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July 11, 2013

## VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center  
Public Utility Commission of Oregon  
PO Box 2148  
Salem, OR 97308-2148

Re: Docket UM 1635 – Northwest Natural Gas Company's Mechanism for Recovery of  
Environmental Remediation Costs

Attention Filing Center:

Enclosed for filing in the above-captioned docket are an original and five copies of the Prudence  
and Earnings Test Stipulation.

A copy of this filing has been served on all parties to this proceeding as indicated on the  
enclosed Certificate of Service.

Please contact this office with any questions.

Very truly yours,

Handwritten signature of Wendy McIndoo in blue ink.

Wendy McIndoo  
Office Manager

Enclosure

cc: Service List

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM 1635**

In the Matter of

NORTHWEST NATURAL GAS COMPANY,  
dba NW Natural

Mechanism for Recovery of Environmental  
Remediation Costs

**PRUDENCE AND EARNINGS TEST  
STIPULATION**

This Prudence and Earnings Test Stipulation (“Stipulation”) is entered into for the purpose of resolving the issues among the parties to this Stipulation related to all remaining issues in this docket, including: (1) the prudence of NW Natural’s environmental remediation costs deferred to date; (2) the earnings test and appropriate deadband to be applied to recovery of environmental remediation costs through Northwest Natural Gas Company’s (“NW Natural” or “the Company”) Site Remediation Recovery Mechanism; (3) the appropriate rate treatment for the costs of the Gasco Pumping Station; and (4) the appropriate state allocation factor to be applied to environmental remediation costs.

**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”).<sup>1</sup>

**BACKGROUND**

2. On November 16, 2012, the Public Utility Commission of Oregon (“Commission”) issued Order No. 12-437 in Docket UG 221, the final order in the Company’s most recent general rate case. In that order, the Commission adopted a mechanism for recovery of the Company’s environmental remediation deferrals known as the Site Remediation Recovery

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<sup>1</sup> Portland General Electric Company is a party to this docket but did not participate in the settlement discussions.

Mechanism (“SRRM”).<sup>2</sup> The Commission found that “[a]n earnings test with a deadband will be applied” to the SRRM recoveries, but left the determination of the appropriate deadband and application of the earnings test to a new proceeding.<sup>3</sup> The Commission also ordered that a prudence review of the expenses NW Natural deferred would take place in the new proceeding. This docket was opened to address these issues.

3. Administrative Law Judge (“ALJ”) Hardie issued a Notice of Prehearing Conference and Memorandum on December 10, 2012 that outlined the issues to be addressed in this docket as follows: (1) the prudence of NW Natural’s environmental remediation costs; (2) the appropriate deadband to be applied to recovery of environmental remediation costs; (3) the appropriate application of the earnings test ordered in Docket UG 221; and (4) the appropriate rate spread to apply to recoverable costs.<sup>4</sup>

4. Pursuant to ALJ Pines’ Prehearing Conference Memorandum of February 7, 2013, the parties to this docket convened a workshop on rate spread issues on February 11, 2013. NW Natural, Staff, CUB, and NWIGU participated in the workshop. At the workshop the parties discussed potential settlement of rate spread.

5. NW Natural filed direct testimony on March 29, 2013. Among the other issues discussed in its direct testimony, the direct testimony of C. Alex Miller stated that the parties had reached an agreement in principle on the appropriate rate spread for environmental remediation costs.

6. On April 10, 2013 the Parties filed a stipulation resolving all issues related to rate spread of any amount included in the SRRM that the Commission approves for rate recovery.

7. Staff, CUB, and NWIGU filed rebuttal testimony on the remaining issues in this docket on May 3, 2013. NW Natural filed reply testimony on May 28, 2013.

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<sup>2</sup> See *NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-437 at 31 (Nov. 16, 2012).

<sup>3</sup> *Id.*

<sup>4</sup> *Re NW Natural Gas Co. Mechanism for Recovery of Environmental Remediation Costs*, Docket UM 1635, Notice of Prehearing Conference and Memorandum (Dec. 10, 2012).

8. On April 10, May 10, and May 31, 2013 the parties to this docket convened settlement conferences. As a result of these settlement conferences, the Parties have reached a settlement resolving all remaining issues in this docket, including: (1) the issue of the prudence of NW Natural's environmental remediation costs deferred to date; (2) the appropriate earnings test and appropriate deadband to be applied to recovery of environmental remediation costs through the Company's Site Remediation Recovery Mechanism; (3) the appropriate rate treatment for the costs of the Gasco Pumping Station; and (4) the appropriate state allocation factor to be applied to environmental remediation costs.

## **AGREEMENT**

### **Prudence**

9. The Parties agree that the total net environmental remediation expenses incurred by NW Natural through December 31, 2012 in the amount of \$97,624,243 (including interest) were prudently incurred, with the exception of \$33,400 in expenses. NW Natural confirms that the \$97,624,243 (including interest) deferred does not reflect expenses paid for fines or penalties. NW Natural also agrees that the \$33,400 will not be included in the SRRM. The Parties further agree that the insurance settlements finalized through December 31, 2012 were prudently executed.

### **Earnings Test**

10. *Amounts Deferred Prior to January 1, 2013.* To resolve the issue of the appropriate earnings test to be applied to environmental remediation expenses deferred through December 31, 2012, the Parties agree that \$7.0 million dollars of the \$97,624,243 (including interest) deferred through December 31, 2012 should be disallowed from recovery through the SRRM, but that the remaining amounts will begin to be amortized through the SRRM on November 1, 2013.

11. The amounts through December 31, 2012, described in paragraphs 9 and 10 above are summarized as follows:

Environmental Spend	\$97,624,243	
Insurance receipts	<u>\$40,704,064</u>	
Net	<u>\$56,920,179</u>	balance at 12/31/2012
Reduction per prudence review	\$33,400	
Reduction per settlement	<u>\$7,000,000</u>	
SRRM amount through 12/31/2012	<u>\$49,886,779</u>	

12. *Amounts Deferred on or After January 1, 2013.* The Parties agree that the earnings test to be applied to environmental remediation expenses deferred on or after January 1, 2013 will be conducted on an annual basis as follows in this section and in Sections 13 and 14 below:

a. If the Company's results of operations ("ROO") for a given year show that the Company earnings were below 75 basis points below the Company's authorized return on equity in that year ("Authorized ROE"),<sup>5</sup> the Company will be allowed to collect all of the prudently incurred environmental remediation expenses deferred in that year.

b. If the Company's ROO for a given year shows that the Company's earnings are between 75 basis points below Authorized ROE and Authorized ROE (or at ROE), the Company will credit to the balance of the SRRM, up to the amount deferred for that year net of insurance proceeds or third-party recoveries allocated to that year under paragraph 12 below ("Net Amount Deferred"), 10 percent of its earnings between 75 basis points below Authorized ROE and Authorized ROE.

c. If the Company's ROO for a given year show that the Company's earnings are above Authorized ROE but less than or equal to 50 basis points above Authorized ROE, the Company will credit to the balance of the SRRM, up to the Net Amount Deferred: (1) 80 percent of the Company's earnings between Authorized ROE and 50 basis points above Authorized ROE; and (2) 10 percent of its earnings between 75 basis points below Authorized ROE and Authorized ROE.

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<sup>5</sup> If the Commission approves a change to the Company's authorized ROE that is effective during a year, the Authorized ROE will be calculated based on a monthly weighted average of the ROEs authorized in that year.

d. If the Company's ROO for a given year shows that the Company's earnings are more than 50 basis points above Authorized ROE, the Company will credit to the balance of the SRRM, up to the Net Amount Deferred: (1) 95 percent of its earnings above 50 basis points above Authorized ROE; (2) 80 percent of its earnings between Authorized ROE and 50 basis points above Authorized ROE; and (3) 10 percent of its earnings between 75 basis points below Authorized ROE and Authorized ROE.

e. In no case will the credit to the SRRM in a given year resulting from the above earnings test be higher than the Net Amount Deferred in that year. Parties, during prudence review of these expenses, reserve the right to inquire about the timing of deferred expenses, and to argue that a different timing should be imputed to the extent the Parties believe the timing was influenced by the Company's anticipated or calculated earnings in any particular year.

f. In the event that the Commission were to modify or clarify the methodology for how the utility determines and reports its Results of Operations, such modification or clarification will apply to the ROO as described in this stipulation.

13. *Application of Insurance Proceeds and Third-Party Recoveries.* Insurance proceeds and third-party recoveries will be credited to the SRRM as follows:

a. The insurance proceeds or third-party recoveries received as of the close of business December 31, 2012 will be credited against expenses deferred prior to that period for purposes of rate recovery and the earnings test.

b. Any insurance proceeds or third-party recoveries received after close of business December 31, 2012 will be credited against the amounts approved for amortization in the SRRM in equal amounts per year over the 10-year period following NW Natural's receipt of the funds, for purposes of rate recovery and the earnings test.

c. The Parties agree that once insurance proceeds or third-party recoveries are received by the Company, those amounts will incur interest, until credited to customers in accordance with the above provisions of this section 13, at a rate calculated as the weighted average of the 5-year Treasury Bill rate plus 100 basis points, at a 4/5<sup>th</sup> weighting, and the Modified Blended Treasury Rate, at a 1/5<sup>th</sup> weighting.

14. *Reexamination of SRRM and Earnings Test.* After the sooner of: (1) the date on which the amount collected from customers through the SRRM reaches \$250 million, or (2) 10 years elapses after the SRRM's adoption, any party may petition the Commission to change the SRRM, including advocating for its elimination or a new construct. The SRRM as adopted in UG 221 and in this case will remain in place until altered by Commission decision.

#### **Gasco Pumping Station**

15. The capital costs associated with the Gasco Pumping Station will be evaluated for prudence following its completion, expected by the end of the third quarter of 2013. If the Commission determines that costs associated with the Gasco Pumping Station were prudently incurred, those costs will be included in base rates at the time of the first subsequent Purchased Gas Adjustment. The Parties will work collaboratively to determine the extent to which any insurance amounts received in the future should be applied against the amounts of rate base included in base rates for the Gasco Pumping Station.

#### **State Allocation Factor**

16. The parties agree that 96.68% of the deferred costs amortized through the SRRM will be allocated to Oregon customers.

#### **General Provisions**

17. 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.

18. 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.

19. 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.

20. 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.

21. 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.

SIGNATURE PAGE TO FOLLOW



NW NATURAL

By: C.A. Miller

Printed Name: C. Alex Miller

Date: 7/11/13

STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NWIGU

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By:  \_\_\_\_\_

Printed Name: Jason Jones

Date: 7/3/13

NWIGU

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_


STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

By:  \_\_\_\_\_

Printed Name: G.C. McGracken

Date: 7-3-13

NWIGU

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_


STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NWIGU

By:  \_\_\_\_\_

Printed Name: TOMMY A BROOKS

Date: 7/3/2013

1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in Docket UM  
3 1635 on the following named person(s) on the date indicated below by email addressed to said  
4 person(s) at his or her last-known address(es) indicated below.

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16 DATED: July 11, 2013

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Wendy McIndoo  
Office Manager

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