

ORDER NO. 13 179

ENTERED: MAY 16 2013

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1406

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

System Integrity Program.

ORDER

DISPOSITION: STIPULATION ADOPTED; COST RECOVERY CAP
FOR SAFETY-RELATED EXPENSES ALLOWED TO
INCREASE BY \$13.7 MILLION

In this order, we adopt a stipulation of the parties allowing Northwest Natural Gas Company, dba NW Natural, to raise the recovery cap for annual safety related expenditures by \$13.7 million over the two year period beginning November 1, 2012 and ending October 31, 2014.

I. BACKGROUND AND PROCEDURAL HISTORY

A. System Integrity Program (SIP)

Prior to 2009, NW Natural maintained a number of different safety programs. These included the Bare Steel Replacement Program,¹ the Transmission Integrity Management Program,² and the Distribution Integrity Management Program.³

On November 25, 2008, NW Natural filed an application for an accounting order to record the costs associated with all of the above-named programs as capital expenditures in a single new System Integrity Program (SIP). The application was supported by a stipulation reached between the company, the Citizens' Utility Board of Oregon (CUB), the Northwest Industrial Gas Users (NWIGU), and Commission Staff (collectively referred to as Joint Parties).

¹ The program was approved by the Commission in 2001 with an original completion date of 2021.

² This program was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 (the Act of 2002) and the U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration's (PHMHA's) Natural Gas Integrity Management Rule.

³ The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 expanded the requirements of the Act of 2002 by requiring the PHMHA to prescribe minimum standards to cover the integrity and broader aspects of distribution mains, services, and other gas-related appurtenances.

In Order No. 09-067,⁴ we approved the company's request for the accounting order to record costs associated with SIP as capital expenditures. The adopted stipulation established a soft cap on annual SIP expenditures of \$12 million, excluding certain costs related to the Bare Steel Replacement Program that is also subject to a separate stipulation.⁵ Expenditures may only exceed that amount with the written consent of Staff, NWIGU, and CUB. The company also agreed that it would not seek the recovery of certain expenses through the SIP program, including the first \$3 million in combined bare steel and leakage capital costs and an additional \$250,000 in SIP capital costs.

B. The UG 221 Partial Stipulation

As part of NW Natural's most recent rate case, the Joint Parties reached an additional stipulation relating to the company's SIP. In Order No. 12-408 we adopted the Joint Parties' stipulation, which provides: (1) the existing SIP would remain in place for two years after the effective date of the rate case, after which date it would sunset; (2) prior to the sunset date, the company would make an annual filing specifying projects and expenses that are proposed to be tracked into rates through the SIP for that year; (3) the limitations on recovery described in the previous paragraph would stay in place; (4) the Bare Steel stipulation would continue to remain in effect until 2021; and (5) the company would retain the right to ask the Commission to continue the SIP past the sunset date.⁶

II. STIPULATION AND AGREEMENT

On May 1, 2013, the Joint Parties jointly filed a third stipulation related to NW Natural's SIP. In this present stipulation, the Joint Parties agree to the following:

- The SIP Recovery Cap for annual expenditures would be raised by \$13.7 million in total over the two tracker years beginning on November 1, 2012.
- Capital Expenses for which the company will not seek recovery via the SIP will be increased from \$3.25 million to \$4.0 million for each of the two tracker years beginning November 1, 2012.
- The SIP continues until November 1, 2014 and the company may ask the Commission to continue the program without modifications after that date; however, the request may not include a bare steel tracking component for bare steel replacement costs incurred after 2015

⁴ *Northwest Natural Gas Company Application for an Accounting Order*, Docket UM 1406, Order No. 09-067 (Mar 1, 2009).

⁵ See Order No. 01-843.

⁶ *Northwest Natural Gas Company Request for a General Rate Revision*, Docket UG 221, Order No 12-408 at 10-11 (Oct 26, 2012).

- Although the Bare Steel stipulation process for cost tracking into rates may continue until December 31, 2015, after that date, any bare steel replacement costs may only be included through future rate proceedings.
- Staff and intervening parties retain all rights to conduct discovery and challenge the prudence of any project or expense proposed to be tracked into rates through the SIP in a given year.

III. DISCUSSION

A. Position of the Parties

In their supporting brief, the Joint Parties assert that the stipulation is consistent with Oregon law and Commission policy and will facilitate timely completion of the South of Monmouth Bare Steel Replacement Project, a 12-mile long corridor of bare steel. Completion of that project will increase the safety of the company's distribution system by accelerating the removal of bare steel. The company requests that the Commission provide an expedited review of the matter to allow it to immediately commence construction of the South of Monmouth Bare Steel Replacement Project and none of the other signatories to the stipulation oppose that request.

The Joint Parties state that adopting the stipulation is consistent with the Commission's policy in favor of adopting stipulations that provide guidance to the parties and reduce unnecessary litigation.⁷ The Joint Parties assert that their agreement on modifications to the SIP will provide guidance to the company on its bare steel replacement efforts and may reduce litigation of SIP-related issues in future filings.

B. Resolution

We have reviewed the terms of the stipulation and find that it fairly balances the need of NW Natural to recover its legitimate costs of SIP expenses from ratepayers, provides adequate safeguards with respect to increases in charges to the public, and improves the safety of company employees and Oregon residents generally.

We therefore conclude that the terms of the stipulation will result in just and reasonable rates and adopting the stipulation is in the public interest.

⁷ See *US West Communications Inc.*, Docket UM 753, Order No. 96-179 (Jul 16, 1996).

IV. ORDER

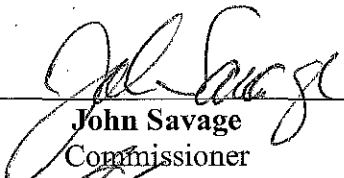
IT IS ORDERED that:

The stipulation between Northwest Natural Gas Company, dba NW Natural; the Citizens' Utility Board of Oregon; the Northwest Industrial Gas Users; and the Staff of the Public Utility Commission of Oregon, attached hereto as Appendix A, is adopted.

Made, entered, and effective MAY 16 2013



Susan K. Ackerman
Chair



John Savage
Commissioner



Stephen M. Bloom
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.

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 documenting the written consent of Commission Staff, the Northwest Industrial Gas Users (NWIGU), and the Citizens' Utility Board (CUB) regarding the recovery cap under NW Natural's System Integrity Program ("SIP Program"), and resolving certain other modifications to the SIP Program agreed to by the Company and those parties.

PARTIES

1. The Parties to this Stipulation are Northwest Natural Gas Company ("NW Natural" or the "Company"), Commission Staff, NWIGU, and CUB (collectively, the "Parties").

BACKGROUND

2. In Order No. 09-067, issued on March 1, 2009 in this proceeding, the Public Utility Commission of Oregon ("Commission") adopted a stipulation among the Parties ("SIP Stipulation") and approved NW Natural's Application for an Accounting Order related to the SIP Program.¹

3. The SIP Stipulation set forth the process by which the Company would be allowed to track certain safety-related costs into rates on an annual basis. Before adoption of the SIP Stipulation in Order 09-067, NW Natural maintained a number of different safety programs. With the adoption of the SIP Program, the Company combined the Bare Steel

¹ Re NW Natural Gas Co. Application for an Accounting Order, Docket UM 1406, Order No. 09-067 (Mar. 1, 2009) [hereinafter "Order No. 09-067"].

Replacement Program,² Transmission Integrity Management Program (TIMP),³ and the Distribution Integrity Management Program (DIMP),⁴ into a single program. The Bare Steel Stipulation that governed the Bare Steel Replacement Program remained in effect after the SIP Stipulation, but the SIP Stipulation overrode any inconsistent provisions in the Bare Steel Stipulation.⁵ The SIP Stipulation provided that NW Natural would continue its obligation under the Bare Steel Stipulation to complete the replacement of its bare steel distribution and transmission facilities by 2021.⁶

4. The SIP Program is subject to a soft cap on SIP expenditures of \$12 million per tracking period ("Recovery Cap"), which runs from November 1 to October 31 ("Tracker Year").⁷ SIP Program expenditures may exceed \$12 million in a Tracker Year only with the written consent of Staff, NWIGU, and CUB.

5. NW Natural agreed in the SIP Stipulation that it would not seek recovery through the SIP Program for certain expenses, including the first \$3 million in combined bare steel and leakage capital costs and an additional \$250,000 in SIP capital costs.⁸

6. In Docket UG 221, the Company and parties reached a stipulation (the "Second Partial Stipulation"), which provided for the limited continuation of the Company's SIP. The Second Partial Stipulation stated that (1) the Company's existing SIP Program would remain in effect for two years after the rate effective date in this case, after which date it will sunset;

² The Bare Steel Replacement Program was approved by the Commission in 2001 and had an original completion date of 2021. See Order No. 09-067, Appendix B at 17-30.

³ The TIMP was initiated in 2002 in response to the Pipeline Safety Improvement Act of 2002 and U.S. Department of Transportation Pipeline and Hazardous Materials Safety Administration's (PHMSA) Natural Gas Integrity Management Rule.

⁴ The Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 ("2006 PIPES Act") expanded requirements of the Pipeline Safety Improvement Act of 2002 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.

⁵ Order No. 09-067, Appendix B ¶ 14.

⁶ *Id.*

⁷ *Id.* ¶ 10.

⁸ *Id.* ¶ 8.

(2) prior to the sunset date NW Natural would make a filing each year specifying projects and expenses that are proposed to be tracked into rates through the SIP for that year, to which parties will have the opportunity to conduct discovery and file responsive testimony; (3) the Recovery Cap of \$12 million will remain in effect and NW Natural would not recover through the SIP Program the first \$3.25 million of combined bare steel and leakage capital costs, or any of its O&M funding embedded in base rates; (4) the Second Partial Stipulation did not affect the Bare Steel Stipulation adopted in Order No. 01-843, which remains in effect until 2021 or until completion of the bare steel removal; and (5) nothing in the Second Partial Stipulation affects NW Natural's right to request that the Commission continue the SIP Program past the date of the sunset.⁹ The Commission adopted this agreement in Order No. 12-408.¹⁰

7. After the conclusion of Docket UG 221, the Parties continued discussions related to SIP issues, which resulted in this Stipulation.

AGREEMENT

8. The Parties agree, pursuant to paragraph 10 of the SIP Stipulation, to raise the Recovery Cap for annual SIP expenditures by \$13.7 million in total over the two Tracker Years beginning on November 1, 2012.

9. The Parties agree that the amount of capital expenditures for which the Company will not seek recovery through the SIP Program will be increased from \$3.25 million to \$4 million for each of the two Tracker Years beginning on November 1, 2012.

10. Pursuant to Paragraph 31 of the Second Partial Stipulation in Docket UG 221, the SIP Program will remain in effect until November 1, 2014. Nothing in this Stipulation affects NW Natural's right to request that the Commission continue the SIP Program, with or without modifications, after this date. The Company agrees, however, that consistent with the

⁹ *Re NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-408, Appendix B ¶¶ 30-31 (Oct. 26, 2012).

¹⁰ *Re NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-408 at 10-11 (Oct. 26, 2012).

provisions outlined below any such request will not include a bare steel tracking component for bare steel replacement costs incurred after 2015.

11. The Company may use the process outlined in the Bare Steel Stipulation to track bare steel replacement costs incurred on or before December 31, 2015 into rates. However, any bare steel replacement costs incurred after that date will be included in rates only through future rate case proceedings, rather than tracked in between rate cases.

12. The Parties agree that nothing in this Stipulation alters Staff or Intervenors ability to conduct discovery and file responsive testimony in pursuit of a prudence review of any projects and expenses proposed to be tracked into rates through the SIP for a given year.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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: 7/30/13

STAFF

By: _____
Printed Name: _____
Date: _____

CUB

By: _____
Printed Name: _____
Date: _____

NWIGU

By: _____
Printed Name: _____
Date: _____

NW NATURAL

By: _____

Printed Name: _____

Date: _____

STAFF

By: JK

Printed Name: Jason Jones

Date: 4/30/13

CUB

By: _____

Printed Name: _____

Date: _____

NWIGU

By: _____

Printed Name: _____

Date: _____

NW NATURAL

STAFF

By: _____

By: _____

Printed Name: _____

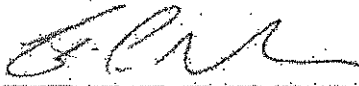
Printed Name: _____

Date: _____

Date: _____

CUB

NWIGU

By: 

By: _____

Printed Name: Gr. Catherine McGraden

Printed Name: _____

Date: 4-25-13

Date: _____

NW NATURAL

STAFF


By: _____
Printed Name: _____
Date: _____

By: _____
Printed Name: _____
Date: _____

CUB

NWIGU

By: _____
Printed Name: _____
Date: _____

By:  _____
Printed Name: Chad Stokes
Date: 4/29/13