

Rates and Regulatory Affairs
Facsimile: 503.721.2532



January 25, 2008

Public Utility Commission of Oregon
550 Capitol Street, Northeast, Suite 215
Post Office Box 2148
Salem, Oregon 97308-2148

ATTN: Filing Center

Re: **OPUC Docket UM 1078:** Application for Reauthorization of Deferred Accounting of Certain Expenses or Revenues – Unrecovered Environmental Costs

In accordance with ORS 757.125, 757. 259(2)(e), and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural (NW Natural or company), files herewith the above-referenced Application for Reauthorization of Deferred Accounting of Unrecovered Environmental Costs Associated with Gasco, Wacker, Portland Gas, Portland Harbor and Eugene Water and Electric Board, Central Gas Hold, and Oregon Steel Mills. One new site, French American School, has been added to this request.

A notice concerning this application will be sent to all parties who participated in Docket UM 1078 and in the company's most recent general rate case, UG 152. A copy of the notice is part of the enclosed application.

Please call me at 1-503-721-2452 if you have any questions or require any further information.

Sincerely,

/s/ Onita R. King

Onita R. King
Rates & Regulatory Affairs

enclosures

cc: UM 1078 Service List
UG 152 Service List

1 BEFORE THE PUBLIC UTILITY COMMISSION

2 OF

3
4 OREGON

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6
7 **UM 1078**

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9 In the Matter of the Application)
10 by NORTHWEST NATURAL GAS COMPANY,)
11 dba NW NATURAL, for Reauthorization)
12 to Defer Certain Expenses or Revenues)
13 Pursuant to ORS 757.259)

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16 APPLICATION FOR REAUTHORIZATION
17 TO DEFER CERTAIN EXPENSES OR REVENUES

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19
20 Northwest Natural Gas Company, dba NW Natural (NW Natural or
21 company), hereby files with the Public Utility Commission of Oregon (Commission) this
22 application for reauthorization (Application) to use deferred accounting pursuant to *ORS*
23 *727.210* and *757.259*, and *OAR 860-27-300*, for the 12-month period beginning January
24 26, 2008. The company’s last reauthorization commenced January 27, 2007. This
25 application seeks reauthorization for the period beginning January 26, 2008 through
26 January 25, 2009.

27 In compliance with the requirements of *OAR 860-027-0300(4)*, NW
28 Natural hereby submits the following information:

- 29 1. A description of the utility expenses or revenues for which deferred
30 accounting is requested:

1 NW Natural seeks authorization to record all environmental costs, which
2 shall include, but are not necessarily limited to, all costs related to investigation, study,
3 monitoring, oversight, legal and remediation costs, and all costs associated with
4 pursuing insurance recoveries (hereafter "Environmental Costs") that are associated
5 with the eight projects, described in more detail in the Company's initial Application
6 dated April 4, 2003, and in subsequent Applications dated January 27, 2005 and
7 January 26, 2007, plus one new project designated as French American International
8 School (FAIS).

9 2. Description of New Project: The French American International School
10 (FAIS). NW Natural owned and operated a compressor station near 735 NW Miller
11 Road, Portland Oregon from 1946 to 1959. The compressors were run by diesel. The
12 property is currently owned by the French American International School. The school
13 was preparing the piece of property the compressor station was located on for a parking
14 lot and found numerous abandoned underground storage tanks. The tanks are
15 abandoned diesel tanks used by NW Natural. Groundwater contamination was found
16 associated with one of the tanks. NW Natural will determine how to move forward after
17 studying the available information. The total estimated liability for the French American
18 International School site at December 31, 2007 is \$82,500.

19 3. Justification for the deferred accounting requested with reference to the
20 sections of *ORS 757.259* under which deferral can be authorized:

21 Authorization to defer Environmental Costs and amounts from insurance
22 recoveries can be authorized pursuant to *ORS 757.259(2)(d)* because they are "utility
23 expenses or revenues, the recovery or refund of which the commission finds should be
24 deferred in order to minimize the frequency of rate changes ... or to match appropriately
25 the costs borne by and benefits received by ratepayers."

2 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

1 4. The accounts proposed for recording the amounts to be deferred and the
2 accounts that would be used for recording the amounts in the absence of approval of
3 deferred accounting are as follows:

4 NW Natural proposes to accrue estimates of the Environmental Costs to a
5 separate liability account for each site with the charge recorded in an operation and
6 maintenance expense account. The proposed balance sheet accounts to be used are:

7	262140	Injuries & Damage Reserve -----Gasco
8	262143	Injuries & Damage Reserve-----Wacker (<i>nka</i> Siltronic)
9	262144	Injuries & Damage Reserve-----Portland Harbor
10	262145	Injuries & Damage Reserve-----Oregon Steel Mills
11	262146	Injuries & Damage Reserve-----Tar Body (a subset of 12 Portland Harbor)
13	262147	Injuries & Damage Reserve-----Central Gas Hold
14	262149	Injuries & Damage Reserve-----French American 15 International School (FAIS)

16 As environmental liabilities are paid, or as they are accrued and
17 insurance recovery is not likely, the costs will be deferred in the following deferred
18 regulatory asset accounts on the balance sheet:

19	186145	Environmental Inv.-----Gasco
20	186146	Environmental Inv.-----EWEB (<i>aka</i> Eugene)
21	186147	Environmental Inv.-----Wacker (<i>nka</i> Siltronic)
22	186148	Environmental Inv.-----Portland Harbor
23	186149	Environmental Inv.-----Portland Gas (<i>aka</i> Front Street)
24	186151	Environmental Inv.-----Tar Body (a subset of Portland 25 Harbor)

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1 186152 Environmental Inv.-----Oregon Steel Mills
2 186153 Environmental Inv-----Central Gas Hold
3 186154 Environmental Inv-----French American International
4 School (FAIS)

5 NW Natural has recorded amounts estimated as insurance receivables,
6 Account 143008----Insurance Recovery for Gasco and Portland Harbor and Account
7 186260----Deferred Regulatory Receivable-Environmental. The total balance in the
8 receivable accounts is currently \$1,075,746. The estimated insurance receivable
9 reduced the amount charged to the O&M expense. Any recoveries from insurance
10 would be recorded in the 143008 or 186260 accounts.

11 NW Natural proposes to defer, in accordance with ORS 757.259(2)(e), the
12 Environmental Costs associated with the nine identified sites, commencing with the
13 current expiration date of this matter (January 26, 2008). NW Natural contemplates
14 recording of authorized deferred expenses and insurance recoveries until the net
15 Environmental Costs can be addressed in a future general rate case filing, in
16 compliance with the Commission's Order No. 06-211, dated April 27, 2006, in this
17 matter. As the nine sites are at different study and remediation stages, NW Natural may
18 present to the Commission a proposed ratemaking treatment for deferred costs
19 associated with a particular site, should costs and remediation at the particular site
20 become known and certain. At the time of consideration for incorporation into rates,
21 NW Natural will propose an appropriate amortization period for the Environmental Costs
22 for the Commission's consideration. NW Natural does not request a determination of
23 ratemaking treatment of the Environmental Costs at this time.

24 5. An estimate of the amount to be recorded in the deferred accounts for the
25 12-month period subsequent to the Application:

4 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

1 The Company will incur additional site study, clean-up, potential natural
2 resource damages, DEQ/Environment Protection Agency, tribe and natural resource
3 damage trustee oversight, and legal costs as well as administrative expenses related to
4 feasibility studies and remediation activities associated with these sites. Environmental
5 Costs will be charged to deferred regulatory asset accounts. Insurance recoveries will
6 be used as offsets to deferred Environmental Costs. These anticipated expenses and
7 recoveries from insurance are the cause of this filing. At this time, information is
8 insufficient to more accurately estimate the total potential liability for investigation and
9 remediation costs associated with the nine sites, or to accurately estimate the
10 corresponding total insurance recovery amounts.

11 Beginning in November 2006, the Company initiated efforts to resolve its
12 claims for insurance coverage. The Company will focus initially on attempting to resolve
13 the insurance claims through negotiations with its insurers. If negotiations are
14 unsuccessful, the Company will pursue litigation. To date, the Company has entered
15 into settlement discussions with ten of its major insurers, and expects to continue
16 discussions during 2008. Because of significant development at some of the sites, the
17 Company is currently revising its settlement position and therefore does not believe that
18 negotiations with the insurers will conclude during 2008. The Company anticipates that
19 its overall insurance recovery effort will extend out several years.

20 6. A description and explanation of the entries in the deferred accounts on
21 the date of this Application for Reauthorization:

22 NW Natural has recorded liabilities totaling \$32.3 million for the estimated
23 costs of investigation and interim remediation at the Gasco site, including consultants'
24 fees, and ODEQ oversight reimbursement and legal fees, of which \$11.1 million had
25 been spent as of December, 2007. NW Natural has recorded liabilities totaling \$2.5

1 million for its estimated costs of the investigation and initial remediation on the Wacker
2 (*nka* Siltronic) site and has paid expenses totaling \$1.0 million as of December, 2007.
3 NW Natural has recorded liabilities totaling \$21.3 million as of December, 2007 for its
4 estimated remedial investigation costs on the Portland Harbor site of which \$7.5 million
5 had been spent as of December, 2007. NW Natural has recorded liabilities totaling
6 \$200 thousand as of December, 2007 for its estimated remedial investigation costs on
7 the Oregon Steel Mills site of which \$21 thousand had been spent as of December,
8 2007. NW Natural has recorded liabilities totaling \$545 thousand as of December, 2007
9 for its estimated investigation and remediation costs on Central Gas Hold, of which \$16
10 thousand has been spent as of December, 2007. NW Natural has recorded liabilities
11 totaling \$11 thousand as of December 31, 2007 for its estimated investigation and
12 remediation costs on the Front Street site, of which \$11 thousand has been spent as of
13 December 31, 2007. NW Natural has recorded liabilities totaling \$83 thousand as of
14 December 31, 2007 for its estimated investigation and remediation costs on the French
15 American International School site, none of which has been spent as of December 31,
16 2007. Finally, NW Natural has recorded liabilities totaling \$10.8 million as of
17 December, 2007 for its estimated investigation and remediation costs on Tar Body of
18 which \$9.8 million had been spent as of December, 2007.

19 7. As part of this reauthorization application, the company seeks to begin
20 accruing interest to the deferred balances. As of the date of this application, the
21 company has spent over \$29.5 million on projects. As those amounts continue to be
22 outstanding in anticipation of insurance offsets or recovery from ratepayers, there is an
23 ongoing burden of financing the spent amounts. As insurance proceeds are attained,
24 they will be used to draw down the amounts outstanding, until final ratemaking is

1 determined for the deferred accounts, and interest on the balance would be affected
2 accordingly.

3 8. The continuation of deferred accounting for the matters addressed above
4 is justified because they are continuing in nature.

5 9. A notice of this Application has been served on the UM 1078 service list
6 and on all parties who participated in the company's most recent general rate case, UG
7 152, and is attached to this Application.

8 10. Communications regarding this Application should be addressed to:

9 Inara K. Scott, Manager
10 Rates & Regulatory Affairs
11 NW Natural
12 220 NW Second Avenue
13 Portland, OR 97209-3991
14 Telephone: (503) 721-2476
15 Facsimile: (503) 721-2532
16 E-mail: inara.scott@nwnatural.com

17
18 and

19
20 Onita R. King
21 Rates & Regulatory Affairs
22 NW Natural
23 220 NW Second Avenue
24 Portland, OR 97209-3991
25 Telephone: (503) 721-2452
26 Facsimile: 503-721-2532
27 E-mail: ork@nwnatural.com

28

29 DATED this 25th day of January, 2008.

30 Respectfully submitted,

31 NW NATURAL

32

33 /s/ Onita R. King

34 Onita R. King
35 Rates & Regulatory Affairs

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January 25, 2008

**NOTICE OF APPLICATION FOR REAUTHORIZATION TO
DEFER ACCOUNTING OF UNRECOVERED ENVIRONMENTAL COSTS**

To All Parties Who Participated in UG 152:

Please be advised that today Northwest Natural Gas Company, dba NW Natural (NW Natural or company), applied for reauthorization to defer certain expenses and revenues relative to unrecovered environmental costs associated with Gasco, Wacker (now known as Siltronic), Portland Gas, Portland Harbor, Eugene Water and Electric Board, Central Gas Hold, French American School (added site), and Oregon Steel Mills, pursuant to the provisions of ORS 757.259(2)(e). Copies of the company's application are available for inspection at its main and district offices.

This is not a rate case. The purpose of this Notice is to inform parties that participated in Docket UM 1078, and in the company's most recent general rate case, UG 152, that the Application was filed.

Parties who desire more information or who wish to obtain a copy of the filing, or notice of the time and place of any hearing, if scheduled, should contact the company or the Public Utility Commission of Oregon as follows:

NW Natural
Attn: Onita R. King
220 N.W. Second Ave.
Portland, Oregon 97209-3991
Telephone: (503) 721-2452

Public Utility Commission of Oregon
Attn: Judy Johnson
550 Capitol St., N.E., Ste. 215
P. O. Box 2148
Salem, Oregon 97308-2148
Telephone: (503) 378-6636

Any person may submit to the Commission written comments on this matter no sooner than 25 days from the date of this Application. The granting of this application will not authorize a change in rates, but will permit the company to defer amounts in rates to a subsequent proceeding.



**UM 1078-Application for Reauthorization to Defer Certain Revenues and Expenses
CERTIFICATE OF SERVICE**

I hereby certify that on the 25th day of January, 2008, I served the foregoing NOTICE OF APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES OR REVENUES upon each party listed below by mailing a copy properly addressed with first class postage prepaid, to the following parties or attorneys of parties:

UM 1078 SERVICE LIST

PATRICK G HAGER
PORTLAND GENERAL ELECTRIC
121 SW SALMON ST 1WTC0702
PORTLAND OR 97204

J RICHARD GEORGE
PORTLAND GENERAL ELECTRIC COMPANY
121 SW SALMON ST 1WTC1301
PORTLAND OR 97204

JAMES F FELL
STOEL RIVES LLP
900 SW FIFTH AVE STE 2600
PORTLAND OR 97204-1268

KATHERINE A MCDOWELL
McDOWELL & RACKNER PC
520 SW SIXTH AVE STE 830
PORTLAND OR 97204

DEBORAH GARCIA
PUBLIC UTILITY COMMISSION OF OREGON
PO BOX 2148
SALEM OR 97308-2148

UG 152 SERVICE LIST

JASON EISDORFER
CITIZENS UTILITY BOARD OF OREGON
610 SW BROADWAY STE 308
PORTLAND OR 97205

MICHAEL T WEIRICH
DEPARTMENT OF JUSTICE
REGULATED UTILITY & BUSINESS SECTON
1162 COURT ST NE
SALEM OR 97310-4096

KATHERINE A MCDOWELL
McDOWELL & RACKNER PC
520 SW SIXTH AVE STE 830
PORTLAND OR 97204

TED LEHMANN
DIREXX ENERGY
2400 NE 15th Ave
PORTLAND OR 97212

JOHN A CAMERON
DAVIS WRIGHT TREMAINE LLP
1300 SW FIFTH AVE STE 2300
PORTLAND OR 97201

DANIEL W MEEK
ATTORNEY AT LAW
10949 SW FOURTH AVE
PORTLAND OR 97219

JAY T WALDRON
SCHWABE WILLIAMSON & WYATT
1211 SW 5TH AVE STE 1600-1900
PORTLAND OR 97204-3795

STEVE WEISS
NORTHWEST ENERGY COALITION
4422 OREGON TRAIL CT NE
SALEM OR 97305

DONALD W SCHOENBECK
REGULATORY & COGENERATION SERVICES INC
900 WASHINGTON ST STE 780
VANCOUVER WA 98660-3455

JAMES F FELL
STOEL RIVES LLP
900 SW FIFTH AVE STE 2600
PORTLAND OR 97204-1268

JUDY JOHNSON
PUBLIC UTILITY COMMISSION
P O BOX 2148
SALEM OR 97308-2148

PAULA PYRON
NWIGU
4113 WOLF BERRY CT
LAKE OSWEGO OR 97035-1827

EDWARD A FINKLEA
CABLE HUSTON BENEDICT HAAGENSEN & LLOYD LLP
1001 SW FIFTH AVE STE 2000
PORTLAND OR 97204

PATRICK G HAGER
PORTLAND GENERAL ELECTRIC
121 SW SALMON ST 1WTC0702
PORTLAND OR 97204

GORDON SMITH
JOHN & HENGERER
1200 17TH ST NW STE 600
WASHINGTON DC 20036

MELANIE GILLETTE
IGI RESOURCES INC
980 9TH ST STE 1540
SACRAMENTO CA 95814

STEVEN LOUNSBURY
COOS COUNTY OFFICE OF LEGAL COUNSEL
250 N BAXTER
COQUILLE OR 97423

JIM ABRAHAMSON
COMMUNITY ACTION DIRECTORS OF OREGON
P O Box 7964
SALEM OR 97301

DATED at Portland, Oregon, this 25th day of January, 2008.

/s/ Kelley C. Miller
Kelley C. Miller, Staff Assistant
Rates & Regulatory Affairs
NW NATURAL
220 NW Second Avenue
Portland, Oregon 97209-3991
1.503.226.4211, extension 3589
kelley.miller@nwnatural.com