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August 15, 2012

***VIA ELECTRONIC FILING***

Dave Danner, Secretary and Executive Director  
WASHINGTON UTILITIES &  
TRANSPORTATION COMMISSION  
1300 S Evergreen Park Drive, SW  
Post Office Box 47250  
Olympia, Washington 98504-7250

**Re: Docket UG-110199 – 2<sup>nd</sup> 2012 Semi Annual Report on Environmental Costs**

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), hereby files its second semi-annual report of environmental costs as deferred in compliance with condition (3)(i) of Order No. 01 in Docket UG-110199.

**Background**

On January 26, 2011, NW Natural filed with the Washington Utilities and Transportation Commission (“Commission”) a petition requesting authorization to defer expenses associated with environmental remediation at the following five Company-owned sites: Gasco, Central Gas Holding, Tar Deposit, Portland Harbor, and Wacker (aka Siltronic).

NW Natural’s predecessor, Portland Gas and Coke Company, produced and sold manufactured gas to Oregon and Washington customers from 1913 to 1956. The Company is now incurring costs related to the investigation and remediation of environmental contamination resulting on properties where gas was either manufactured onsite or nearby, or where there were activities associated with manufactured gas.

Since early 2006, NW Natural has been pursuing recovery of insurance for its environmental liabilities. It has identified and analyzed all of the liability insurance policies

issued between the late 1930s and 1986 which may provide coverage. Most insurers agreed to enter into negotiations in an effort to resolve the claims. In late 2010, NW Natural determined it would not be able to reach settlements within a reasonable period of time, so the Company filed a lawsuit against the insurers seeking a recovery of funds. Earlier in the year, the Company received a settlement payment from one of its insurance providers, and anticipates that the payment and appropriate interest will be used to offset deferred costs that will ultimately be collected from ratepayers.

In the Company’s 2011 General Rate Case filed with the Public Utility Commission of Oregon (“OPUC”) on December 31, 2011 and docketed as UG-221, NW Natural has requested OPUC approval to begin collecting from customers the environmental remediation costs that it has been deferring in Oregon since 2003. In its request, the Company asserted that 96.68% of the costs were attributable to providing service to Oregon customers and explained its expectation that 3.32% are associated with serving Washington customers. Work papers were filed demonstrating how historic sales data were used to determine this allocation. The Company expects the Oregon Commission to issue a decision on this before November of this year. The Company intends to work with the Washington Commission to determine the allocation of costs that is appropriately attributed to service in Washington and made a filing on January 1, 2011, in the subject docket, seeking an accounting order that would confirm its proposed allocation.

The table below lists 3.32% of the total costs incurred during the timeframe February 1, 2011 through June 30, 2011, for environmental remediation at the following sites: Gasco, Central Gas Holding, Tar Deposit, Portland Harbor, and Wacker (aka Siltronic). In accordance with Order No. 1 in the subject docket, interest is not being accrued to the deferred balances. However, as stated in the Order, these costs may be eligible for working capital treatment when the Company files its next rate case.

<b>Washington Environmental Deferred Liabilities and Assets</b>				
<b>Account</b>	<b>Site Name</b>	<b>Recorded Liability</b>	<b>Recorded Expense</b>	<b>Accrued Interest</b>
186175	Gasco - Washington Allocation	-	255,237.00	-
186176	Central Gas Hold - Washington Allocation	-	4,900.00	-
186177	Tar Deposit - Washington Allocation	-	65.19	-
186178	Portland Harbor - Washington Allocation	-	65,277.00	-
186179	Wacker (aka Siltronic) - Washington Allocation	-	13,484.00	-
	<b>TOTAL</b>	-	338,963.19	

If the Commission or its Staff is interested in better understanding the Company's remediation or cost recovery efforts, Company personnel will gladly meet with Commissioners or Commission Staff in Olympia to provide a fuller discussion of these activities.

If you have questions or if you would like the Company to present more information in a face-to-face meeting, please call Jennifer Gross at (503) 226-4211, extension 3590.

Sincerely,

*/s/ Mark R. Thompson*

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