

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1635
Phase II

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Mechanism for Recovery of
Environmental Remediation Costs.

MEMORANDUM

The Commission has scheduled a prehearing conference for this docket on December 10, 2013. At the prehearing conference, parties should be prepared to offer a proposed schedule for Phase II of these proceedings.

To help clarify the scope of the proceedings, the Commission offers the following guidance. The parties may file clarifying questions regarding this memorandum, if necessary.

Prudence, Rate Spread, and Jurisdictional Allocation

With regard to the issues of prudence, rate spread, and jurisdictional allocation, while parties are not foreclosed from discussing these issues in Phase II, the Commission finds that no further factual development or analysis is required. The Commission has no concerns with the parties' settlement on these issues. We invite the parties to settle again unless the rejection of the original stipulation causes any party to revisit the issues.

Expenditures before December 31, 2012 (Past Expenditures)

In Phase II, parties will be directed to address the following issues and cite to Commission and any other applicable authority:

- What policy considerations should guide the Commission's adoption of an earnings test mechanism for past expenditures?
- Should the mechanism consider past earnings and expenditures on an annual or aggregate basis? Why or why not?
- Should revenue gains or losses from the WACOG incentive sharing mechanism be included in earning for purposes of conducting the earnings test? Why or why not?
- Should the mechanism include a deadband? Why or why not? If the mechanism should include a deadband, what should be the range of the deadband? Why?

- How should the Commission determine what constitute reasonable earnings for the utility's historical period? Should the Commission allow recovery of environmental remediation expenses to bring earnings up to the bottom of the deadband range, to the authorized return on equity, or to the top of the deadband range? Why?
- How should the mechanism address insurance proceeds?

Forward-Looking Mechanism (expenditures after December 31, 2012)

In Phase II, parties will be directed to address the following issues and cite to Commission and any other applicable authority:

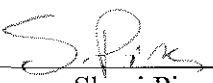
- Should the Commission provide an incentive for NW Natural to minimize environmental remediation costs and pursue insurance remedies? Why or why not? If we should provide such an incentive, how should we provide it? Why?
- What policy considerations should guide the Commission's adoption of an earnings test mechanism for expenditures after December 31, 2012? Why?
- How should the Commission address such issues as the inclusion or not of WACOG earnings in earnings calculations, average versus aggregate earnings tests, treatment of insurance proceeds, earnings deadbands, and all other factors relevant to the design of the earnings test? Why?

Inclusion in Rates

In Phase II, parties will be directed to address the following issues and cite to Commission and any other applicable authority:

- Should the Commission continue to defer all environmental remediation expenses, or place a certain amount in rates each year on a forward-looking basis without subjecting that amount to deferral? Why?
- If the Commission should place a certain amount of expenses in rates each year without subjecting that amount to deferral, what should the amount be or what process should the Commission use to determine that amount?

Dated this 5th day of December, 2013, at Salem, Oregon.



 Shani Pines
 Administrative Law Judge