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January 25, 2016

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
Attn: Filing Center
201 High St SE, Suite 100
Post Office Box 1088
Salem, Oregon 97308-1088

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, ORS 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 (now known as Siltronic), Portland Gas, Portland Harbor, Eugene Water and Electric Board, Central Gas Hold, Oregon Steel Mills, and the French American International School.

A notice concerning this application will be sent to all parties who participated in the Company’s most recent general rate case, UG 221. A copy of the notice is part of the enclosed application.

Please call Kyle Walker at (503) 226-4211, extension 5858, if you have any questions or require any further information.

Sincerely,

/s/ Kyle Walker, CPA

Kyle Walker, CPA
Rates/Regulatory Affairs Analyst

enclosures

1 BEFORE THE PUBLIC UTILITY COMMISSION

2 OF

3 OREGON

4 **UM 1078**

5 In the Matter of the Application)
6 by NORTHWEST NATURAL GAS COMPANY,)
7 dba NW NATURAL, for Reauthorization)
8 to Defer Certain Expenses or Revenues)
9 Pursuant to ORS 757.259)

10 APPLICATION FOR REAUTHORIZATION
11 TO DEFER CERTAIN EXPENSES OR REVENUES

12 Northwest Natural Gas Company, dba NW Natural (NW Natural or Company),
13 hereby files with the Public Utility Commission of Oregon (Commission) this application
14 for reauthorization (Application) to use deferred accounting pursuant to ORS 757.210
15 and 757.259, and OAR 860-027-0300, for the 12-month period beginning January 26,
16 2016 through January 25, 2017.

17 In compliance with the requirements of OAR 860-027-0300(3) and (4), NW
18 Natural hereby submits the following information:

19 **1. A description of the utility expenses or revenues for which deferred**
20 **accounting is requested. [OAR 860-027-0300 (3)(a)]:**

21 NW Natural seeks authorization to record all environmental costs, which shall
22 include, but are not necessarily limited to, all costs related to investigation, study,
23 monitoring, oversight, legal and remediation costs, and all costs associated with
24 pursuing insurance recoveries (hereafter "Environmental Costs") that are associated

1 with six projects at the following sites: Gasco, Wacker (aka Siltronic), Portland Harbor,
2 Oregon Steel Mills, Central Gas Hold, and Portland Gas (aka Front Street). In past
3 deferral applications NW Natural also requested authorization to defer costs associated
4 with EWEB, Tar Body (a subset of Portland Harbor), and French American International
5 School. These three sites are closed and no longer require further remediation action.
6 The costs incurred at these sites and others through December 31, 2013 were deemed
7 prudent¹ and have been moved to the Site Remediation Recovery Mechanism (SRRM)
8 Post Prudent account.

9 NW Natural has also received approval from the Washington Utilities and
10 Transportation Commission (WUTC) to defer environmental costs.² NW Natural
11 expects that through the OPUC's order in Docket No. UM 1635 (pending), the
12 Commission will establish the percentage of its total environmental costs that will be
13 attributable to Oregon.

14 **2. Justification for the deferred accounting requested with reference to the**
15 **sections of ORS 757.259 under which deferral can be authorized. [OAR 860-027-**
16 **0300 (3)(b)]:**

17 This application is made pursuant to ORS 757.259(2)(d), which authorizes the
18 deferral of "utility expenses or revenues, the recovery or refund of which the
19 commission finds should be deferred in order to minimize the frequency of rate changes
20 ... or to match appropriately the costs borne by and benefits received by ratepayers."

¹ See Order No. 15-049

² See Order No. 1 in WUTC Docket No. UG-110199

1 Additionally, in its Order No. 12-408 issued in UG 221, the Commission
2 authorized a cost recovery mechanism through which NW Natural will recover its
3 environmental remediation costs. In that Order, the Commission determined that NW
4 Natural should continue to defer these costs and determined that they would be
5 collected through the Company's Site Remediation and Recovery Mechanism, subject
6 to an earnings test and prudence review.³

7 **3. The accounts proposed for recording the amounts to be deferred and the**
8 **accounts that would be used for recording the amounts in the absence of**
9 **approval of deferred accounting are as follows. [OAR 860-027-0300 (3)(c)]:**

10 NW Natural proposes to accrue estimates of the Environmental Costs to a
11 separate liability account for each site. The proposed balance sheet accounts to be
12 used are:

13	262140	Injuries & Damage Reserve -----Gasco
14	262143	Injuries & Damage Reserve-----Wacker (<i>aka</i> Siltronic)
15	262144	Injuries & Damage Reserve-----Portland Harbor
16	262145	Injuries & Damage Reserve-----Oregon Steel Mills
17	262147	Injuries & Damage Reserve-----Central Gas Hold
18	262148	Injuries & Damage Reserve-----Portland Gas (<i>aka</i> Front
19		Street)

20 As environmental liabilities are paid, or as they are accrued and if insurance
21 recovery is uncertain, the costs will be deferred in the following deferred regulatory
22 asset accounts on the balance sheet:

23	186145	Environmental Inv.-----Gasco
24	186147	Environmental Inv.-----Wacker (<i>aka</i> Siltronic)

³ See page 5 of Public Utility Commission of Oregon Order No. 12-408 issued in Docket No. UG-221

1	186148	Environmental Inv.-----Portland Harbor
2	186149	Environmental Inv.-----Portland Gas (<i>aka</i> Front Street)
3	186152	Environmental Inv.-----Oregon Steel Mills
4	186153	Environmental Inv.-----Central Gas Hold

5 NW Natural has recorded amounts estimated as insurance receivables or
6 reimbursements in Account 186160---OR Environ Recovery & Reimbursement.
7 Recoveries from insurance are, and will continue to be recorded in the 186160 accounts
8 and will offset the recorded expenses for purpose of amortization as determined by the
9 Commission.

10 **4. An estimate of the amount to be recorded in the deferred accounts for the**
11 **12-month period subsequent to the Application. [OAR 860-027-0300 (3)(d)]:**

12 The Company will incur additional site study, clean-up, potential natural resource
13 damages, DEQ/Environment Protection Agency, tribe and natural resource damage
14 trustee oversight, and legal costs as well as administrative expenses related to
15 feasibility studies and remediation activities associated with these sites. Environmental
16 Costs will be charged to deferred regulatory asset accounts. Insurance recoveries will
17 be used as offsets to deferred Environmental Costs. These anticipated expenses and
18 recoveries from insurance are the cause of this filing. At this time, information is
19 insufficient to more accurately estimate the total potential liability for investigation and
20 remediation costs associated with the six sites.

21 **5. A description and explanation of the entries in the deferred accounts.**
22 **[OAR 860-027-0300 (4)(a)]:**

23

24 Below is a list of all costs and interest that has been recorded as of December
25 31, 2015:

Account	Site Name	3/1/2014-12/31/2015 Recorded Expense*	3/1/2014-12/31/2015 Accrued Interest
186145	Gasco	14,382,905	972,852
186147	Wacker (<i>nka</i> Siltronic)	625,661	46,830
186148	Portland Harbor	2,353,786	128,978
186149	Portland Gas (Front Street)	1,046,829	74,080
186152	Oregon Steel Mills	0	0
186153	Central Gas Hold	211,163	10,829
TOTAL		18,620,344	1,233,569
* Recorded expense includes accrued interest			

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Recorded costs are for investigation and remediation, including consultants' fees and ODEQ oversight reimbursement and legal fees.

4

The deferred expense and accrued interest amounts above only include costs incurred from March 1, 2014 through December 31, 2015 not yet deemed prudent. The costs found prudent by the Commission and allowed for recovery are included in the SRRM Post Prudent account. The balance in that account as of December 31, 2015 was \$52 million.

9

NW Natural has also included in regulatory deferrals \$119 million of total estimated future costs.

6. Interest on Deferred Balances. [OAR 860-027-0300(4)(b)]:

As part of this reauthorization, the Company requests continued permission to accrue interest to the deferred actual cash expenses. The Commission has allowed the Company to collect interest on deferred balances since 2006.⁴ As of December 31,

⁴ See Commission Order Nos. 06-211, 07-147, 08-247, 09-172, 10-117, and 11-336.

1 2015, the Company has spent over \$124.3 million on projects. As those amounts
2 continue to be outstanding in anticipation of insurance offsets or recovery from
3 ratepayers, financing the spent amounts is an ongoing burden. As determined by the
4 Commission in UM 1635 as insurance proceeds are attained, they will be used to draw
5 down or offset the amounts outstanding. Please note that the Company does not
6 accrue interest on the recorded liability, but instead only records it on expense.

7 In NW Natural's most recent rate case, Docketed as UG 221, the Company
8 requested authorization to begin amortizing environmental remediation costs deferred in
9 accordance with the authorization granted under this docket, UM 1078. The
10 Commission granted NW Natural a mechanism through which it will recover those
11 deferred costs, but determined that certain specifics regarding the mechanism as well
12 as the prudence review of the deferred costs would need to be separately investigated.⁵
13 These issues are being investigated in Docket No. UM 1635.

14 **7. Reason for the continued request for deferred accounting. [OAR 860-027-**
15 **0300(4)(b)]:**

16 Because the Company continues to incur costs related to its environmental
17 remediation obligations, it seeks to defer these expenses to preserve its ability to seek
18 appropriate recovery through rates.

19 **8. Requirements per Commission Order No. 09-263**

20 Below is the information required per Commission Order No. 09-263, issued in
21 Docket UM-1286, Staff's Investigation into Purchased Gas Adjustment Mechanisms:

- 22 **a. A completed Summary Sheet, the location in the PGA filing, and an**
23 **account map that highlights the transfer of dollars from one account to**
24 **another.**

⁵ See Commission Order No. 12-408.

1 Because the Commission is currently investigating a number of issues
2 related to the Company's amortization of its deferred environmental remediation
3 costs,⁶ the Company does not have this information at this time.

4 **b. The effective date of the deferral**

5 This application is for the 12-month period beginning January 26, 2016,
6 through January 25, 2017.

7 **c. Prior year Order Number approving the deferral**

8 Approval to defer Environmental Costs was last granted under
9 Commission Order No. 15-059.

10 **d. The amount deferred last year**

11 \$ 10,682,543 was deferred in the 2015 calendar year. This amount
12 includes \$433,206 in interest on the deferred payments. These amounts do not
13 include the effect of offsetting insurance payments.

14 **e. The amount amortized last year**

15 The Commission authorized NW Natural to collect \$8,353,752 of costs
16 deemed prudent (excluding revenue sensitive effects) for the period November 1,
17 2015 through October 31, 2016. The remaining balance to be amortized as of
18 December 31, 2015 was \$6,797,876.

19 //

20 **f. The interest rate that will apply to the accounts**

21 The interest rate for deferral accounts is 7.78%. As directed in the
22 Commission's Order Nos. 12-408 and 12-437 issued in UG 221, a different
23 interest rate will apply once the amounts have been reviewed for prudence, and
24 until they are amortized.

⁶ The Commission's investigation is docketed as UM 1635.

1 9. Communications regarding this Application should be addressed to:

2 Kyle Walker, CPA
3 Rates & Regulatory Affairs
4 NW Natural
5 220 NW Second Avenue
6 Portland, OR 97209-3991
7 Telephone: (503) 226-4211, ext. 5858
8 Facsimile: (503) 721-2516
9 E-mail: kyle.walker@nwnatural.com, and

10
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19 //

20 //

21 //

22 DATED this 25th day of January 2016.

23

24 Respectfully submitted,

25 NW NATURAL

26

27

28 /s/ Mark R. Thompson

29

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Mark R. Thompson
Manager, Rates & Regulatory Affairs



January 25, 2016

**NOTICE OF APPLICATION FOR REAUTHORIZATION TO
DEFER ACCOUNTING OF UNRECOVERED ENVIRONMENTAL COSTS
UM 1078**

To All Parties Who Participated in UG 221:

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, the French American School, 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 office.

This is not a rate case. The purpose of this Notice is to inform parties that participated in the Company's most recent general rate case, UG 221, 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: Kyle Walker
220 NW Second Avenue
Portland, Oregon 97209-3991
Telephone: (503) 226-4211 Ext. 5858**

**Public Utility Commission of Oregon
Attn: Judy Johnson
201 High St SE, Suite 100
PO Box 1088
Salem, Oregon 97308-1088
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.

 **NW Natural**
CERTIFICATE OF SERVICE

I hereby certify that I have this day served by electronic mail the foregoing NOTICE OF APPLICATION FOR AUTHORIZATION TO DEFER UNRECOVERED ENVIRONMENTAL COSTS upon all parties of record in the Company's most recent general rate case, UG 221.

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DATED at Portland, Oregon, this 25th day of January 2016.

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