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October 6, 2015

## VIA ELECTRONIC FILING

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

**Re: Docket No. UM 1732 – In the Matter of NW Natural Application for Annual Prudence Review of Environmental Remediation Costs**

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 Stipulation.

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

Very truly yours,

A handwritten signature in cursive script that reads "Wendy McIndoo".

Wendy McIndoo  
Office Manager

Attachment

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM 1732**

In the Matter of

NORTHWEST NATURAL GAS COMPANY,  
dba NW Natural

Application for Annual Prudence Review of  
Environmental Remediation Costs

**STIPULATION**

This Stipulation is entered into for the purpose of resolving all issues among the parties in docket UM 1732, Northwest Natural Gas Company's ("NW Natural" or the Company") Application of Prudence Review of Environmental Remediation Costs and Annual Report to the Public Utility Commission of Oregon (the "Commission") detailing all activity associated with Environmental Site Remediation Costs for the second through fourth quarters of 2014 to be recovered in NW Natural's Site Remediation Recovery Mechanism ("SRRM").

**PARTIES**

1. The parties to this Stipulation are NW Natural, Commission Staff (Staff), and the Citizens' Utility Board of Oregon ("CUB") (collectively, "Parties").

**BACKGROUND**

2. In NW Natural's last rate case—UG 221<sup>1</sup>—the Commission authorized Schedule 183, attached as Stipulation Exhibit 1, which establishes a mechanism for the recovery of the Company's costs to remediate environmental impacts associated with its historic manufactured gas plants ("MGP"). Specifically, the Commission approved a Site Remediation Recovery Mechanism ("SRRM") through which past and future deferred costs would be tracked and included in rates over a five-year amortization period.<sup>2</sup>

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<sup>1</sup> See *In re Northwest Natural Gas Co. Application for a General Rate Revision*, Docket UG 221, Order No. 12-408 (Oct. 26, 2012); *In re Northwest Natural Gas Co. Application for a General Rate Revision*, Docket UG 221, Order No. 12-437 (Nov. 16, 2012). Order Nos. 12-408 and 12-437.

<sup>2</sup> See Exhibit 1, attached hereto.

3. Schedule 183 requires the Company to submit an annual report to the Commission detailing, "all activity associated with Environmental Site Remediation Costs, including insurance or other third-party proceeds related to remediation activities recorded in the deferral account through March 31 of the report year" ("Annual Report). The Annual Report is to be filed on or before, "May 15, 2014, and each year thereafter",<sup>3</sup> and is subject to a review by the parties and the Commission to ensure that the costs and Insurance Proceeds were prudently incurred.

4. On May 15, 2014, NW Natural filed its first Annual Report ("First Report") with the Commission for the period January 1, 2013, through March 31, 2014. After investigation, the parties filed a stipulation agreeing to the prudence of the costs presented in the First Report, which was adopted by the Commission on February 20, 2015.<sup>4</sup>

5. On May 15 2015, NW Natural filed its second Annual Report ("Second Report"), presenting environmental remediation costs incurred from March 31, 2014, until December 31, 2014. Regarding its decision to exclude costs associated with the first quarter of 2015, NW Natural explained that its request is consistent with its Compliance Filing made to implement Order No. 15-049, in which it proposed to shift the reporting cycle to the calendar year so that the reviewed expenses could all be subjected to the earnings test ordered by the Commission--- which also operates on a calendar year basis.<sup>5</sup> A tariff change implementing this change is filed as part of Advice No. 15-11, UG 297.

6. The Commission opened this docket to investigate the Second Report, which was reviewed by Staff and CUB. In addition to the information provided in the Second Report itself, NW Natural provided the Parties with detailed information regarding all of the costs incurred.

7. Based on the information provided by NW Natural regarding the deferred costs, the Parties have reached settlement regarding the prudence of the Company's Environmental Site Remediation Costs and Insurance Proceeds presented in the Second Report.

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<sup>3</sup> See Exhibit 1.

<sup>4</sup> *In the Matter of NW Natural's Request for Determination of the Prudence of Environmental Remediation costs for the Calendar Year 2013 and the First Quarter of 2014*, UM 1706, Order No. 15-049.

<sup>5</sup> NWN Advice No. 15-03 Compliance Filing Cover Letter, March 31, 2015, p.7.

## **AGREEMENT**

### **Prudence**

8. The Parties agree that the \$7,363,273 in Environmental Site Remediation Costs incurred between March 31, 2014, and December 31, 2014, were prudently incurred costs.

9. The Parties further agree that these amounts will be reflected in rates consistent with the Commission's resolution of Docket UM 1635.

10. The Parties agree that in future years, subject to the Commission's approval of Schedule 183 as modified in UG 297, Annual Reports will cover costs on a calendar year basis.

### **General Provisions**

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

12. If this Stipulation is challenged by any other party to this proceeding, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Parties reserve the right to cross-examine witnesses and put in such evidence as they deem appropriate to respond fully to such issues presented including the right to raise issues that are incorporated in the settlements embodied in this Stipulation.

13. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party shall have the right to withdraw from the Stipulation, along with any other rights provided in OAR 860-001-0350(9), including the right to present evidence and argument on the record in support of the Stipulation, and shall be entitled to seek reconsideration pursuant to OAR 860-001-0720.

14. 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 as 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.

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

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

SIGNATURE PAGE TO FOLLOW

NW NATURAL

By: Wendy McIndoo / for  
Printed Name: Lisa Rackner  
Date: October 6, 2015

STAFF

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Date: \_\_\_\_\_

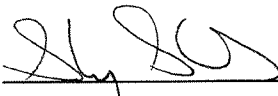
NW NATURAL

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

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

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

STAFF

By: 

Printed Name: Stephanie S. Andrews

Date: 10/6/2015

CUB

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

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

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

NW NATURAL

STAFF

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

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

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

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

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

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

CUB

By: Sommer Mose

Printed Name: SOMMER MOSE

Date: 10/6/15



1 **BEFORE THE PUBLIC UTILITY COMMISSION**  
2 **OF OREGON**

3 **UM 1732**

4 In the Matter of:

5 NORTHWEST NATURAL GAS  
6 COMPANY, dba NW NATURAL

7 Application for Annual Prudence Review of  
8 Environmental Remediation Costs

**JOINT BRIEF IN SUPPORT  
OF STIPULATION**

9 **I. INTRODUCTION.**

10 On October 6, 2015, NW Natural Gas Company ("NW Natural" or the "Company"),  
11 Staff of the Public Utility Commission of Oregon ("Staff"), and the Citizens' Utility Board of  
12 Oregon ("CUB") (collectively, the "Parties") entered into an agreement (hereinafter,  
13 "Stipulation") resolving all issues raised by NW Natural's Application for Annual Prudence  
14 Review of Environmental Remediation Costs for the second through fourth quarters of  
15 calendar year 2014, filed with the Public Utility Commission of Oregon ("Commission") in  
16 this proceeding. This brief is submitted on behalf of the Parties, pursuant to OAR 860-001-  
17 0350(7), to provide an explanation of support for the Stipulation.

18 **II. BACKGROUND.**

19 In Order Nos. 12-408 and 12-437, the Commission authorized Schedule 183, which  
20 establishes the Site Remediation Recovery Mechanism ("SRRM") - a mechanism for the  
21 recovery of NW Natural's costs to remediate environmental impacts associated with its  
22 historic manufactured gas plants ("MGP").<sup>1</sup> The SRRM will recover past deferred amounts  
23 and future costs will be tracked and included in rates over a five-year amortization period.<sup>2</sup>

24 <sup>1</sup> See *In re Northwest Natural Gas Co. Application for a General Rate Revision*, Docket UG 221,  
25 Order No. 12-408 at 5-6 (Oct. 26, 2012); *In re Northwest Natural Gas Co. Application for a*  
26 *General Rate Revision*, Docket UG 221, Order No. 12-437 at 31-32 (Nov. 16, 2012).

<sup>2</sup> *Id.*

1 Schedule 183 requires the Company to submit an annual report to the Commission  
2 detailing, "all activity associated with Environmental Site Remediation Costs, including  
3 insurance or other third-party proceeds related to remediation activities recorded in the  
4 deferral account through March 31 of the report year" ("Annual Report").<sup>3</sup> The Annual  
5 Report is to be filed on or before "May 15, 2014, and each year thereafter."<sup>4</sup> The report is  
6 subject to a review by the Parties and the Commission to ensure that the costs and  
7 insurance proceeds were prudently incurred.<sup>5</sup>

8 On May 15, 2014, NW Natural filed its first Annual Report ("First Report") to the  
9 Commission detailing all activity associated with Environmental Site Remediation Costs  
10 from January 1, 2013, through March 31, 2014 to be recovered in the SRRM. After  
11 investigation, the parties filed a stipulation agreeing to the prudence of the costs presented  
12 in the First Report, which was adopted by the Commission on February 20, 2015.<sup>6</sup>

13 On May 15 2015, NW Natural filed its second report (Second Report), presenting  
14 Environmental Remediation Costs incurred from April 1, 2014, until December 31, 2014.  
15 NW Natural explained that it was intentionally excluding from the report costs incurred in the  
16 first quarter of 2015 in order to shift the reporting cycle to the calendar year so that the  
17 reviewed expenses can all be subjected to the earnings test ordered by the Commission—  
18 which also operates on a calendar year basis. The Company explained that it had stated  
19 its intent to do so in its Compliance Filing made on March 31, 2015, to implement

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22 <sup>3</sup> Schedule 183 is attached to the Stipulation as Stipulation Exhibit 1.

23 <sup>4</sup> Stipulation Exhibit 1.

24 <sup>5</sup> *Id.*

25 <sup>6</sup> *In the Matter of NW Natural's Request for Determination of the Prudence of Environmental  
26 Remediation costs for the Calendar Year 2013 and the First Quarter of 2014*, UM 1706, Order No.  
15-049.

1 Order No. 15-049 issued in UM 1635/UM 1706.<sup>7</sup> An amendment to Schedule 183 to  
2 effectuate this schedule change is filed in Advice No. 15-11, Docket No. UG 297.

3 The Commission opened this docket to investigate the Second Report.

4 In addition to the Second Report, NW Natural provided the parties with detailed  
5 documentation supporting the costs presented in the filing. After a review of the record, the  
6 Parties have reached settlement regarding the prudence of the Company's Environmental  
7 Site Remediation Costs and insurance proceeds as contained in the May 15, 2015, Second  
8 Report.

### 9 III. THE STIPULATION.

10 Based on the detailed documentation provided by NW Natural, the Parties agree  
11 that the Company's Environmental Site Remediation Costs spent between April 1, 2014,  
12 and December 31, 2014, were prudently incurred costs.<sup>8</sup> Specifically, the Company  
13 prudently incurred \$7,363,273 in Environmental Site Remediation Costs during this time  
14 period.<sup>9</sup> The Parties further agree that these amounts will be reflected in rates consistent  
15 with the Commission's resolution of all issues raised in Docket UM 1635, including NW  
16 Natural's Compliance Filing, which is currently pending.<sup>10</sup>

17 The Parties also agree that filing Annual Reports on a calendar year basis will  
18 facilitate the application of the annual SRRM annual earnings test, which also operates on  
19 a calendar year basis. For this reason the Parties agree that it was appropriate for NW  
20 Natural to present costs for the second through fourth quarter of 2014, but not the first  
21 quarter of 2015 and that all future costs subject to the SRRM should be reported on a  
22 calendar year basis.

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24 <sup>7</sup> NWN Advice No. 15-03 Compliance Filing Cover Letter, March 31, 2015, p.7.

25 <sup>8</sup> *Id.*

26 <sup>9</sup> Stipulation at Paragraph 8.

<sup>10</sup> Stipulation at Paragraph 9.

1 **IV. DISCUSSION.**

2 The Parties believe that the terms of the Stipulation are consistent with Commission  
3 policy and will produce fair and reasonable rates, and should, therefore, be approved by the  
4 Commission. When the Commission considers a Stipulation, the Commission has "the  
5 statutory duty to make an independent judgment as to whether any given settlement  
6 constitutes a reasonable resolution of the issues."<sup>11</sup> The Commission will approve a  
7 stipulation if it is an appropriate resolution of the issues in a case,<sup>12</sup> the stipulation is in the  
8 public interest,<sup>13</sup> and the outcome is fair, just, and reasonable.<sup>14</sup>

9 The Stipulation should be approved because it constitutes an appropriate resolution  
10 of the issues presented in the Second Report. Pursuant to Schedule 183, NW Natural  
11 submitted the Report to the Commission and the Parties for a prudency review of its  
12 Environmental Site Remediation Costs spent between April 1, 2014 and December 31,  
13 2014. To determine whether a cost was prudently incurred and recoverable in rates, "the  
14 Commission examines the objective reasonableness of a company's actions measured at

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16 \_\_\_\_\_  
17 <sup>11</sup> *In re PacifiCorp Request for a General Rate Revision*, Docket UE 210, Order No. 10- 022 at 6  
(Jan. 26, 2010).

18 <sup>12</sup> *See Re PacifiCorp's 2010 Transition Adjustment Mechanism*, Docket UE 207, Order  
19 No. 09-432 at 6 (Oct. 30, 2009) ("The Commission concludes that the Stipulation is an  
20 appropriate resolution of all primary issues in this docket."; *See Re PacifiCorp Request for a  
21 General Rate Revision*, Docket UE 210, Order No. 10-022 at 6 (Jan. 26, 2010) ("When  
22 considering a stipulation, we have the statutory duty to make an independent judgment as to  
23 whether any given settlement constitutes a reasonable resolution of the issues.").

24 <sup>13</sup> *See Re Application for an Order Approving Deferral of Changes in Power Costs*, UM 1039,  
25 Order No. 04-293 at 3 (May 24, 2004) ("The Parties also agree that the Prudence Review  
26 Stipulation is in the public interest and that the overall outcome is fair, just and reasonable.").

27 <sup>14</sup> *See Id.*; *See Re PacifiCorp Request for a General Rate Revision*, Docket UE 217, Order  
28 No 10-473 at 7 (Dec. 14, 2010) ("We have reviewed the Stipulation, and find that it will result in  
29 rates that are fair, just and reasonable."); *See Re Application for Deferral of Incremental  
30 Administrative Costs Associated with the Trojan Refund*, UM 1402, Order No. 11-520 at 10  
31 (Dec. 21, 2011) (costs "were prudently incurred and that amortizing the deferred administrative  
32 costs will result in fair, just, and reasonable rates.").


1 the time the company acted." <sup>15</sup> The Parties have reviewed the costs and proceeds in the  
2 Second Report and agree that they were objectively reasonable at the time NW Natural  
3 incurred them. Further, the Parties agree that the Stipulation is in the public interest. Finally,  
4 the Parties agree that the outcome will result in fair, just, and reasonable rates.

5 **V. CONCLUSION.**

6 For the foregoing reasons, the Parties respectfully request that the Commission  
7 approve the Stipulation.

8 Respectfully submitted this 6<sup>th</sup> day of October, 2015.

9 **MCDOWELL RACKNER & GIBSON PC**

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14 Of Attorneys for NW Natural

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24  
25 \_\_\_\_\_  
26 <sup>15</sup> *In Re PacifiCorp, dba Pacific Power, Application for an Accounting Order Regarding Excess  
Net Power Costs, Docket No. UM 995, Order No. 02-469 at 4 (Jul 18, 2002).*