - Deferred Environmental Remediation Costs and Insurance Proceeds
For the period of April 1, 2014 through December 31, 2014

Note: Montly totals by site agree to the amounts presented in the Exhibit A Summary

| Sum of Amount Row Labels | Column Labels | | | | | | | | | Grand Total |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|---------------------|---------------------|
| | 2014 | | | | | | | | | |
| | Apr-14 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sep-14 | Oct-14 | Nov-14 | Dec-14 | |
| Harbor | | | | | | | | | | |
| Legal - PLG | (1,340.25) | 61,636.00 | 41,668.00 | 44,129.00 | 93,512.50 | (58,752.00) | 93,037.45 | (8,519.75) | 101,520.98 | 366,891.93 |
| Lower Willamette Group | | | 82,758.75 | | | | | | 1,005.00 | 83,763.75 |
| Remedial Allocation Process | | | | | | | 30,000.00 | | | 30,000.00 |
| Harbor Total | (1,340.25) | 61,636.00 | 124,426.75 | 44,129.00 | 93,512.50 | (58,752.00) | 123,037.45 | (8,519.75) | 102,525.98 | 480,655.68 |
| Litigation | | | | | | | | | | |
| Litigation for Insurance Recovery | 3,840.06 | 14,025.22 | 7,222.98 | 8,271.85 | 5,502.98 | 3,611.90 | 6,588.35 | 10,289.30 | 4,025.12 | 63,377.76 |
| Litigation Total | 3,840.06 | 14,025.22 | 7,222.98 | 8,271.85 | 5,502.98 | 3,611.90 | 6,588.35 | 10,289.30 | 4,025.12 | 63,377.76 |
| Siltronic | | | | | | | | | | |
| DEQ | | 5,990.97 | 2,550.89 | 5,446.00 | | 3,052.91 | 596.03 | | 7,306.23 | 24,943.03 |
| Meetings, Budget, Schedule | | 3,113.38 | 315.05 | 1,775.25 | 585.60 | 996.00 | 2,049.30 | 1,186.35 | 2,194.80 | 12,215.73 |
| RI Investigations/Reporting | | 85,138.65 | 35,752.11 | 18,161.71 | 55,461.57 | 29,207.55 | 6,397.98 | 18,676.74 | 45,937.59 | 294,733.90 |
| Risk Assessment | | 1,462.50 | 135.75 | - | | 589.00 | 97.50 | 487.50 | 633.75 | 3,406.00 |
| Siltronic Total | | 95,705.50 | 38,753.80 | 25,382.96 | 56,047.17 | 33,845.46 | 9,140.81 | 20,350.59 | 56,072.37 | 335,298.66 |
| Grand Total | 592,544.10 | 981,006.82 | 845,716.19 | 799,423.34 | 861,155.97 | 910,750.20 | 735,326.04 | 584,032.65 | 1,053,318.15 | 7,363,273.46 |