

ORDER NO. 11 337
ENTERED AUG 30 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1406

In the Matter of

NW NATURAL GAS COMPANY, dba
NW Natural

Motion to Amend Order Approving
Stipulation and Application Regarding
Accounting Treatment of System
Integrity Program.

ORDER

DISPOSITION: ORDER NO. 09-067 AMENDED

I. Introduction

In Order No. 09-067, the Public Utility Commission of Oregon (Commission) adopted a stipulation and approved an Application for an Accounting Order regarding Northwest Natural Gas Company's, dba NW Natural (NW Natural or company), System Integrity Program. The parties to the original Stipulation were NW Natural, Northwest Industrial Gas Users (NWIGU), Citizens' Utility Board of Oregon (CUB), and the Commission Staff.

In this order, we grant a motion filed by NW Natural: (1) to amend and extend the effective date of the stipulation adopted in Order No. 09-067, and (2) to provide clarity regarding the accounting treatment of the company's System Integrity Program.

II. Background

NW Natural is a publicly traded company subject to both federal and state regulations, including federal regulations regarding the safety and integrity of the company's natural gas pipeline transmission and distribution systems. Over the years the company has adopted, discontinued, and merged various pipeline safety and integrity programs to comply with federal regulations issued by the U.S. Department of Transportation.

Initially, NW Natural implemented the Cast Iron Replacement Program and Geohazard Program, both of which have been discontinued.¹ Then, NW Natural adopted the Transmission Integrity Management Program (TIMP) and the Bare Steel Replacement Program (Bare Steel). TIMP was

¹ NW Natural's Motion to Amend Order Approving Stipulation (Order No. 09-067), 1-2 (Aug. 17, 2011).

adopted in response to the Pipeline Safety Improvement Act of 2002 and U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations.² Bare Steel was approved to allow NW Natural to “replace its bare steel distribution and transmission facilities” between 2001 and 2021.³ Then, the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 (2006 PIPES Act) was passed and required the PHMSA to establish “minimum standards for Distribution Integrity Management Programs (DIMPs) to cover the integrity and broader aspects of distribution mains, services, and other gas related appurtenances.”⁴ The 2006 PIPES Act also “significantly expanded the requirements of all stakeholders relative to excavation damage prevention.”⁵

The 2006 PIPES Act and its corresponding regulations, as well as previous federal laws and regulations, addressed different aspects of NW Natural’s existing and previous safety and integrity programs. Thus, NW Natural consolidates its safety and integrity programs into a single program, the System Integrity Program (SIP) that includes aspects of NW Natural’s Geohazard, TIMP, Bare Steel, and newly formed DIMP programs.⁶ In the stipulation approved in Order No. 09-067, the parties agreed that “all SIP costs exceeding the operation and maintenance (O&M) expense included in NW Natural’s prior rate case would be classified as capital costs” and recoverable in rates as specified in the stipulation pursuant to the Accounting Order.⁷

III. Discussion

NW Natural’s motion seeks two actions. First, NW Natural seeks to extend the term of the stipulation. Second, NW Natural seeks clarity on the accounting treatment and cost recovery of SIP costs. All parties to the stipulation either support NW Natural’s motion or do not oppose it.

A. Term of Stipulation

At the time of the stipulation, the parties believed that NW Natural would file a general rate case between September 1, 2011 and October 31, 2011. Based on that understanding, the parties agreed that the stipulation would apply to all SIP 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.”⁸

Since the stipulation was adopted, a subsequent Commission decision was issued that requires NW Natural to file a general rate case before December 31, 2011.⁹ NW Natural is now planning to file a general rate case prior to December 31, 2011, but is concerned that the terms of the

² *Id.* at 2.

³ *Id.*; Order No. 09-067, Appendix B, ¶ 14 (Mar. 1, 2009).

⁴ Motion to Amend Order Approving Stipulation (Order No. 09-067), 2 (Aug. 17, 2011).

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 2-3; Order No. 09-067, Appendix B, ¶ 6-11 (Mar. 1, 2009).

⁸ Order No. 09-067, Appendix B, ¶ 16 (Mar. 1, 2009).

⁹ *Id.*; Order No. 11-176, 4 (May 25, 2011).

stipulation will expire prior to the new rates going into effect.¹⁰ As NW Natural explains, under the original terms of the stipulation, “there would be a gap between the time the Stipulation expires and the new rates go into effect. During that time, there would be no cost recovery mechanism for NW Natural’s ongoing safety programs.”¹¹

To ensure recovery of prudently incurred SIP costs, NW Natural seeks to amend Order No. 09-067 to extend the stipulation to the effective date of new rates adopted in the company’s next general rate case. NW Natural estimates that the effective date for the new rates going into effect will be September of 2012.¹²

Under ORS 756.568, this Commission has authority, after notice to the public utility and providing an opportunity to be heard, to “rescind, suspend or amend any order made by the commission.” We find that good cause exists to use that authority to amend Order No. 09-067 and extend the term of the stipulation to the effective date of new rates adopted in NW Natural’s next general rate case, tentatively scheduled for September of 2012.

B. Accounting Treatment

As discussed above, NW Natural was granted an Accounting Order in the original stipulation to implement cost recovery for SIP costs. The parties in the original stipulation agreed that SIP costs that exceed the amount of O&M expense in NW Natural’s prior rate case would be treated as capital expenditures and recovered in rates in NW Natural’s rate base.¹³

NW Natural notes that the Commission’s approval of the Accounting Order did not contain an explicit term. For this reason, NW Natural does not believe that the accounting treatment portion of the stipulation needs to be amended to reflect the new term. Nonetheless, NW Natural asks the Commission to provide clarity on this issue.

For purposes of clarity, we affirm that the Accounting Order will continue to operate consistent with the new term of the stipulation.

¹⁰ Order No. 09-067, Appendix B, ¶ 16 (Mar. 1, 2009); Motion to Amend Order Approving Stipulation (Order No. 09-067), 3-4 (Aug. 17, 2011).

¹¹ Motion to Amend Order Approving Stipulation (Order No. 09-067), 3-4 (Aug. 17, 2011).

¹² *Id.* at 3.

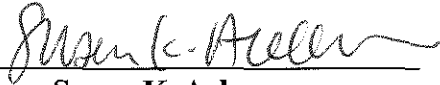
¹³ *Id.* at 2-3; Order No. 09-067, Appendix B, ¶ 6-11 (Mar. 1, 2009).

IV. ORDER

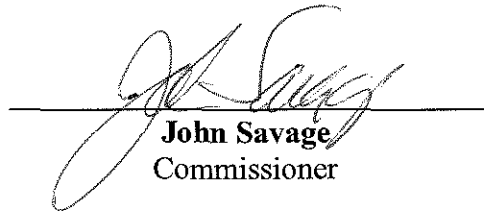
IT IS ORDERED that:

1. NW Natural's motion to amend and extend the Stipulation adopted in Order No. 09-067 to the effective date of new rates adopted in the Company's next general rate case is granted.
2. NW Natural's request for the continued approval of the accounting treatment approved in Order No. 09-067 to be extended for the duration of the Stipulation's extended term is granted.
3. The remainder of Order No. 09-067 remains unchanged.

Made, entered, and effective AUG 30 2011



Susan K. Ackerman
Commissioner



John Savage
Commissioner

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.