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July 31, 2015

VIA ELECTRONIC FILING

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

Re: Dockets UM 1635 and UM 1706

Attention Filing Center:

Attached for filing in the above-captioned dockets is an electronic copy of the Stipulation re Parties Request to Amend Order No. 15-049 Pursuant to ORS 756.568 and the Joint Explanatory Brief in Support of Stipulation.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo
Office Manager

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1635 PHASE II & UM 1706

In the Matters of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Mechanism for Recovery of
Environmental Remediation Costs

(UM 1635)

and

Request for Determination of the
Prudence of Environmental Remediation
Costs for the Calendar Year 2013 and the
First Quarter of 2014

(UM 1706)

**STIPULATION RE: PARTIES REQUEST
TO AMEND ORDER NO. 15-049
PURSUANT TO ORS 756.568**

This Stipulation (“Stipulation”) is entered into for the purpose of resolving disagreements among the parties regarding NW Natural Gas Company’s (NW Natural, or the Company) Application for Reconsideration and/or Clarification filed on March 31, 2015, in which it requested that the Public Utility Commission of Oregon (“the Commission”) reconsider or clarify that portion of its Order No. 15-049 (“Order”) in which it directed NW Natural to hold approximately \$100.3 million in insurance proceeds to be applied to future remediation costs “in a secure account, with interest accruing at the highest rate the company is able to obtain while reasonably minimizing the risk to the principal”¹ (hereinafter, “the Application”). The Company pointed out that it had incurred a tax liability of 39.5 percent on the insurance proceeds and therefore asked the Commission to issue an order

¹ *In the Matters of Northwest Natural Gas Company, dba NW Natural, Mechanism for Recovery of Environmental Remediation Costs and Request for Determination of the Prudence of Environmental Remediation Costs for the Calendar Year 2013 and the First Quarter of 2015*, Dockets UM 1635 and UM 1706, Order No. 15-049 at 7 (Feb. 20, 2015).

confirming that only the after-tax balance need be held in a secure account.² This Stipulation reflects the parties' agreement that instead of continuing litigation of the Application, NW Natural would withdraw its Application and the parties would instead request that the Commission amend its Order under its authority pursuant to ORS 756.568 consistently with the terms of agreement below.

This Stipulation is supported by the concurrently-filed Brief in Support of Stipulation.

PARTIES

1. The parties to this Stipulation are NW Natural, Commission Staff ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (collectively, "Parties").³

BACKGROUND

2. On February 20, 2015, the Commission issued the Order in this docket. That Order states in relevant part:

We do not adopt any of the parties' arguments regarding which interest rate should be applied to the insurance proceeds. Instead, we direct NW Natural to hold the insurance proceeds in a secure account, with interest accruing at the highest rate the company is able to obtain while reasonably minimizing the risk to principal.⁴

As we discussed earlier, recognizing that the remediation work at issue here may continue for as long as twenty years, we allocate approximately \$100.3 million of the insurance proceeds for future remediation work, and will apply \$5 million in insurance proceeds to each year moving forward, plus

² Application, pp. 3-5.

³ Portland General Electric Company is a party to this docket but did not participate in the settlement discussions.

⁴ *In the Matters of Northwest Natural Gas Company, dba NW Natural, Mechanism for Recovery of Environmental Remediation Costs and Request for Determination of the Prudence of Environmental Remediation Costs for the Calendar Year 2013 and the First Quarter of 2015*, Dockets UM 1635 and UM 1706, Order No. 15-049 at 7 (Feb. 20, 2015).

interest accrued on the entire outstanding insurance proceeds balance over the previous 12 months.⁵

3. On March 31, 2015, Northwest Natural filed the Application. In the Application, NW Natural stated that it interpreted the Order to require the Company to place in a secure account \$100.3 million in insurance proceeds to be credited as an offset to future remediation costs.⁶ The Company pointed out that it had incurred a tax liability of 39.5 percent on the insurance proceeds and therefore asked the Commission to issue an order confirming that only the after-tax balance need be held in a secure account.⁷

4. The Application also provided additional detail as to the amount of insurance proceeds available to be credited toward past and future environmental remediation expenses.⁸ In the Order, the Commission referred to the approximately \$150.5 million in insurance proceeds. NW Natural asserted that the actual total amount of insurance proceeds and other environmental recovery proceeds available to NW Natural for past and future periods was actually \$147.1 million. NW Natural asserted that it arrived at this adjustment from \$150.5 million of insurance proceeds as follows: First, NW Natural had received an additional \$1.685 million of insurance proceeds in December 2014, which increased the total insurance proceeds from \$150.5 million to \$152.2 million. Next, NW Natural allocated \$147.1 million of the \$152.2 million of insurance proceeds to Oregon customers based upon the Commission-approved state allocation. Pursuant to Order No. 14-077 in Docket UG 263, the Commission authorized NW Natural to apply \$2.5 million of

⁵ *Id.* at 11 (emphasis added).

⁶ Application, at p. 2.

⁷ Application, pp. 3-5.

⁸ The amounts listed in this paragraph do not include accrued interest on the insurance proceeds. Importantly, as explained in paragraph 11 below, the parties do not agree on NW Natural's calculations.

the insurance proceeds to the expenditures associated with the Gasco Upland Pumping Station.⁹ NW Natural, therefore, deducted this \$2.5 million from the \$147.1 million of Insurance Proceeds for an adjusted total of \$144.6 million of insurance proceeds. After allocating one third of this amount to historical deferrals (incurred through December 31, 2012), and applying \$1.8 million in insurance proceeds to 2013 environmental expenditures, NW Natural asserted that \$96.4 million remains available to be credited against future environmental remediation expenses as opposed to the \$100.3 million figure cited in the Order.

5. On April 15, 2015, Staff, NWIGU, and CUB all filed responses opposing NW Natural's Application. Generally, these parties argued that NW Natural's Application was not legally sufficient and that reconsideration of the Order is procedurally and substantively inappropriate because the information contained in the Application had been available to the Company during the proceeding. NW Natural filed a Reply on April 22, arguing that while the information contained in the Application had been available to the Company during the proceeding, no party had proposed that the Company deposit the insurance proceeds in a secure account, and therefore the information was not relevant until the Commission directed the Company to use a secure account in the Order. On May 1st, Administrative Law Judge Pines instructed the parties to "meet and confer" regarding the issues raised in the Application and in the responses to the Application and to report back to the Commission on any agreement they might be able to reach.¹⁰

6. On May 19, 2015, and again on May 22, 2015 the Parties met at the Commission offices to discuss settlement as directed by Judge Pines. As a result of those

⁹ *In the Matter of NW Natural Gas Company, dba, NW Natural, Investigation into the Prudence of Gasco Site Capital Costs*, Docket UG 263, Order No. 14-077 (Mar. 5, 2014).

¹⁰ ALJ Ruling, issued May 2015.

discussions, the Parties agreed that NW Natural would withdraw its Application and that the Parties would settle their differences on the following terms:

AGREEMENT

7. The Parties do not necessarily agree to all of the non-tax-related adjustments to the insurance proceeds NW Natural asserted should apply as described in paragraph 4. The amount of insurance proceeds subject to the rate treatment described in this Stipulation will be resolved in the compliance process for Order No. 15-049 (“Compliance Process”). The amount of insurance proceeds that will be determined in the Compliance Process and that will be subject to the rate treatment described in this Stipulation is referred to as the “pre-tax insurance proceeds” in this Stipulation.

8. The value of the pre-tax insurance proceeds as ordered by the Commission will be used as an offset against prudently incurred deferred environmental remediation costs before the application of earnings tests. In the Order, the Commission stated that Northwest Natural “will apply \$5 million in insurance proceeds to each year moving forward, plus interest accrued on the entire outstanding insurance proceeds balance over the previous 12 months.”¹¹ NW Natural will accomplish this by annually crediting (prior to the application of the earnings test) \$5 million plus the interest that accrued on the entire pre-tax insurance proceeds for the preceding 12 months, at the rate described below in Paragraph 11, as an offset against prudently incurred deferred environmental remediation costs.

9. It is unnecessary for the Company to hold insurance proceeds in a secure account in order to ensure that the funds are protected from loss of principal. For that reason, the Parties agree that the Commission should amend the Order to eliminate the

¹¹ Order 15-049 at 11. Note that the issue in this Stipulation, related to the Application, is the interest on a going-forward basis. CUB’s Public Meeting letter, May 25, 2015, also raised a concern about how the interest that has already accumulated was handled in the Company’s Compliance filing, which the Commission declined to approve on May 19, 2015.

direction to NW Natural to hold insurance proceeds for future environmental remediation costs in a secure account.

10. In order to ensure that all uncredited insurance proceeds will be available to offset prudently incurred deferred environmental remediation costs regardless of the Company's financial condition, in the event that the Company's credit rating drops below investment grade, the Company will secure a letter of credit from an accredited institution agreed to by the Parties for the uncredited balance of pre-tax insurance proceeds, including any unapplied interest.¹² The Company will maintain and renew annually the letter of credit in the amount of the uncredited balance, unless or until relieved of that obligation by the Commission. As the balance declines, the Company will ensure that the letter of credit always sufficiently matches that balance. The cost of the letter of credit will be borne by customers. The Parties further agree that if the Commission directs Northwest Natural to obtain a letter of credit on the pre-tax insurance proceeds notwithstanding Northwest Natural's credit rating, and so long as the costs of the letter of credit are borne by ratepayers, such Commission decision, in this docket or another docket, does not constitute a "material" change to the Stipulation that triggers a Party's ability to withdraw from the Stipulation under paragraph 16 below.

11. The Parties agree that interest on the pre-tax insurance proceeds will accrue at the Prudence-Reviewed Unamortized Environmental Remediation Expense ("PURE") rate beginning on the date the Commission issued its Order in this proceeding. The PURE rate will accrue on all remaining insurance proceeds that have not been credited against prudently incurred deferred environmental remediation costs. The PURE rate is established early each year by OPUC Staff and represents the 5-year US Treasury rate plus 100 basis points.

¹² A letter of credit provides the company access to the stated level of monies, at the company's discretion, regardless of the company's financial condition.

12. Prior to February 20, 2018, no Party will seek to change the ratemaking treatment of the pre-tax insurance proceeds agreed to in this Stipulation or ask the Commission to include in rates a deferred tax asset associated with the taxes paid on the insurance proceeds. Subsequent to February 20, 2018, if any Party seeks to modify any provision of this Stipulation, all Parties are no longer bound to this Stipulation's treatment of insurance proceeds and may propose for Commission consideration any ratemaking mechanisms, and interest, on a going-forward basis, related to insurance proceeds, as that Party deems appropriate.

13. The Parties do not agree with all aspects of NW Natural's calculation of the pre-tax insurance proceeds available to be credited as an offset to deferred environmental expenses, as described in paragraph 4 of this Stipulation; however, they do recognize that the total amount of pre-tax insurance proceeds available to be credited as an offset to environmental expenses may need to be adjusted for the following: (1) the amount applied to offset the cost of the Gasco Pumping Station; (2) the applicable state allocation factor; and (3) the correct application of interest,, all of which are at issue in the compliance filing process.

GENERAL PROVISIONS

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

NW NATURAL

By: *Lisa Rackner*

Printed Name: Lisa Rackner

Date: 7/30/15

STAFF

By: _____

Printed Name: _____

Date: _____

CUB

By: _____

Printed Name: _____

Date: _____

NWIGU

By: _____

Printed Name: _____

Date: _____

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

for Stephanie Andrews

NW NATURAL

STAFF

By: _____

By: *Mike*

Printed Name: _____

Printed Name: *Mike Weirich*

Date: _____

Date: *7/30/15*

CUB

NWIGU

By: _____

By: _____

Printed Name: _____

Printed Name: _____

Date: _____

Date: _____

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

NW NATURAL

By: _____

Printed Name: _____

Date: _____

STAFF

By: _____

Printed Name: _____

Date: _____

CUB

By: *Bob Jenkins*

Printed Name: Bob Jenkins

Date: 7-30-15

NWIGU

By: _____

Printed Name: _____

Date: _____

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

NW NATURAL

By: _____

Printed Name: _____

Date: _____

CUB

By: _____

Printed Name: _____

Date: _____

STAFF

By: _____

Printed Name: _____

Date: _____

NWIGU

By:  _____

Printed Name: Chad Stokes

Date: 7/31/15

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

3
4 In the Matter of:

5 **NORTHWEST NATURAL GAS**
6 **COMPANY, dba NW NATURAL**

7 **Mechanism for Recovery of**
8 **Environmental Remediation Costs**

9 **(UM 1635)**

10 **and**

11 **Request for Determination of Prudence of**
12 **Environmental Remediation Costs for the**
13 **Calendar Year 2013 and the First Quarter**
14 **of 2014**

15 **(UM 1706)**

JOINT EXPLANATORY BRIEF

16 **I. INTRODUCTION**

17 This brief explains and supports the contemporaneously-filed Stipulation among
18 Northwest Natural Gas Company (“NW Natural” or “Company”), the Citizens’ Utility Board of
19 Oregon (“CUB”), the Northwest Industrial Gas Users (“NWIGU) and Staff of the Public Utility
20 Commission of Oregon (“Staff”) (together, the “Stipulating Parties”). This Stipulation resolves
21 all issues raised by NW Natural’s Application for Reconsideration and/or Clarification of Order
22 No. 15-049 (“Application”) in which NW Natural requested that the Public Utility Commission of
23 Oregon (“the Commission”) reconsider or clarify that portion of its Order No. 15-049 (“Order”)
24 in which it directed NW Natural to hold approximately \$100.3 million in insurance proceeds to
25 be applied to future remediation costs “in a secure account, with interest accruing at the highest
26 rate the company is able to obtain while reasonably minimizing the risk to the principal.”¹ The

¹ *In the Matters of Northwest Natural Gas Company, dba NW Natural, Mechanism for Recovery of Environmental Remediation Costs and Request for Determination of the Prudence of Environmental*

1 Stipulating Parties urge the Commission to adopt the Stipulation because it will produce fair and
2 reasonable rates and will maintain and enhance the benefits to customers intended by the
3 Order.

4 II. BACKGROUND

5 On February 20, 2015, the Commission issued the Order in this docket. That Order states
6 in relevant part:

7 We do not adopt any of the parties' arguments regarding which
8 interest rate should be applied to the insurance proceeds. Instead,
9 we direct NW Natural to hold the insurance proceeds in a secure
10 account, with interest accruing at the highest rate the company is
11 able to obtain while reasonably minimizing the risk to principal.²

12 . . .

13 As we discussed earlier, recognizing that the remediation
14 work at issue here may continue for as long as twenty years, we
15 allocate approximately \$100.3 million of the insurance proceeds for
16 future remediation work, and will apply \$5 million in insurance
17 proceeds to each year moving forward, plus interest accrued on the
18 entire outstanding insurance proceeds balance over the previous
19 12 months.³

20 On March 31, 2015, NW Natural filed the Application. In the Application, NW Natural
21 stated that it interpreted the Order to require the Company to place in a secure account \$100.3
22 million in insurance proceeds to be credited as an offset to future remediation costs.⁴ The
23 Company pointed out that it had incurred a tax liability of 39.5 percent on the insurance proceeds
24

25 ¹ *Remediation Costs for the Calendar Year 2013 and the First Quarter of 2015*, Dockets UM 1635 and UM
26 1706, Order No. 15-049 at 7 (Feb. 20, 2015).

² *In the Matters of Northwest Natural Gas Company, dba NW Natural, Mechanism for Recovery of
Environmental Remediation Costs and Request for Determination of the Prudence of Environmental
Remediation Costs for the Calendar Year 2013 and the First Quarter of 2015*, Dockets UM 1635 and UM
1706, Order No. 15-049 at 7 (Feb. 20, 2015).

³ *Id.* at 11 (emphasis added).

⁴ Application, at p. 2.

1 and therefore asked the Commission to issue an order confirming that only the after-tax balance
2 need be held in a secure account.⁵

3 The Application also provided additional detail as to the amount of insurance proceeds
4 available to be credited toward past and future environmental remediation expenses.⁶ In the
5 Order, the Commission referred to the approximately \$150.5 million in insurance proceeds.⁷
6 NW Natural asserted that the actual total amount of insurance proceeds and other
7 environmental recovery proceeds available to NW Natural for past and future periods was
8 actually \$147.1 million.⁸ NW Natural asserted that it arrived at this adjustment from \$150.5
9 million of insurance proceeds as follows: First, NW Natural had received an additional \$1.685
10 million of insurance proceeds in December 2014, which increased the total insurance proceeds
11 from \$150.5 million to \$152.2 million.⁹ Next, NW Natural allocated \$147.1 million of the \$152.2
12 million of insurance proceeds to Oregon customers based upon the Commission-approved
13 state allocation.¹⁰ Pursuant to Order No. 14-077 in Docket UG 263, the Commission authorized
14 NW Natural to apply \$2.5 million of the insurance proceeds to the expenditures associated with
15 the Gasco Upland Pumping Station.¹¹ NW Natural, therefore, deducted this \$2.5 million from
16 the \$147.1 million of Insurance Proceeds for an adjusted total of \$144.6 million of insurance
17 proceeds.¹² After allocating one third of this amount to historical deferrals (incurred through
18 December 31, 2012), and applying \$1.8 million in insurance proceeds to 2013 environmental

19 ⁵ Application, pp. 3-5.

20 ⁶ The amounts listed in this paragraph do not include accrued interest on the insurance proceeds.
Importantly, as explained in paragraph 11 below, the parties do not agree on NW Natural's calculations.

21 ⁷ Order No. 15-049 at 6.

22 ⁸ Application at p. 2.

23 ⁹ Application at pp. 2-3.

24 ¹⁰ *Id.* at 3.

25 ¹¹ *In the Matter of NW Natural Gas Company, dba, NW Natural, Investigation into the Prudence of Gasco
Site Capital Costs*, Docket UG 263, Order No. 14-077 (Mar. 5, 2014).

26 ¹² Application at p. 3.

1 expenditures, NW Natural asserted that a pre-tax amount of \$96.4 million remains available to
2 be credited against future environmental remediation expenses as opposed to the \$100.3
3 million figure cited in the Order.¹³

4 On April 15, 2015, Staff, NWIGU, and CUB all filed responses opposing NW Natural's
5 Application. Generally, these parties argued that NW Natural's Application was not legally
6 sufficient and that reconsideration of the Order is procedurally and substantively inappropriate
7 because the information contained in the Application had been available to the Company during
8 the proceeding. NW Natural filed a Reply on April 22, 2015 arguing that while the information
9 contained in the Application had been available to the Company during the proceeding, no party
10 had proposed that the Company deposit the insurance proceeds in a secure account, and
11 therefore the information was not relevant until the Commission directed the Company to use a
12 secure account in the Order. On May 1, 2015 Administrative Law Judge Pines instructed the
13 parties to "meet and confer" regarding the issues raised in the Application and in the responses
14 to the Application and to report back to the Commission on any agreement they might be able
15 to reach.¹⁴

16 On May 19, 2015, and again on May 22, 2015 the Parties met at the Commission offices
17 to discuss settlement as directed by Judge Pines.

18 III. AGREEMENT

19 As a result of those discussions, the Parties agreed that NW Natural would withdraw its
20 Application and that the Parties would settle their differences on the following terms:

- 21 1. The Parties do not necessarily agree to all of the non-tax-related
22 adjustments to the insurance proceeds NW Natural asserted should apply
23 as described in paragraph 4 of the Stipulation. The amount of insurance
24 proceeds subject to the rate treatment described in this Stipulation will be

25 ¹³ *Id.*

26 ¹⁴ ALJ Ruling, issued May 2015.

1 resolved in the compliance process for Order No. 15-049 (“Compliance
2 Process”). The amount of insurance proceeds that will be determined in
3 the Compliance Process and that will be subject to the rate treatment
4 described in this Stipulation is referred to as the “pre-tax insurance
5 proceeds” in this Stipulation.

- 6 2. The value of the pre-tax insurance proceeds as ordered by the Commission
7 will be used as an offset against prudently incurred deferred environmental
8 remediation costs before the application of earnings tests. In the Order, the
9 Commission stated that NW Natural “will apply \$5 million in insurance
10 proceeds to each year moving forward, plus interest accrued on the entire
11 outstanding insurance proceeds balance over the previous 12 months.”¹⁵
12 NW Natural will accomplish this by annually crediting (prior to the
13 application of the earnings test) \$5 million plus the interest that accrued on
14 the entire pre-tax insurance proceeds for the preceding 12 months, at the
15 rate described below in Paragraph 11, as an offset against prudently
16 incurred deferred environmental remediation costs.
- 17 3. It is unnecessary for the Company to hold insurance proceeds in a secure
18 account in order to ensure that the funds are protected from loss of
19 principal. For that reason, the Parties agree that the Commission should
20 amend the Order to eliminate the direction to NW Natural to hold insurance
21 proceeds for future environmental remediation costs in a secure account.
- 22 4. In order to ensure that all uncredited insurance proceeds will be available
23 to offset prudently incurred deferred environmental remediation costs

24 _____
25 ¹⁵ Order 15-049 at 11. Also note, the issue in this Stipulation, related to the Application, is the interest on
26 a going-forward basis. CUB’s Public Meeting letter, May 25, 2015, also raised a concern about how the
interest that has already accumulated was handled in the Company’s Compliance filing, which the
Commission declined to approve on May 19, 2015.

1 regardless of the Company's financial condition, in the event that the
2 Company's credit rating drops below investment grade, the Company will
3 secure a letter of credit from an accredited institution agreed to by the
4 Parties for the uncredited balance of pre-tax insurance proceeds, including
5 any unapplied interest.¹⁶ The Company will maintain and renew annually
6 the letter of credit in the amount of the uncredited balance, unless or until
7 relieved of that obligation by the Commission. As the balance declines, the
8 Company will ensure that the letter of credit always sufficiently matches
9 that balance. The cost of the letter of credit will be borne by customers.
10 The Parties further agree that if the Commission directs NW Natural to
11 obtain a letter of credit on the pre-tax insurance proceeds notwithstanding
12 NW Natural's credit rating, and so long as the costs of the letter of credit
13 are borne by ratepayers, such Commission decision, in this docket or
14 another docket, does not constitute a "material" change to the Stipulation
15 that triggers a Party's ability to withdraw from the Stipulation under
16 paragraph 16 of the Stipulation.

- 17 5. The Parties agree that interest on the pre-tax insurance proceeds will
18 accrue at the Prudence-Reviewed Unamortized Environmental
19 Remediation Expense ("PURE") rate beginning on the date the
20 Commission issued its Order in this proceeding. The PURE rate will accrue
21 on all remaining insurance proceeds that have not been credited against
22 prudently incurred deferred environmental remediation costs. The PURE
23 rate is established early each year by OPUC Staff and represents the 5-
24 year US Treasury rate plus 100 basis points. .

25 _____
26 ¹⁶ A letter of credit provides the company access to the stated level of monies, at the company's
discretion, regardless of the company's financial condition.

1 The Parties agree that the Stipulation will both maintain and enhance these goals. With
2 respect to the first goal, the Stipulating Parties agree that customers can receive reasonable
3 assurance that the environmental remediation expenses will be offset by the full amount of the
4 insurance proceeds through the requirement that the Company maintain a letter of credit in the
5 event that the Company's credit rating falls below investment grade. The Commission's second
6 goal - to provide customers a reasonable rate of interest on the insurance proceeds--is
7 enhanced by the Stipulation because NW Natural has agreed to pay a higher rate of interest to
8 customers than customers would otherwise receive under the Order. While maintaining the
9 funds in a secure account ensures the safety of the funds, it is an expensive solution in that it
10 will pay a relatively low interest rate. Under the Stipulation, however, NW Natural will pay the
11 five year Treasury rate plus 100 basis points on all uncredited insurance proceeds. In the
12 unlikely event that a letter of credit should be required, that cost will be more than offset by the
13 interest rate, compared with the rate that would be earned in a secure account. As a result of
14 the Stipulation, customers will be better off under the Stipulation than if the insurance proceeds
15 were held in a secure account, accruing interest yielded by a secure account.

16 **B. The Stipulation is Supported by the Record, and Will Result in Just and Reasonable**
17 **Rates.**

18 The Commission will adopt a stipulation if it is supported by competent evidence in the
19 record, appropriately resolves the issues in a case, and results in just and reasonable rates.¹⁷

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¹⁷ See *Re PacifiCorp's 2010 Transition Adjustment Mechanism*, Docket UE 207, Order No. 09-432 at 6 (Oct. 30, 2009) ("The Commission concludes that the Stipulation is an appropriate resolution of all primary issues in this docket."); See *Re PacifiCorp Request for a General Rate Revision*, Docket UE 210, Order No. 10-022 at 6 (Jan. 26, 2010) ("When considering a stipulation, we have the statutory duty to make an independent judgment as to whether any given settlement constitutes a reasonable resolution of the issues."); *Re PacifiCorp Request for a General Rate*, Docket UE 217, Order No. 10-473 at 7 (Dec. 14, 2010) ("We have reviewed the Stipulation, and find that it will result in rates that are fair, just, and reasonable.").

1 When evaluating the rates, the Commission examines “the reasonableness of the overall
2 rates.”¹⁸ Here, the Stipulation satisfies these standards.

3 First, the Stipulation is supported by the record, which establishes the amount of insurance
4 received by the Company, and the Commission’s Orders requiring those proceeds to be used
5 to offset environmental remediation expenses.¹⁹

6 Second, the Stipulating Parties agree that the terms of the Stipulation maintain and
7 enhance the terms of the Commission’s Order by ensuring that the insurance proceeds will be
8 available to offset environmental remediation expenses, at the same time providing an
9 increased economic benefit to customers through higher interest rates than would have been
10 received under the terms of the Order. For this reason, the rates that result from this Stipulation
11 are just and reasonable and fall within the “range of reasonableness” for resolution of these
12 issues.²⁰

13 **V. CONCLUSION**

14 For all of the above reasons, the Stipulating Parties request that the Commission approve
15 the Stipulation.

16 *////*

17 *////*

18 *////*

19 *////*

20 *////*

21 *////*

22 _____

23 ¹⁸ *Re Application of Portland General Electric Co. for an Investigation into Least Cost Plant Retirement*,
24 Docket DR 10 et al., Order No. 08-487 at 7-8 (Sept. 30, 2008).

25 ¹⁹ *See In the Matter of Northwest Natural Gas Company’s Application for Authorization of Deferred*
26 *Accounting of Unrecovered Environmental Costs*, Docket UM 1078, Order No.03-328 (April 27, 2006),
and subsequent orders issued in that docket.

²⁰ *See Re US West*, Docket UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).

1 DATED: July 31st, 2015

Respectfully submitted,

2 **MCDOWELL RACKNER & GIBSON PC**

3 

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Attorney for NW Natural

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