

MARK R. THOMPSON
Manager, Rates and Regulatory Affairs
Tel: 503.721.2476
Fax: 503.721.2516
email: mrt@nwnatural.com



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VIA ELECTRONIC FILING

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

Re: Docket UG-110199 – 2nd 2014 Semi-Annual Report on Environmental Costs

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), hereby files its second 2014 semi-annual report of environmental costs 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.

Starting in early 2006, NW Natural pursued recovery of insurance for its environmental liabilities from insurance policies that it believed would cover such liabilities. It 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. The resulting litigation was scheduled to culminate in a jury trial in early January.

In the days before the trial was set to begin, negotiations with the insurers finally became fruitful, and the Company was able to reach a settlement with all insurers that remained in the litigation. NW Natural issued an 8-K describing these settlements, which was attached to its 1st 2014 Semi-Annual report filed in the subject docket. With these settlements, the Company received a total of approximately \$150.5 million in insurance receipts.

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 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. In that rate case, the OPUC approved a mechanism for recovery of our deferred environmental expenses, but ordered a new proceeding, which is still ongoing, to determine specific parameters about how this mechanism will operate. One of the open issues in that case is the allocation of expenses between Oregon and Washington.

Through a supplemental petition for an accounting order filed July 17, 2012, in UG-110199, the Company proposed to the Washington Commission an allocation of 3.32% deferred costs to service in Washington. That petition was not acted upon, and NW Natural was informed by Staff that the Commission would not want to entertain this request until the Company actually sought rate recovery in Washington. The Company currently anticipates that it will still request an allocation to Washington customers of 3.32% of its deferred expenses. The table below shows 3.32% of total costs incurred during the timeframe February 1, 2011 through June 30, 2014, for environmental remediation at the following sites: Gasco, Central Gas Holding, Tar Deposit, Portland Harbor, and Wacker (aka Siltronic). Please note that the total recorded expense of \$717,295, as stated in the table below, is less than the recorded balance presented in the Company's 1st 2014 Semi Annual Report, filed February 26, 2014. The reduction is due to a transfer of \$666,753 to Utility Plant associated with the source control water treatment plant.

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.

Washington Environmental Deferred Liabilities and Assets

As of 06/30/2014				
Account	Site Name	Recorded Liability	Recorded Expense	Accrued Interest
186175	Gasco - Washington Allocation	-	510,684.00	-
186176	Central Gas Hold - Washington Allocation	-	11,854.00	-
186177	Tar Deposit - Washington Allocation	-	18,110.00	-
186178	Portland Harbor - Washington Allocation	-	140,096.00	-
186179	Wacker (aka Siltronic) - Washington Allocation	-	36,551.00	-
	TOTAL	-	717,295.00	

As noted above, insurance receipts will be applied to our currently deferred expenses before the Company would seek to recover these expenses from our Washington customers.

If the Commissioners or Staff are interested in better understanding of any of the Company's remediation or cost recovery efforts, Company personnel will gladly work to address any of these questions in the manner you see most fit.

If you have any immediate questions, please call Jennifer Gross at (503) 226-4211, extension 3590.

Sincerely,

/s/ Mark R. Thompson

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