

Rates and Regulatory Affairs
Facsimile: 503.721.2532



January 26, 2007

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 Associated with Gasco, Wacker, Portland Gas, Portland Harbor, Eugene Water and Electric Board, Central Gas Hold, and Oregon Steel Mills

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, and Oregon Steel Mills. One new site, Central Gas Hold, has been added to this request.

A notice concerning this application will be sent to all parties who participated 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, Manager
Tariffs & Regulatory Compliance

ORK/cmt
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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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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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 27, 2007. The company’s last reauthorization commenced January 27, 2006, and,
25 therefore, the existing 12-month reauthorization period has not yet expired. This
26 application seeks reauthorization for the period beginning January 27, 2007 through
27 January 26, 2008.

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

- 30 1. A description of the utility expenses or revenues for which deferred
31 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 six projects, described in more detail in the Company's initial Application dated
6 April 4, 2003, and in the Company's supplemental Application dated January 27, 2005,
7 plus one new project designated as Central Gas Hold.

8 2. Description of New Project: The Central Gas Hold (Central Service
9 Center), located at 2630 SE 9th Avenue, Portland, Oregon 97202, was assigned a high
10 priority for further environmental investigation on September 22, 2006, by the Oregon
11 Department of Environmental Quality (ODEQ). Three manufactured gas storage tanks
12 previously located on the premises are believed to be the cause of contamination
13 associated with releases of condensate from stored manufactured gas, or through
14 historic gas handling practices.

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

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

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

2 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

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

4	262140	Injuries & Damage Reserve -----Gasco
5	262143	Injuries & Damage Reserve-----Wacker (<i>nka</i> Siltronic)
6	262144	Injuries & Damage Reserve-----Portland Harbor
7	262145	Injuries & Damage Reserve-----Oregon Steel Mills
8	262146	Injuries & Damage Reserve-----Tar Body (a subset of 9 Portland Harbor)
10	262147	Injuries & Damage Reserve-----Central Gas Hold

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

14	186145	Environmental Inv.-----Gasco
15	186146	Environmental Inv.-----EWEB (<i>aka</i> Eugene)
16	186147	Environmental Inv.-----Wacker (<i>nka</i> Siltronic)
17	186148	Environmental Inv.-----Portland Harbor
18	186149	Environmental Inv.-----Portland Gas (<i>aka</i> Front Street)
19	186151	Environmental Inv.-----Tar Body (a subset of Portland 20 Harbor)
21	186152	Environmental Inv.-----Oregon Steel Mills
22	TBD	Environmental Inv-----Central Gas Hold

23 NW Natural has recorded amounts estimated as insurance receivables,
24 Account 143008----Insurance Recovery for Gasco and Portland Harbor and Account
25 186260----Deferred Regulatory Receivable-Environmental. The total balance in the

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1 receivable accounts is currently \$9.8 million. The estimated insurance receivable
2 reduced the amount charged to the O&M expense. Any recoveries from insurance
3 would be recorded in the 143008 or 186260 accounts.

4 NW Natural proposes to defer, in accordance with ORS 757.259(2)(e), the
5 Environmental Costs associated with the seven identified sites, commencing with the
6 current expiration date of this matter (January 27, 2007). NW Natural contemplates
7 recording of authorized deferred expenses and insurance recoveries until the net
8 Environmental Costs can be addressed in a future general rate case filing, in
9 compliance with the Commission's Order No. 06-211, dated April 27, 2006, in this
10 matter. As the seven sites are at different study and remediation stages, NW Natural
11 may present to the Commission a proposed ratemaking treatment for deferred costs
12 associated with a particular site, should costs and remediation at the particular site
13 become known and certain. At the time of consideration for incorporation into rates,
14 NW Natural will propose an appropriate amortization period for the Environmental Costs
15 for the Commission's consideration. NW Natural does not request a determination of
16 ratemaking treatment of the Environmental Costs at this time.

17 5. An estimate of the amount to be recorded in the deferred accounts for the
18 12-month period subsequent to the Application:

19 The Company will incur additional site study, clean-up, potential natural
20 resource damages, DEQ/Environment Protection Agency, tribe and natural resource
21 damage trustee oversight, and legal costs as well as administrative expenses related to
22 feasibility studies and remediation activities associated with these sites. Environmental
23 Costs will be charged to deferred regulatory asset accounts. Insurance recoveries will
24 be used as offsets to deferred Environmental Costs. These anticipated expenses and
25 recoveries from insurance are the cause of this filing. At this time, information is

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1 insufficient to more accurately estimate the total potential liability for investigation and
2 remediation costs associated with the seven sites, or to accurately estimate the
3 corresponding total insurance recovery amounts.

4 Beginning in November 2006, the Company initiated efforts to resolve its
5 claims for insurance coverage. The Company will focus initially on attempting to resolve
6 the insurance claims through negotiations with its insurers. If negotiations are
7 unsuccessful, the Company will pursue litigation. As of January 2007, the Company
8 has entered into settlement discussions with six of its major insurers, and expects to
9 begin discussion with another four insurers within the next several months. There is a
10 likelihood of concluding negotiations with some of the insurers during 2007. The
11 Company anticipates that its overall insurance recovery effort will extend out several
12 years.

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

15 NW Natural has recorded liabilities totaling \$13.6 million for the estimated
16 costs of investigation and interim remediation at the Gasco site, including consultants'
17 fees, and ODEQ oversight reimbursement and legal fees, of which \$7.2 million had
18 been spent as of December, 2006. NW Natural has recorded liabilities totaling \$740
19 thousand for its estimated costs of the investigation and initial remediation on the
20 Wacker (*nka* Siltronic) site and has paid expenses totaling \$697 thousand as of
21 December, 2006. NW Natural has recorded liabilities totaling \$7.7 million as of
22 December, 2006 for its estimated remedial investigation costs on the Portland Harbor
23 site of which \$6.1 million had been spent as of December, 2006. NW Natural has
24 recorded liabilities totaling \$200 thousand as of December, 2006 for its estimated
25 remedial investigation costs on the Oregon Steel Mills site of which \$22.6 thousand had

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1 been spent as of December, 2006. NW Natural has recorded liabilities totaling \$15
2 thousand as of December, 2006 for its estimated investigation and remediation costs on
3 Central Gas Hold, none of which has been spent as of December, 2006. Finally, NW
4 Natural has recorded liabilities totaling \$10.3 million as of December, 2006 for its
5 estimated investigation and remediation costs on Tar Body of which \$9.8 million had
6 been spent as of December, 2006.

7 7. As part of this reauthorization application, the company seeks to begin
8 accruing interest to the deferred balances. As of the date of this application, the
9 company has spent over \$24.0 million on projects. As those amounts continue to be
10 outstanding in anticipation of insurance offsets or recovery from ratepayers, there is an
11 ongoing burden of financing the spent amounts. As insurance proceeds are attained,
12 they will be used to draw down the amounts outstanding, until final ratemaking is
13 determined for the deferred accounts, and interest on the balance would be affected
14 accordingly.

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

17 9. A notice of this Application has been served on the UM 1078 service list
18 and on all parties who participated in the company's most recent general rate case, UG
19 152, and is attached to this Application.

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6 - APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES

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

2 Inara K. Scott, Manager
3 Rates & Regulatory Affairs
4 NW Natural
5 220 NW Second Avenue
6 Portland, OR 97209-3991
7 Telephone: (503) 226-4211, ext. 3579
8 Facsimile: (503) 721-2532
9 E-mail: inara.scott@nwnatural.com

10
11 and

12
13 Onita R. King, Manager
14 Tariffs & Regulatory Compliance
15 NW Natural
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17 Portland, OR 97209-3991
18 Telephone: (503) 721-2452
19 Facsimile: 503-721-2532
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21

22 DATED this 26th day of January, 2007.

23 Respectfully submitted,

24 NW NATURAL

25

26 /s/ Onita R. King
27 Onita R. King, Manager
28 Tariffs & Regulatory Compliance
29 220 N.W. Second Avenue
30 Portland, Oregon 97209-3991
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January 26, 2007

**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 (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: Bonnie Tatom
550 Capitol St., N.E., Ste. 215
P. O. Box 2148
Salem, Oregon 97308-2148
Telephone: (503) 378-6600

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.

The company's district offices in Oregon are located at:

7150 Supra Drive
Albany, Oregon 97321
Telephone: (541) 926-4253

176 W. Marine Drive
Astoria, Oregon 97103
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3123 Broadway N.E.
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* * * * *



NW Natural

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

I hereby certify that on the 26th day of January, 2007, I served the foregoing APPLICATION FOR REAUTHORIZATION TO DEFER CERTAIN EXPENSES OR REVENUES upon each party listed below by electronically mailing a copy to each party's email address of record, as listed on the Public Utility Commission of Oregon's official service lists for these matters.

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DATED at Portland, Oregon, this 26th day of January, 2007.

/s/ Chérie M. Taylor
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