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October 12, 1999

Secretary
WASHINGTON UTILITIES &
TRANSPORTATION COMMISSION
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket No. U-971835 (Year 2000 Compliance)

This is Northwest Natural Gas Company's (NW Natural) quarterly report for the quarter ended September 30, 1999, in response to the Commission's order dated May 27, 1998, regarding the Year 2000 issue.

We will transmit the cover letter for this quarterly report electronically, to the WUTC Records Center, so that the Commission may post it to the Commission's Internet site. The transmission will not include the detailed attachments listed below, but we will provide copies of these attachments in response to reasonable requests.

Y2K Project Completion Status

NW Natural's plan had been to complete internal application corrections for critical systems by June 1999. Renovation of all critical applications was completed in March 1999, with two exceptions.

Our Industrial and Commercial customer billing system is being replaced with a new system with a planned completion date of November 1999. We have contingencies in place if completion of that project is delayed. The Company recognizes a risk that potential failure of the system will restrict the Company's ability to deliver timely bills and to collect revenue from large customers. This risk is mitigated both by the plan for repair of the existing system and by the development of contingency plans for manual processing of industrial and large commercial customers' bills.

The second exception as of the end of June, also relating to a replacement effort, was our Accounts Payable system. This replacement was implemented successfully in early September. For some non-critical applications, renovations will continue through the end of 1999.

NW Natural is also in the process of upgrading our Unix-based network servers to compliant operating and system software version levels. Upgrades of the critical components of the network were not completed by the planned June 1999 deadline.

We are working on the upgrades for the two remaining systems. One is in the final stages of testing and should be implemented within a few weeks. The other system cannot be upgraded until the needed hardware is delivered. The upgrades have been hampered by vendor-initiated changes to compliant software versions, thus requiring a continuing effort to install new Y2K "patches."

For *non-critical systems*, the readiness program continues. The Company is developing appropriate plans to renovate or address risks of failure in its lower-risk systems by the end of 1999.

Many Y2K project milestones already have been accomplished. As previously reported, the Company's largest application, the Customer Information System, was successfully replaced in November 1997. Several other information systems have been upgraded more recently. Among them, we have renovated our gas supply and gas management systems, general ledger accounting system, distribution construction system, stockholder system, and distributed facilities system. We have also completed replacement of several systems including our accounts payable, purchasing and inventory applications. All of these have been brought into full Year 2000 compliance.

Review of our gas-supply and gas-storage systems has been completed. Y2K-required upgrades have been completed and some testing has been performed. Testing results to date have not uncovered any significant Y2K concerns. Dates were rolled forward to Year 2000 and systems continued to operate normally, with the exception of minor logging problems at our Newport LNG plant. We have additional testing planned during October and November at the Newport and Mist plants.

Contingency Planning

The following are NW Natural's highest priority Y2K at-risk areas for which contingency plans are in place or are being updated. Identification of the risk is not to be interpreted as a sign that NW Natural expects Y2K failures in these areas. A loss of any of these services is a business threat regardless of the cause, and requires a contingency plan. NW Natural has put some additional contingency plans in place for the Y2K transition period, but these plans could be applicable in different emergency events.

Loss of electricity to Company facilities

Contingency Plan: Most NW Natural facilities have some back-up power sources ranging from uninterruptible power supply (UPS) to dual fuel generators, depending on the criticality of the facility. Critical functions such as Gas Control and the Computer Center are supported by these alternate power sources.

Testing: The backup power equipment is routinely maintained and tested.

Loss of Telecommunications

Contingency Plan: Use NW Natural's microwave/VHF radio system. Radios would be used for emergency dispatch and for receiving information from crews and other emergency responders. Currently, some system segments have a dependency on phone lines, but these segments can be maintained by strategic placement of additional personnel or equipment at specific sites.

Arrangements are being made with County Emergency Managers to have a NW Natural representative at either a county 9-1-1 Center or the Emergency Operations Center (EOC) in the event that telecommunications are interrupted for an extended period of time. The representative will be equipped with a NW Natural radio. In the event that a gas emergency occurs and that information is able to reach the 9-1-1 center or the EOC, it will be passed directly to our representative for radio communication back to our dispatchers. The dispatchers can communicate with crews via the same radio system.

Testing: The radio system is used on a routine basis. In August, a test was successfully conducted to confirm that the plan to compensate for phone line-dependent segments was still viable. Once all the arrangements with the counties have been finalized, another test will be conducted to ensure that the plan will handle the 9-1-1 or EOC locations.

Contingency Plan: Use the three satellite-based phones (not dependent on land lines) that have been acquired to provide communication between NW Natural key facilities and Northwest Pipeline (Williams Gas Pipelines-West). The phones will be located at headquarters Gas Control, the Newport LNG plant and the Mist Underground Storage Facility. This system provides NW Natural with an extra layer of communications at critical sites.

Testing: The Northwest Gas Association is coordinating a communications test in October in which NW Natural will participate. The test will use normal and backup communications (satellite phones).

Computer System outages

Contingency Plan: Members of the Y2K project team and the Information Services department will be on-site or on-call during the transition to Y2K. After midnight, the computer operating systems will be tested/verified as performing as expected. When this work is completed, end-users will test/verify critical business applications. The intent is to shake out any problems prior to opening for business on Monday, January 3.

Testing: NW Natural's Y2K Project Team has been coordinating the testing of

both operating systems and business applications throughout the life of the project.

Contingency Plan: Critical embedded systems will be on a checklist for verification during the Y2K weekend. NW Natural will be staffed at all key locations during the transition to carry out the verification process.

Testing: NW Natural's Y2K Project Team has been coordinating the testing of critical embedded systems *to the extent possible* (not all systems can be fully tested, or the cost of testing is prohibitive due to its impact on operations).

Gas supply interruptions or curtailment

Contingency Plan: The following three facilities are designed to supplement gas supplies coming into NW Natural's gas distribution system and are normally used throughout the cold weather months:

Mist Underground Storage
Newport LNG plant
Portland (Gasco) LNG plant

Additionally, NW Natural has mobile Liquid Natural Gas (LNG) capability. This system is designed to transport LNG to a site where gas supply or pressure has been lost and maintain the line until the original problem is repaired. The system can maintain approximately 200 customers for two to three days. With the use of a smaller tank, the system can be taken for refueling and returned to the impaired site, providing extended support. Refueling occurs at either of the LNG plants.

In the event that curtailment of gas deliveries to customers is required, pre-existing plans and agreements are in place to manage the process. Additional curtailment teams will be assigned during the initial transition to Y2K in the event that phones are unavailable and a curtailment is required during that time. These teams will be prepared to drive to customer sites, if necessary, to inform them of the curtailment.

Testing: The LNG plants, underground storage facility and mobile LNG are part of NW Natural's routine operations – designed as an on-going contingency to supplement gas supplies. They have been used and tested on a regular basis; so no additional testing is deemed necessary.

Interruption of critical supplies/materials

Contingency Plan: NW Natural has considered the impact of potential failures by vendors who provide us with critical supplies and materials. An analysis was

completed to identify which supplies and materials would most impact operations if unavailable.

Fuel for vehicles and generators are of particular importance. Most Districts and Service Centers have the capacity to store quantities of fuel (gasoline and compressed natural gas) for our vehicles located at the site. Plans have been made to ensure that our supplies on hand will be at the maximum level at year-end.

A plan for having additional inventory of other materials on hand during the transition to Year 2000 has been developed and evaluated from a cost-benefit analysis perspective. Any additional inventory has been or will be secured in a timely manner, recognizing that there could be some shortages by year-end as other companies implement their contingency plans. We do not plan to "hoard" supplies. We have attempted to verify key vendors' ability to handle Y2K as the alternative path.

Testing: No testing requirements have been identified for this risk.

Customer Information and Y2K Educational Programs

The Company's Website continues to be the most popular communication vehicle for our customers. The Website provides a Year 2000 Compliance Program status report and we plan further updates prior to year-end.

Another advisory bill insert will be distributed during the November billing period; a copy will be submitted when available. Our focus will be household emergency preparedness as well as the Company's readiness status. We also plan to contact all interruptible rate schedule customers to review curtailment conditions and notification protocols.

On Sept. 30, NW Natural issued a press release (copy attached) marking the 100-day countdown to the Y2K rollover. As time and resources allow, NWN will continue to participate in various community awareness programs such as a recent cable-access Y2K readiness presentation.

Company representatives who continue to be conversant in NW Natural's Year 2000 efforts are:

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The current status of NW Natural's Compliance Program is reported in detail in the "Year 2000 Project Status Summary Report for Period 9/1/1999 – 9/30/1999," attached.

If you have questions about NW Natural's Year 2000 program, please call.

Very truly yours,

Bruce R. DeBolt
Senior Vice President and
Chief Financial Officer

BRD:la

Attachments

cc w/Att.: Mark Dodson
Chuck Beyer
Catherine Jones
Susan Ackerman
Ruby Bauske
Avi Lev