

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1406

In the Matter of)	
)	
NW NATURAL GAS COMPANY, dba NW)	ORDER
NATURAL)	
)	
Application for an Accounting Order.)	

**DISPOSITION: STIPULATION ADOPTED;
APPLICATION APPROVED**

On November 25, 2008, Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), filed an application with the Public Utility Commission of Oregon (Commission), for an accounting order to record the costs associated with its new System Integrity Program (SIP) as capital expenditures, in accordance with the Stipulation¹ agreed upon by the Citizens' Utility Board of Oregon, Northwest Industrial Gas Users, NW Natural, and Staff. A description of the filing, its procedural history, and the basis for the request is detailed in Staff's Report, attached as Appendix A, and incorporated by reference.

At its February 24, 2009 Public Meeting, Staff motioned to change the effective date from November 25, 2008, to October 1, 2008. The motion was granted.

ORDER

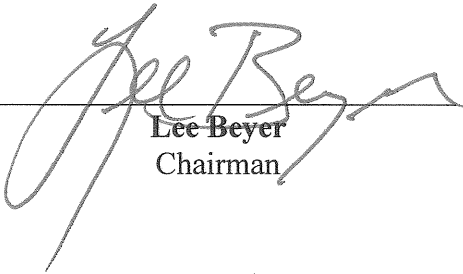
IT IS ORDERED that:

1. Northwest Natural Gas Company's request for adoption of the Stipulation associated with the System Integrity Program is approved.

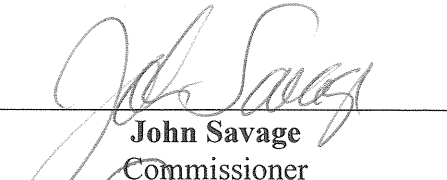
¹ Attached as Appendix B

2. Northwest Natural Gas Company's request for approval of an accounting order to record the costs associated with its new System Integrity Program as capital expenditures, is approved, with an effective date of October 1, 2008.

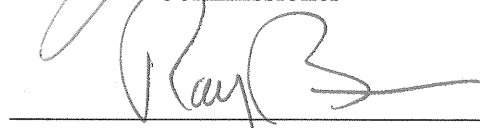
Made, entered, and effective MAR 01 2009.



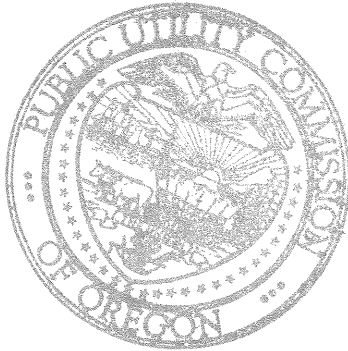
Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 24, 2009

REGULAR _____ CONSENT X EFFECTIVE DATE November 25, 2008

DATE: January 22, 2009

TO: Public Utility Commission

FROM: Lisa Gorsuch and Carla Owings

THROUGH: Lee Sparling, Ed Busch, and Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1406) Requests adoption of the Stipulation associated with the new System Integrity Program and requests an Accounting Order to record the associated costs as capital expenditures.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural's (NWN or Company) request for the adoption of the Stipulation associated with its new System Integrity Program (SIP), agreed upon by the Citizens' Utility Board of Oregon (CUB), Northwest Industrial Gas Users (NWIGU), NWN and Staff (collectively, the Parties), and an Accounting Order to record the associated costs as capital expenditures, be approved with an effective date of November 25, 2008.

DISCUSSION:

Background

NWN has maintained multiple safety programs. These included a Cast Iron Replacement Program and Geohazard Program, both of which have been discontinued.¹ They now include the Transmission Integrity Management Program (TIMP), which was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 (2002 Improvement Act) and PHMSA² Natural Gas Integrity Management Rule,

¹ Some of the activities that had previously been conducted under the Geohazard program will now be properly conducted under the Transmission Integrity Management Program (TIMP) and/or Distribution Integrity Management Programs (DIMP), as required by applicable federal regulations.

² US Department of Transportation Pipeline and Hazardous Materials Safety Administration.

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January 22, 2009
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and the Bare Steel Replacement Program (Bare Steel Program), which was approved by the Commission in 2001 and had an original completion date of 2021.

The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 (2006 PIPES Act) expands requirements of the 2002 Improvement Act by requiring PHMSA to prescribe minimum standards for Distribution Integrity Management Programs (DIMP) to cover the integrity and broader aspects of distribution mains, services, and other gas related appurtenances. In addition, the 2006 PIPES Act significantly expands the requirements of all stakeholders relative to excavation damage prevention.

While previously implemented separately, the NWN Cast Iron, Bare Steel, and Geohazard programs all were designed to address the issues raised and regulations formulated as a result of federal legislation to improve natural gas transmission and distribution system safety.

NWN has proposed changes to its current Schedule 177, Adjustments to Rates for Safety Programs. As it currently exists, Schedule 177 describes the adjustments to rates for costs associated with the three separate safety related programs described above. The Company now proposes to revise Schedule 177 to reference one integrated safety program. The new integrated program, SIP, with its three focus areas will allow for a risk-based approach to addressing system integrity issues.

NWN states the creation of the SIP will allow NWN to minimize costs and create a more risk-based approach to system integrity issues, including new distribution management issues.

Stipulation and Request for Accounting Order

On November 25, 2008, NWN filed an application for an Accounting Order, and the Joint Parties filed a Stipulation that reflects the agreements as to accounting treatments, cost recovery, cost tracking and cost of service for the new SIP.

Under the Stipulation and proposed Accounting Order, all costs associated with its SIP activities, exceeding the related operation and maintenance (O & M) expense included in the last applicable rate case, would be classified as capital expenditures.

Per the Stipulation agreed to by the Parties, NWN will track SIP costs on a project basis. Project costs would accumulate in capital accounts that would be designated as SIP activities and would be tracked by NWN on a per job basis. NWN would track the

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Page 3

SIP investment annually to obtain a total result for each year, with the proposed tracking period running from November 1 to October 31 (Tracker Year).

Total annual SIP expenditures would have a soft cap of \$12 million per Tracker Year, excluding 2008 where current program approvals for Bare Steel and Transmission Integrity are applicable. Program expenditures could only exceed \$12 million in a Tracker Year with the written consent of the Parties.

The actual amount eligible for recovery through cost of service would be \$8.176 million. This amount is calculated as the \$12 million cap less the following adjustments. NWN will not seek recovery through the proposed annual rate adjustment amounts for the following: 1) current O & M funding embedded in rates of approximately \$574,000 per year; 2) additional O & M costs related to DIMP damage prevention; 3) the first \$3 million in combined bare steel and leakage capital costs, and 4) an additional \$250,000 in SIP capital costs.

On an annual basis, the most recent actual SIP costs incurred during the 12-month period from November 1 prior to the Purchased Gas Adjustment (PGA) filing date through October 31 would be used to determine the SIP Cost of Service for the relevant year.³ The SIP Cost of Service would be included in NWN's PGA subject to an audit by Staff. Upon Commission approval of the SIP Cost of Service, an adjustment would be made to permanent rates (Schedules 1-3, 31, 32, 33 and 54) effective November 1 during the term of the revenue recovery period.

For each recovery period, NWN would develop a cost of service for the SIP investment which would include incremental depreciation expense, property tax, return on investment, income taxes and other costs customarily relating to utility investment. The capital structure and the cost of long term debt and preferred stock to be used in the calculation of the return on rate base would be those adopted by the Commission in NWN's most recent rate case.

The Parties agree that, subject to audit, rates would be adjusted each fall within NWN's PGA, in the same manner used for recovery of costs under the previous integrity management program, as approved in Order No. 04-390.

The Parties agree that costs would be recovered through one adjustment schedule comprised of parts for each program under Schedule 177. Per the Stipulation, the revised schedule would include the following parts:

³ A portion of the annual costs will be based on estimated activities.

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January 22, 2009
Page 4

- Part A will account for costs related to the Bare Steel Replacement Program. NWN will allocate 70% of the cumulative investment to Residential and Commercial firm sales and transportation customers taking service under Rate Schedules 1, 2, 3, 31, and 54 on an equal cents per therm basis. The remaining 30% will be allocated on an equal percent of margin basis to all customer classes and within a rate schedule shall be spread on a declining block basis. The cost recovery for this part shall be as agreed to in Order No. 04-390.
- Part B will account for costs related to TIMP. Part B costs will be spread to all customer classes on an equal percent of margin and within a rate schedule shall be spread on a declining block basis.
- Part C will account for costs related to DIMP. Part C costs will be spread to all customer classes on an equal percent of margin and within a rate schedule shall be spread on a declining block basis.

Each April NWN would provide the Parties with a forecast of expenses through October 31, 2011, as outlined in the Stipulation. Each August NWN would provide the Parties a report of actual expenses.

PROPOSED COMMISSION MOTION:

NWN's request for adoption of the Stipulation associated with the SIP and an Accounting Order to record the associated costs as capital expenditures be approved with an effective date of November 25, 2008.

NWN UM 1406

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1406

In the Matter of
NORTHWEST NATURAL'S System Integrity
Program

STIPULATION

This Stipulation is entered into for the purposes of renewing existing programs for Bare Steel and Transmission Integrity Management; consolidating such programs into a single System Integrity Program ("SIP"); and including within the SIP a new program for Distribution Integrity Management. The new integrated SIP, with its three focus areas, will allow for a risk-based approach to addressing system integrity issues.

PARTIES

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

BACKGROUND

2. NW Natural has maintained a number of safety programs. These included a Cast Iron Replacement Program and a Geohazard Program, both of which have been discontinued.¹ They now include the Transmission Integrity Management Program ("TIMP"), which was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 ("2002

¹ Some of the activities that had previously been conducted under the Geohazard program will now be properly conducted under the TIMP and/or DIMP programs, as required by applicable federal regulations.

Improvement Act”) and PHMSA² Natural Gas Integrity Management Rule, and the Bare Steel Replacement Program (“Bare Steel Program”), which was approved by the Commission in 2001 and had an original completion date of 2021.

3. The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 (“2006 PIPES Act”) expands requirements of the 2002 Improvement Act by requiring PHMSA to prescribe minimum standards for Distribution Integrity Management Programs (“DIMPs”) to cover the integrity and broader aspects of distribution mains, services, and other gas related appurtenances. In addition, the 2006 PIPES Act significantly expands the requirements of all stakeholders relative to excavation damage prevention.

4. While previously implemented separately, the NW Natural’s Cast Iron, Bare Steel, and Geohazard programs all were designed to address the issues raised and regulations formulated as a result of federal legislation to improve natural gas transmission and distribution system safety. Going forward, it would be difficult to separate these critical programs from regulations that have emerged, and will emerge in the future, from the 2002 and 2006 safety acts. Each individual program plays an integral part in ensuring that the NW Natural complies with the legislative and regulatory framework. It is also evident based upon past history that variations in work load in each category will invariably occur.

5. NW Natural is requesting renewal and consolidation of existing programs for Bare Steel and TIMP, and inclusion of DIMP, into a single System Integrity Program. The new, integrated program with its three focus areas will allow for a risk-based approach to addressing system integrity issues.

AGREEMENT

6. **Accounting Treatment.** The Parties agree to support NW Natural’s request for an accounting order to classify SIP costs as capital costs.

² U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration.

7. **Cost Tracking.** NW Natural will track SIP costs on a project basis. Project costs would accumulate in capital accounts that would be designated as SIP activities and would be traced by NW Natural on a per job basis. NW Natural would track the SIP investment annually to obtain a total account for each year, with the proposed tracking period running from November 1 to October 31 ("Tracker Year").³

8. **Cost Recovery.** NW Natural will not seek recovery through the proposed annual rate adjustment for: 1) current O&M funding embedded in rates of approximately \$574 thousand per year; 2) additional O&M costs related to DIMP damage prevention; 3) the first \$3 million in combined bare steel and leakage capital costs, and 4) an additional \$250,000 in SIP capital costs.

On an annual basis, the most recent actual SIP costs incurred during the period from November 1 prior to the PGA filing date plus an estimate of activity through October 31 would be used to determine the SIP Cost of Service (as described in Paragraph 9) for the relevant year. The SIP Cost of Service would be included in the NW Natural's PGA subject to an audit by OPUC Staff. Upon Commission approval of the SIP Cost of Service, an adjustment would be made to permanent rates (Schedules 1-3, 31, 32, 33 and 54) effective November 1 during the term of the revenue recovery period, in accordance with the allocation methods described in paragraph 11 below.

9. **Cost of Service.** The SIP Cost of Service would be identified using the same process that was used in the previous UM 1156/TIMP costs and UM 1030/Bare Steel and Geohazard Risk Mitigation Costs. See Order Nos. 04-390, 02-687, 01-843, Schedule 177 and the Stipulation entered into August 3, 2001 between NW Natural and Staff. That is, for each recovery period, NW Natural would develop a cost of service for the SIP investment which would include incremental depreciation, expense, property tax, return, income taxes and other costs customarily relating to utility investment. The capital structure and the cost of long term

³ For the 2008-2009 year, the relevant period would be October 1, 2008 through October 31, 2009.

debt and preferred stock to be used in the calculation of a return on rate base would be those adopted by the Commission in NW Natural's most recent rate case.

The Parties agree that, subject to audit, rates would be adjusted each fall within NW Natural's PGA, in the same manner used for recovery of costs under the previous integrity management program, as approved in Order No. 04-390.

10. **Recovery Cap.** Total annual SIP expenditures would have a soft cap of \$12 million per Tracker Year (\$8.176 million recoverable through cost of service), excluding 2008 where current program approvals for Bare Steel and Transmission Integrity are applicable. Program expenditures could only exceed \$12 million in a Tracker Year with the written consent of OPUC Staff, NWIGU, and CUB.

11. **Program Parts.** The Parties agree that costs would be recovered through one adjustment schedule comprised of parts for each program. Attached as Exhibit A is Draft Revised Schedule 177, reflecting these changes.

a. Part A will account for costs related to the Bare Steel Replacement Program. NW Natural will allocate seventy percent (70%) of the cumulative investment to Residential and Commercial firm sales and transportation customers taking service under Rate Schedules 1, 2, 3, 31, and 54 on an equal cents per therm basis. The remaining 30% will be allocated on an equal percent of margin basis to all customer classes and within a rate schedule shall be spread on a declining block basis. The cost recovery for this part shall be as agreed to in Order No. 04-390.

b. Part B will account for costs related to TIMP. Part B costs will be spread to all customer classes on an equal percent of margin and within a rate schedule shall be spread on a declining block basis.

c. Part C will account for costs related to DIMP. Part C costs will be spread to all customer classes on an equal percent of margin and within a rate schedule shall be spread on a declining block basis.

12. **Annual Forecast.** Each April, OPUC Staff, NWIGU, and CUB will receive a forecast of expenses through October 31, 2011, broken down into Parts A, B, and C, as described above; however, NW Natural will have the flexibility to shift dollars between the three Parts based on NW Natural's assessment of annual risk and need.

13. **Annual Report.** Each August, NW Natural will provide OPUC Staff, NWIGU, and CUB a report of actual expenses by Tracker Year broken down by specific projects and initiatives.

14. **Bare Steel.** In 2001, the OPUC Staff and NW Natural entered into a Bare Steel Stipulation to allow NW Natural to replace its bare steel distribution and transmission facilities within twenty years. See attached Exhibit B. The intent of the SIP Stipulation is to allow, for the term of the SIP Stipulation, funds previously earmarked for bare steel to be shifted among all three of the SIP Parts (Parts A, B, and C). To that extent, the SIP Stipulation overrides any inconsistent provisions in the Bare Steel Stipulation.

NW Natural will maintain its obligation under the Bare Steel Stipulation to complete the replacement of its bare steel distribution and transmission facilities by 2021. Upon expiration of the SIP Stipulation, the Parties agree that the Bare Steel Stipulation will remain in effect.

15. **Commission May Request Rate Case.** After July 1, 2009, if NW Natural is not already engaged in a general rate filing, the Commission may request that NW Natural submit a general rate filing in Oregon no later than eight months thereafter. NW Natural shall bear the burden of proof in such filing, in accordance with ORS 757.210.

Because this provision could be viewed as inconsistent with the WARM/decoupling stipulation, we have consulted with the other parties to that Stipulation on this provision. NW Energy Coalition, CAPO and DOE have confirmed that they have no objection. To the extent necessary, this provision will overrule any inconsistent provisions of the WARM/decoupling stipulation.

16. **Term.** This Stipulation shall apply to costs incurred after September 30, 2008, and shall apply to costs incurred the earlier of October 31, 2011, or until the effective date of new rates adopted in the Company's next general rate case.

17. **Integrated Document.** 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 disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

18. 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. No party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

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19. 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.

NORTHWEST NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD OF OREGON

By *C. Alex Miller*
C. Alex Miller
Director, Regulatory Affairs and
Forecasting

By _____
Robert Jenks
Executive Director

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____
Paula E. Pyron
Executive Director

By: _____
Jason Jones
Attorney for Staff
Oregon Department of Justice

Date: _____

Date: _____

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NORTHWEST NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD OF OREGON

By _____
C. Alex Miller
Director, Regulatory Affairs and
Forecasting

By Robert Jenks
Robert Jenks
Executive Director

Date: _____

Date: 11/25/08

NORTHWEST INDUSTRIAL GAS USERS

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____
Paula E. Pyron
Executive Director

By: _____
Jason Jones
Attorney for Staff
Oregon Department of Justice

Date: _____

Date: _____

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NORTHWEST NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD OF OREGON

By _____
C. Alex Miller
Director, Regulatory Affairs and
Forecasting

By _____
Robert Jenks
Executive Director

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: Paula E. Pyron
Paula E. Pyron
Executive Director

By: _____
Jason Jones
Attorney for Staff
Oregon Department of Justice

Date: 11/24/2008

Date: _____

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NORTHWEST NATURAL GAS COMPANY

CITIZENS' UTILITY BOARD OF OREGON

By _____
C. Alex Miller
Director, Regulatory Affairs and
Forecasting

By _____
Robert Jenks
Executive Director


Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____
Paula E. Pyron
Executive Director

By:  _____
Jason Jones
Attorney for Staff
Oregon Department of Justice

Date: _____

Date: 11/25/08

Exhibit A
to System Integrity Program Stipulation
Dated November 25, 2008

Draft Revised Schedule 177

SCHEDULE 177
SYSTEM INTEGRITY PROGRAM RATE ADJUSTMENT

PURPOSE:

To recover the costs associated with the Company's System Integrity Program according to Commission Order 08-XXX and the stipulated terms and conditions included as Appendix A to this Order.

GENERAL TERMS:

This Schedule is governed by the terms of this Schedule, the General Rules and Regulations contained in this Tariff and by all rules and regulations prescribed by regulatory authorities, as amended from time to time.

SYSTEM INTEGRITY PROGRAM ADJUSTMENT RATE

The System Integrity Program Adjustment Rate recovers the costs incurred from the Company's System Integrity Program which consists of the following parts:

Part A – Bare Steel Replacement Program This program was initiated in 2001 with an estimated completion date of schedule of 2021. The costs for this program will be classified as capital expenditures. The Company will allocate 70% of the cumulative investment to Residential and Commercial firm sales and transportation customers taking service under Rate Schedules 1, 2, 3, 31 and 54 on an equal cents per therm basis. The remaining 30% will be allocated on an equal percent of margin basis to all customer classes. The cost recovery for this Part shall be as agreed to in the Safety Program Stipulation, dated April 17, 2002.

Part B – Transmission Integrity Management Program (TIMP) – This program was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 and PHMSA Natural Gas Integrity Management Rule. Associated costs will be spread to all customer classes on an equal percent of margin.

Part C - Distribution Integrity Management Program (DIMP) – This program was initiated in 2008 and will focus on damage prevention. Associated costs will be spread to all customer classes on an equal percent of margin.

SPECIAL PROVISIONS

1. The per annum cost recovery under this adjustment rate schedule shall not exceed \$12 million dollars without express written consent from all parties to the Stipulation attached to Commission Order 08-XXX as Appendix A.
2. In April, the Company will provide parties to UG-XX an annual forecast of program expenditures and in August, a report of actual program spending compared with annual collections under this adjustment schedule.

(continue to Sheet 177-2)

Issued Month X, 2008
NWN Advice No. OPUC 08-XX

Effective with service on
and after Month X, 2008

**SCHEDULE 177
SYSTEM INTEGRITY PROGRAM RATE ADJUSTMENT**

SPECIAL PROVISIONS (Continued)

- The rate adjustment will be changed each October with a November 1 effective date. The rate change will be based on actual and forecasted expense and investment activity through September 30 and adjusted to reflect the difference between the previous year's actual versus forecasted costs.

TERM:

This adjustment rate shall be in effect through December 31, 2021 or until such other time as the Commission may approve.

APPLICATION TO RATE SCHEDULES:

Effective: November 1, 2008

The Adjustments shown below are included in the Base Adjustments in the listed Rate Schedules:

Schedule	Block	Part A		Part B	Part C	Total Adjustment
		70%	30%			
1R		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
1C		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
2		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
3 (CSF)		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
3 (ISF)		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
19		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
31 (CSF)	Block 1	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
31(CTF)	Block 1	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
31 (CSI)	Block 1	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
31 (ISF)	Block 1	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
31 (IFT)	Block 1	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
31 (ISI)	Block 1	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
32 (all)	Block 1	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 2	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 3	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 4	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 5	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
	Block 6	n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
33 (all)		n/a	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX
54		\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX	\$0.XXX

Issued Month X, 2008
NWN Advice No. OPUC 08-XX

Effective with service on
and after Month X, 2008

Exhibit B
to System Integrity Program Stipulation
Dated November 25, 2008

2001 Bare Steel Stipulation in Docket UM 1030

RECEIVED

OCT - 2 2001

RATES &
REGULATORY AFFAIRS

ORDER NO. 09-067

ORDER NO. 01-843

ENTERED SEP 28 2001

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1030

In the Matter of the Application of)
NORTHWEST NATURAL for Deferred) ORDER
Accounting of Safety Program Costs.)

DISPOSITION: DEFERRED ACCOUNTING APPLICATION APPROVED

On August 29, 2001, Northwest Natural (NW Natural) filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.259, for an accounting order requesting authorization to defer safety program costs. A description of the filing and its procedural history is contained in the Staff Report and supporting exhibits, attached as Appendix A, and incorporated by reference.

At its Public Meeting on September 25, 2001, the Commission adopted Staff's Recommendations 1, 2, and 3. Only Recommendation 3, the application for an accounting order, requires a Commission order.

ORDER

IT IS ORDERED THAT Northwest Natural's application for an accounting order regarding authorization of deferred accounting for safety program costs, as described in Appendix A, is granted. This approval is for accounting purposes only.

Made, entered and effective SEP 28 2001



BY THE COMMISSION:

Vikie Bailey Goggins
Vikie Bailey Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

FILE

ITEM NO. 6

PUBLIC UTILITY COMMISSION OF OREGON
 STAFF REPORT
 PUBLIC MEETING DATE: September 25, 2001

REGULAR CONSENT EFFECTIVE DATE October 1, 2001

DATE: September 19, 2001

TO: Phil Nyegaard through Lee Sparling *is*

FROM: Bonnie Tatom *bbt*

SUBJECT: NW Natural Advice No. OPUC 01-20

SUMMARY RECOMMENDATION:

I recommend the Commission: (1) allow the tariff sheets filed in Advice No. 01-20 to go into effect on October 1, 2001, (2) approve the rate spread used to spread the costs of the Bare Steel Replacement Program, (3) approve the company's deferred accounting application for its safety program costs (the Bare Steel Replacement and the Geohazard Risk Mitigation and Repair programs), and (4) approve the Stipulation, dated August 3, 2001, between NW Natural and Staff regarding rate treatment for NW Natural Safety Programs. This filing does not change the company's annual revenues at this time.

DISCUSSION:

On August 29, 2001, NW Natural submitted Schedule 177, "Revision of Charges for Bare Steel Replacement Program." The purpose of the filing is to include in the company's tariff, a schedule designed to recover costs associated with the company's accelerated bare steel replacement program. The company also included an application for deferred accounting of its safety program costs.

History

Over the last year, NW Natural, Staff, Citizens' Utility Board (CUB), and Northwest Industrial Gas Users (NWIGU) met to discuss the appropriate treatment of costs associated with the company's safety programs. These programs include the accelerated replacement of the company's bare steel distribution and transmission facilities and geohazard risk mitigation. The two significant issues concerning NW Natural's safety programs were (1) whether the company should accelerate bare steel replacement and how customers should pay for the company's investment and costs associated with the accelerated program, and (2) whether the company should pursue geohazard risk

NW Natural Advice No. OPUC 01-20 Bare Steel Replacement Program
September 19, 2001
Page 2

mitigation and how customers should pay for those activities. Following is a brief synopsis of these two issues:

Bare Steel Replacement

Early this year, Staff met with NW Natural to discuss its safety programs. PUC Safety & Reliability staff have been concerned for some time that the company's normal time frame for replacing corrosion-subject bare steel would likely result in higher costs of detecting and repairing leaks, and more importantly, impair the company's excellent service quality and safe distribution system. The bare steel has been in the ground for many years—some since the 1940s. With its current schedule, the company would not have completely replaced its bare steel system until roughly 2038. The company proposed a Stipulation that would allow the company to cut nearly in half the time frame necessary to replace the bare steel to the end of 2021. NW Natural is currently investing about \$3 million annually in bare steel replacement activities. The Stipulation allows the company to invest as much as \$6 million in its bare steel replacement activities, with the incremental \$3 million considered as accelerated bare steel replacement costs. The Stipulation further defines how these costs may be included in rates. At the time of the annual Purchased Gas Adjustment (PGA) filing, or some other suitable filing, NW Natural may include in rates, the cost of service associated with the entire accelerated bare steel replacement for the most recent 12-month period. Exhibit A to the Stipulation shows how the company will develop a cost of service for each year's accelerated bare steel replacement program costs.

Geohazard Risk Mitigation and Repair

Another concern to PUC Safety Staff is the health and safety risk associated with geohazards, defined as risk to distribution infrastructure from such things as landslide, washout and earthquake. These are not new risks; the company experienced several washouts due to wetter than normal conditions in 1999 that jeopardized the integrity of some portions of the company's distribution system. The Stipulation provides for a 5-year treatment of the cost to NW Natural of assessing geohazard risk, minimizing risk where possible, and repairing damage to facilities caused by geohazards. Staff and other parties were particularly concerned that the company could incur costs and request cost recovery for costs not associated with geohazard risk. The Stipulation specifies the types of risk that are covered, and the rate treatment that may be used depending on the nature of the work performed to repair geohazards. Specifically, under the Stipulation the company would not request cost recovery for what are typical O & M costs (that are already included in base rates) incurred to maintain and repair its distribution system, and would request cost recovery for assessing, mitigating or repairing geohazard risks.

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Rate Spread and Rate Design

NW Natural engineers estimated that the company's distribution and transmission facilities in Oregon included about 100 miles of uncoated steel plant. About 70 percent of the facilities are mains and services that serve principally residential and commercial customers. The remaining 30 percent consists of medium- and high-pressure facilities that serve all customers on the company's system. Using this engineering analysis, Staff and the other parties agreed that the company will allocate 70% of the cumulative investment to residential and commercial customers, spread on an equal cents per therm basis to those customers, and will allocate the remaining 30% of the cumulative investment to all customers, spreading this amount on an equal percent of margin basis. The initial rate changes that will occur as a result of the safety programs will be on or after October 1, 2002. The Stipulation is silent on the rate spread for the Geohazard Risk Mitigation and Repair Program. Rate spread will be addressed when NW Natural files for rate recovery of those costs.

The Stipulation

On August 3, 2001, NW Natural and Staff entered into a Stipulation which will allow the company to replace its bare steel distribution and transmission facilities within twenty years, and monitor and minimize "geohazards" such as landslide and washout that may damage distribution and transmission facilities and thereby cause service disruption or present safety problems. The Stipulation provides for recovery of program costs; Schedule 177 implements cost recovery for the bare steel portion of the Stipulation. The Stipulation contains provisions for Staff audit of the company's safety programs and annual reporting of progress on each of the programs. A copy of the Stipulation is attached as Exhibit A.

Proposed Safety Program Costs

The company included with its filing a worksheet showing an estimate of the cost of service for the bare steel replacement program. Assuming the entire \$3,000,000 in incremental bare steel replacement investment is made in a given year, the approximate cost of service associated with this investment is \$505,000. Under the terms of the Stipulation, residential customers on Schedule 2 would have a rate increase of .104 cents per therm. Commercial customers on Schedule 3 would have a rate increase of .098 cents per therm, while industrial customers on Schedule 91 (transportation customers) would see a rate increase of .003 cents per therm.

Deferred Accounting Application

Pursuant to ORS 757.259(2)(e), the company has requested deferred accounting treatment as necessary or required to record in appropriate sub-accounts of Account 186 any expenses eligible for rate treatment under the terms of the Stipulation for later treatment in rates in accordance with this filing. Deferred accounting is warranted in order

NW Natural Advice No. OPUC 01-20 Bare Steel Replacement Program
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to "match appropriately the costs borne by and benefits received by ratepayers." NW Natural estimates that through September 30, 2021, the company will spend approximately \$3 million per year in program costs for accelerated bare steel replacement and an undetermined amount for geohazard risk mitigation and repair. Deferrals will begin October 1, 2001. NW Natural's request is consistent with the requirements of ORS 757.259, OAR 860-027-0300, and the terms of the Stipulation. Staff recommends approval.

STAFF RECOMMENDATIONS:

I recommend the Commission take the following action regarding the NW Natural filing:

1. Allow the tariff sheets filed in Advice No. 01-20 to go into effect on October 1, 2001 (there are no rate changes in the tariff at this time).
2. Approve the rate spread used to spread the costs of the Bare Steel Replacement Program.
3. Approve the company's deferred accounting application for its safety program costs.
4. Approve the Stipulation, dated August 3, 2001, between NW Natural and Staff regarding rate treatment for NW Natural Safety Programs.

NW Natural Advice No. 01-20 Public Meeting Memo (Safety Programs)

Rates & Regulatory Affairs
Integrated Resource Planning
Facsimile: 503.721.2532



RECEIVED

August 3, 2001

AUG 10 2001

RATES &
REGULATORY AFFAIRS

Bonnie Tatom, Manager
Natural Gas Rates & Planning
Public Utility Commission of Oregon
550 Capitol Street, Northeast, Suite 215
Salem, Oregon 97301-2551



Re: Safety Program Stipulation

Enclosed are two originals of the company's Safety Program Stipulation. Please sign both where indicated and return one original. A self-addressed, stamped envelope is enclosed for your convenience.

Please call me at 1-503-721-2452 if you have any questions or require any further information.

Sincerely,

Susan K. Ackerman, Manager
Regulatory Affairs & Associate Counsel

SKA/cmt
enclosures

SAFETY PROGRAM STIPULATION

Date Entered: August 3, 2001
Parties to Stipulation: Northwest Natural Gas Company ("NW Natural" or "Company"); Oregon Public Utility Commission Staff ("Staff")

Regarding: Rate Treatment for NW Natural Safety Programs

1. This Safety Program Stipulation ("Stipulation") between NW Natural and Staff sets forth the terms the parties will support for rate treatment of NW Natural's natural gas transmission and distribution safety program(s). These programs ("safety programs") consist of (a) a long-term accelerated bare steel replacement program; and (b) a geohazard risk mitigation and repair program.
2. The parties agree that the safe and reliable operation of NW Natural's natural gas transmission and distribution system is necessary to providing adequate service to natural gas customers. The parties agree that the safety programs described in this Stipulation are intended to assist in maintaining a safe and reliable natural gas transmission and distribution system in NW Natural's Oregon service area.
3. NW Natural agrees to file, and Staff agrees to support, a tariff implementing the agreements set forth below in this Stipulation.
4. **Accelerated Bare Steel Replacement Program.** The parties agree that NW Natural's current natural gas transmission and distribution network in Oregon contains approximately 100 miles of bare (uncoated) steel plant. Bare steel plant consists of medium pressure mains and services, high pressure feeders, and ultra high pressure transmission, was installed in the 1940s, 1950s and early 1960s, and has been fully depreciated on the Company's books. The parties agree that replacing and retiring the bare steel portion of the Company's system will assist in maintaining a safe and reliable natural gas transmission and distribution system. The parties further agree that NW Natural is currently investing in a combined leakage and bare steel replacement program at a rate of investment of approximately \$3 million annually. At this level of investment, NW Natural estimates that bare steel plant will be replaced in approximately 37 to 40 years. Staff and the Company agree that an additional investment averaging approximately \$3 million annually will assist the company in a reasonably-expedited replacement of the bare steel plant. Staff and the Company agree that the rate treatment described in the following

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paragraphs is just and reasonable because it supports accelerated replacement of the bare steel in the Company's transmission and distribution system.

- 4.0 NW Natural agrees to undertake a capital investment program to replace the Company's bare steel plant in its entirety by December 31, 2021. Toward this end, the Company agrees to annually budget capital towards an accelerated bare steel replacement program in an amount averaging approximately \$3 million beginning in 2001 and in years following as required to replace the bare steel plant by the end of 2021.
- 4.1 The parties agree that the accelerated capital investment for bare steel replacement should average about \$3 million annually. The parties agree that, in any given year, investment by the Company in its accelerated bare steel replacement program may total as much as \$6 million under the terms of this agreement. The parties agree that investment in accelerated bare steel replacement exceeding \$6 million annually is not included in this program unless the parties agree otherwise. If in any year the Company's total investment in accelerated bare steel replacement is expected to exceed \$6 million, then the Company will so advise Staff. Company and Staff agree to consult about appropriate rate treatment for that portion of the investment that may exceed \$6 million. For purposes of calculating accelerated bare steel replacement program costs subject to rate treatment under the terms of this Stipulation, the first \$3 million of leakage and bare steel replacement investment will be considered base investment. The amount of program costs in excess of the \$3 million base that is related to bare steel replacement will be considered accelerated bare steel replacement investment. Accelerated bare steel replacement program costs may include the costs of replacement of other types of distribution and transmission piping, such as coated steel or plastic piping, when replacement of other types is incidental to a bare steel replacement project.
- 4.2 The parties agree that, except as modified by paragraph 4.8 below, NW Natural may include in rates at the time of each annual Purchased Gas Adjustment (PGA) filing, or other suitable filing, revenue in an amount equal to the cost of service associated with the entire accelerated bare steel replacement program for the most recent 12 month period. The 12-month periods shall run from October 1 through September 30 of each calendar year, and may include supportable estimates of accelerated bare steel replacement investment for months where data is unavailable at the time of filing.

- 4.3 For each 12-month period, the company will develop a cost of service for the cumulative investment in the accelerated bare steel replacement program¹. The cost of service will include incremental O&M expense, depreciation expense, property tax, return, income taxes and other costs customarily relating to a utility investment. The capital structure and the costs of long-term debt and preferred and preference stock to be used in the calculation of a return on rate base for the bare steel replacement program will be those adopted by the Commission in the Company's most recent general rate case. Exhibit A to this Stipulation depicts how the Company will develop a cost of service for each year's accelerated bare steel replacement program costs.
- 4.4 The Company's combined leakage and accelerated bare steel replacement program costs will be subject to an audit or other review by Staff at Staff's request. The audit is to be completed by June 30 of the year following the investment or such other time as is mutually agreeable. Staff's audit will provide the basis for any subsequent cost true-ups or adjustments. Cost true-ups or adjustments for each period will be included in program costs for the subsequent period, the net amount of which will be used in determining the cost of service for the subsequent year as described in paragraph 4.3 of this Stipulation.
- 4.5 At the time the Company files for rate treatment of its safety program in accordance with paragraphs 4.2 and 4.3 of this Stipulation, the Company will also submit a report to Staff containing sufficient information regarding the accelerated bare steel replacement program to assist in Staff review of the program. The report will contain information regarding the Company's activity for the 12 months for which rate treatment is sought, as well as on progress towards complete replacement of bare steel in accordance with paragraph 4.0 of this Stipulation. Exhibit B to this Stipulation is a list of the information the company will provide Staff.
- 4.6 To the extent the Company can quantify expense savings associated with the accelerated bare steel replacement program, the Company agrees to identify and report the benefits and to reflect a mutually agreeable adjustment to the amount of rate recovery in the subsequent year's filing.

¹ Cumulative investment means the cost of service calculated each year for capital investment added in the most recent 12-month period plus the updated calculation of the cost of service for capital investment made in all prior periods.

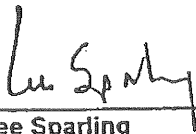
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- 4.7 Rate treatment of the accelerated bare steel replacement program as provided in this Stipulation will begin with the effective date of the Company's 2001 PGA filing, currently scheduled to be effective October 1, 2001, and every succeeding year until the bare steel facilities are replaced in their entirety in 2021.
- 4.8 If at any time between the effective date of this Stipulation and completion of the accelerated bare steel replacement program the Company files a request for a general rate review, then such request will include an appropriate adjustment to prohibit a double recovery of test period program costs. To the extent that accumulated prior period program investments are included in base rates in the general rate case, the stipulated rate treatment in subsequent years will reflect annual changes in cost of service for these prior period investments.
- 4.9 NW Natural agrees to file a tariff to collect the cost of service of the cumulative investment in the accelerated bare steel replacement program described in this Stipulation. The tariff will spread the cost of service of the cumulative investment as provided in this paragraph 4.9. The company will allocate 70% of the cumulative investment to residential and commercial customers, and will spread this amount on an equal cents per therm basis to residential and commercial customers. The company will allocate the remaining 30% of the cumulative investment to all customers, residential, commercial and industrial customers, and will spread this amount to all customers on an equal percent of margin basis.
5. **Geohazard Risk Mitigation and Repair.** The parties agree that recent wetter-than-average and other geologic conditions in NW Natural's service area pose risk to the public and to the safety and reliability of the company's distribution and transmission system from landslide, washout, earthquake and other geologic events (collectively, "geohazards"). The parties agree that assessing geohazard risk, monitoring geohazard risk sites, preventing damage from geohazards and repairing or replacing plant actually damaged by geohazards are all necessary to a safe and reliable transmission and distribution system. The parties agree that the rate treatment for costs associated with geohazard repair and risk mitigation, all as described in this paragraph 5 of this Stipulation, is just and reasonable.
- 5.0 NW Natural agrees to maintain a program of geohazard risk assessment, and to undertake reasonably necessary and prudent geohazard repair or risk mitigation as required to maintain a safe and reliable distribution and transmission system.

- 5.1 The parties agree that NW Natural may include in rates the costs associated with geohazard mitigation and repair as described in this paragraph 5 of this Stipulation to the extent that these costs are incremental to costs already embedded in permanent rates and to the extent that these costs are reasonably incurred.
- 5.2 If geohazard repair or risk mitigation imposes costs on the Company of the type customarily treated as capital investment in utility plant, then NW Natural may recover the cost of service of that investment in rates at the time of the next most recent PGA filing, or other suitable filing, following the investment. A cost of service for these capital expenses will be developed, and return will be determined, in accordance with the procedure outlined in paragraph 4.3 of this Stipulation.
- 5.3 If geohazard repair or risk mitigation imposes incremental O&M costs on the Company of the type customarily treated as utility expense, then NW Natural may defer such expense in a subaccount of Account 186 for later amortization in rates. Amortizations of such expenses will begin at the time of the next PGA filing. The Company agrees to annually file an application for deferred accounting (pursuant to O.R.S. 757.259) treatment, concurrently with each PGA filing, covering prospective expense associated with geohazard repair and risk mitigation.
- 5.4 The amounts to be included in rates due to the geohazard risk mitigation and repair will be subject to an audit or other review by Staff. Such review will be completed by June 30 of the year following the investment or repair.
- 5.5 These paragraphs 5 through 5.5 of this Stipulation governing geohazard repair and risk mitigation will terminate on December 31, 2006 such that geohazard repair and risk mitigation activity occurring after December 31, 2006 will not receive the rate treatment described herein unless further agreed between Staff and Company. Geohazard repair and risk mitigation activity occurring in the year prior to termination of this program on December 31, 2006 will be treated in accordance with Paragraphs 5.2, 5.3, and 5.4 of this Stipulation in the Company's 2007 PGA or similar filing. If the Company files for a general rate increase prior to December 31, 2006, then either Staff or Company may propose, in the rate case, an alternative treatment of geohazard risk mitigation and repair costs for prospective application following the conclusion of the rate case.

- 6. The parties' continuing agreement to this Stipulation is conditioned on Commission approval of the terms set forth herein. If at any time the Commission approves terms and conditions governing a bare steel replacement program or a geohazard risk mitigation and repair program that are different from the terms and conditions set forth in this Stipulation, then the parties will discuss whether the terms are acceptable and may negotiate changes acceptable to the Commission and parties. If either party cannot accept the Commission's changes and alternative terms cannot be agreed upon, then either party may terminate this Stipulation or any thereof by giving written notice to the other.
- 7. Either party may propose prospective changes to the terms in this Stipulation. Company and Staff agree to negotiate in good faith regarding any proposed changes. Any prospective changes to the terms of this Stipulation that the parties may agree upon shall not affect the rights and obligations that have already accrued under this Stipulation prior to any agreed upon change.

So Stipulated:



Lee Spurling
Administrator,
Electric & Natural Gas Division
Oregon Public Utility Commission



Susan Ackerman
Manager, Regulatory Affairs
and Associate Counsel
NW Natural

ORDER NO. 01-843

NWN Advice No. OPUC 01-20/Exhibit A
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ORDER NO. 09-067

BEFORE THE OREGON PUBLIC UTILITY COMMISSION



Attachment A

BARE STEEL PROGRAM
DETERMINATION OF COST OF SERVICE

TO

COMPANY'S SAFETY PROGRAM STIPULATION

OF

AUGUST 3, 2001

NW Natural
Bare Steel Program
Determination of Cost of Service (\$000)

ORDER NO. 09-067

		<u>Amount</u>
1	Rate Base - net of 1/2 year deprec. & def. tax	\$2,952
2	Operations and Maintenance	0
3	Depreciation	86
4	Property Taxes	42
Taxes on Equity Return		
5	State	17
6	Federal	83
7	Total Taxes	<u>100</u>
Return on Rate Base		
8	Debt	109
9	Preferred Equity	10
10	Common Equity	144
11	Total Return	<u>263</u>
12	Subtotal Cost of Service	491
13	Revenue Sensitive Items	<u>14</u>
14	Total Cost of Service	<u><u>\$505</u></u>

Cost of Capital			Weighted
	% of Capital	Cost	Cost
Debt	47.51%	7.75%	3.68%
Preferred Equity	4.78%	7.06%	0.34%
Common Equity	47.71%	10.25%	4.89%
	<u>100.00%</u>		<u>8.91%</u>
State Tax Rate			6.60%
Federal Tax Rate			35.00%
Revenue Sensitive Rate			2.813%
Depreciation Rate			2.87%
Property Tax Rate			1.39%
Incremental Investment			<u><u>\$3,000</u></u>

Income Taxes		
Gross up of Equity Return		254
Less: State tax		17
Federal Taxable Income		<u>237</u>
Less: Federal Tax		83
Return		<u>154</u>

Deferred Taxes		
Book Depreciation		86
Tax Depreciation		113
Book-Tax Difference		26
Tax Effect		10
Deferred Taxes - 1/2 year convention		5

ORDER NO. **01-843** ORDER NO. 09-067

BEFORE THE OREGON PUBLIC UTILITY COMMISSION



NW Natural

Attachment B

ACCELERATED BARE STEEL REPLACEMENT AND
LANDSLIDE PROGRAMS ANNUAL REPORT FORM

TO

COMPANY'S SAFETY PROGRAM STIPULATION

OF

AUGUST 3, 2001

ORDER NO. 09-067

Attachment B

The following describes the minimum information to be included in the Company's Annual Report to OPUC Staff regarding the Accelerated Bare Steel Replacement and Landslide Programs. Annual activity will be reported in terms of totals as of September 30. Amounts for the current year as included will be in the form of unaudited results as recorded. Additional descriptive information included as deemed necessary.

Summary for the period ending: _____

Description	Current Filing Year	Current 12 months	Program To Date
-------------	------------------------	----------------------	--------------------

Bare Steel Expenditures (\$000) [1]:

Total Leakage Capital [2]:

Total Bare Steel Program

Total Leakage Repair (O&M):

Annual Activity – counts :

Total Oregon system "B" Leaks

Total Oregon "B" leaks – Bare Steel

Total Oregon system "C" Leaks

Total Oregon "C" leaks – Bare Steel

Bare Steel Program Summary

Bare Steel Replaced (in miles):

Medium Pressure Mains & Svcs

High Pressure Feeders

Ultra High Pressure Transmission

LandSlide Program Expenditures [1]:

Total Capital Cost

Current Large Projects Highlights
(as deemed appropriate)

[1] Those costs reflected in the most recent Rate Filing

[2] Total leakage costs includes base amount in rates