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January 24, 2017

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: **UM 1078** - Application for Reauthorization to Defer Certain Expenses or Revenues

In accordance with ORS 757.259, and OAR 860-027-0300, Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), files herewith an Application for Reauthorization to Defer Unrecovered Environmental Costs Associated with Gasco, Wacker (now known as Siltronic), Portland Gas (aka Front Street), Portland Harbor, Central Gas Hold, and Oregon Steel Mills.

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 **B. Statutory Authority.**

2 This application is filed pursuant to ORS 757.259, which empowers the
3 Commission to authorize the deferral of expenses or revenues of a public utility for
4 later inclusion in rates.

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

7
8 NW Natural seeks authorization to record all environmental costs, which shall
9 include, but are not necessarily limited to, all costs related to investigation, study,
10 monitoring, oversight, legal and remediation costs, and all costs associated with
11 pursuing insurance recoveries (hereafter “Environmental Costs”) that are associated
12 with six projects at the following sites: Gasco, Wacker (aka Siltronic), Portland Harbor,
13 Oregon Steel Mills, Central Gas Hold, and Portland Gas (aka Front Street).¹

14 NW Natural has also received approval from the Washington Utilities and
15 Transportation Commission (WUTC) to defer the Environmental Costs.² The Oregon
16 Public Utility Commission, in Docket No. UM 1635, determined that 96.68% of the
17 deferred costs amortized through the SRRM will be allocated to Oregon customers.

18 **2. The reason that deferred accounting is requested with reference to**
19 **the sections of ORS 757.259 under which deferral can be authorized.**
20 **[OAR 860-027-0300 (3)(b); 860-027-0300(4)(b)]:**

¹ In past deferral applications, NW Natural also requested authorization to defer costs associated with EWEB, Tar Body (a subset of Portland Harbor), and French American International School. These three sites are closed and no longer require further remediation action. The costs incurred at these sites and others through December 31, 2013 were deemed prudent (Order No. 15-049) and have been moved to the Site Remediation Recovery Mechanism (SRRM) Post Prudent account.

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

1 This application is made pursuant to ORS 757.259(2)(e), which authorizes the
2 deferral of “utility expenses or revenues, the recovery or refund of which the
3 commission finds should be deferred in order to minimize the frequency of rate changes
4 ... or to match appropriately the costs borne by and benefits received by ratepayers.”

5 The Commission authorized deferred accounting for these costs and proceeds in
6 2003 and has reauthorized the Company’s use of deferred accounting in each
7 subsequent year.³ Additionally, in its Order No. 12-408 issued in UG 221, the
8 Commission authorized a cost recovery mechanism through which NW Natural will
9 recover its environmental remediation costs. In that Order, the Commission determined
10 that NW Natural should continue to defer these costs and determined that they would
11 be collected through the Company’s Site Remediation and Recovery Mechanism (the
12 “SRRM”), subject to an earnings test and prudence review.⁴

13
14 **3. The accounts proposed for recording the amounts to be deferred**
15 **and the accounts that would be used for recording the amounts in**
16 **the absence of approval of deferred accounting are as follows. [OAR**
17 **860-027-0300 (3)(c)]:**

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

21	262140	Injuries & Damage Reserve -----Gasco ⁵
22	262144	Injuries & Damage Reserve-----Portland Harbor
23	262145	Injuries & Damage Reserve-----Oregon Steel Mills

³ See Order Nos. 03-328; 04-244; 05-138, 06-211, 07-147, 08-247, 09-172, 10-117, 11-336, 12-090, 14-051, 15-059, 16-066.

⁴ See page 5 of Public Utility Commission of Oregon Order No. 12-408 issued in Docket No. UG-221

⁵ In 2017, NW Natural will accrue estimates and defer costs related to the Wacker (aka Siltronic) site in the Gasco regulatory liability and asset accounts.

1 262147 Injuries & Damage Reserve-----Central Gas Hold
2 262148 Injuries & Damage Reserve-----Portland Gas (*aka* Front
3 Street)

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

7 186145 Environmental Inv.-----Gasco
8 186148 Environmental Inv.-----Portland Harbor
9 186149 Environmental Inv.-----Portland Gas (*aka* Front Street)
10 186152 Environmental Inv.-----Oregon Steel Mills
11 186153 Environmental Inv.-----Central Gas Hold

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

17
18 **4. An estimate of the amount to be recorded in the deferred accounts**
19 **for the 12-month period subsequent to the Application. [OAR 860-**
20 **027-0300 (3)(d)]:**

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

1 of this filing. At this time, information is insufficient to more accurately estimate the total
2 potential liability for investigation and remediation costs associated with the six sites.

3

4

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

6

Below is a list of all costs and interest that has been recorded in calendar year

7

2016:

Account	Site Name	1/1/2016- 12/31/2016 Recorded Expense*	1/1/2016- 12/31/2016 Accrued Interest
186145	Gasco	8,407,800	102,890
186147	Wacker (aka Siltronic)	65,003	432
186148	Portland Harbor	1,389,053	8,831
186149	Portland Gas (aka Front Street)	323,085	3,053
186152	Oregon Steel Mills	0	0
186153	Central Gas Hold	71,400	332
TOTAL		10,256,341	115,538
* Recorded expense includes accrued interest			

8

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

11 The deferred expense and accrued interest amounts listed above only include
12 costs incurred from January 1, 2016 through December 31, 2016 not yet deemed
13 prudent. NW Natural has received approximately \$20,000 in insurance or other
14 proceeds from January 1, 2016 through December 31, 2016.

15 As of December 31, 2016, the Company has spent approximately \$135.2 million
16 on environmental remediation and recovered \$152.3 million in insurance and other
17 proceeds.

1 The costs found prudent by the Commission and allowed for recovery are
2 included in the SRRM Post Prudent account. The balance in that account as of
3 December 31, 2016 was \$36 million.

4 NW Natural has also included in regulatory deferrals \$120 million of total
5 estimated future costs.

6 **6. Requirements per Commission Order No. 09-263**

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

9
10 **a. A completed Summary Sheet, the location in the PGA filing,**
11 **and an account map that highlights the transfer of dollars from**
12 **one account to another.**

13 Pursuant to Commission Order No. 09-263, issued in Docket UM-1286, NW Natural is
14 required to provide a completed Summary Sheet, the location in the PGA filing of the backup
15 workpapers, and an account map that highlights the transfer of dollars from one account to
16 another. The Summary Sheet will be included in the 2017 PGA filing work papers and in the
17 electronic file entitled "Proposed Temps Oregon 2017-18 PGA filing.xls.

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

19 This application is for the 12-month period beginning January 26, 2017,
20 through January 25, 2018.

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

22 Approval to defer Environmental Costs was last granted under
23 Commission Order No. 16-066.

24 **d. The Amount Deferred Last Year.**

25 \$ 10,256,341 was deferred in the 2016 calendar year. This amount
26 includes \$115,538 in interest on the deferred payments. These amounts do not
27 include the effect of offsetting insurance payments.

1 **e. The Amount Amortized Last Year.**

2 The Commission authorized NW Natural to collect \$8,999,816 of costs
3 deemed prudent (excluding revenue sensitive effects) for the period November 1,
4 2016 through October 31, 2017. The remaining balance to be amortized as of
5 December 31, 2016 was \$7,979,820.

6 **f. The Interest Rate that will Apply to the Accounts.**

7 The interest rate for deferral accounts is 7.778%. As directed in the
8 Commission's Order Nos. 12-408 and 12-437 issued in UG 221, a different
9 interest rate will apply once the amounts have been reviewed for prudence, and
10 until they are amortized.

11 **C. Communications.**

12 Communications regarding this Application should be addressed to:

13 Kyle Walker, CPA
14 Rates & Regulatory Affairs
15 NW Natural
16 220 NW Second Avenue
17 Portland, OR 97209-3991
18 Telephone: (503) 226-4211, ext. 5858
19 Facsimile: (503) 721-2516
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1 DATED this 24th day of January 2017.

2
3 Respectfully Submitted,

4
5 NW NATURAL

6
7 /s/ Kyle Walker, CPA
8 Kyle Walker, CPA
9 Rates/Regulatory Analyst

10
11
12 /s/ Zachary D. Kravitz
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**UM 1078
NOTICE OF APPLICATION FOR REAUTHORIZATION TO
DEFER UNRECOVERED ENVIRONMENTAL COSTS**

January 24, 2017

To All Parties Who Participated in UG 221:

Please be advised that on January 24, 2017 Northwest Natural Gas Company, dba NW Natural ("NW Natural" or "Company"), applied for reauthorization to defer unrecovered environmental costs associated with Gasco, Wacker (now known as Siltronic), Portland Gas (aka Front Street), Portland Harbor, Central Gas Hold 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, CPA
220 NW Second Avenue
Portland, Oregon 97209-3991
Telephone: (503) 226-4211 Ext. 5858**

**Public Utility Commission of Oregon
Attn: Filing Center
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 Reauthorization for Deferral Application by February 24, 2017. 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 REAUTHORIZATION 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 24th day of January 2017.

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