

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of  
  
NORTHWEST NATURAL GAS  
COMPANY, d/b/a NW NATURAL,  
  
For an Accounting Order Approving  
Deferral of Costs Associated with TSA  
Security Directive 2 Compliance.

DOCKET NO. UG-\_\_\_\_\_

PETITION OF NW NATURAL FOR AN  
ACCOUNTING ORDER

**I. INTRODUCTION**

1 Pursuant to WAC 480-07-370(3)(b), Northwest Natural Gas Company (“NW Natural” or “Company”) hereby petitions the Washington Utilities and Transportation Commission (the “Commission”) for an order authorizing the deferred accounting treatment of amounts spent by NW Natural to comply with the Department of Homeland Security’s Transportation Security Administration (“TSA”) Security Directive Pipeline-2021-02 (“Security Directive 2”). NW Natural expects to incur significant costs in connection with Security Directive 2 and seeks to defer these costs from the date of this Petition forward while tracking and preserving them for later ratemaking treatment.

**II. COMPANY BACKGROUND AND COMMUNICATIONS**

2 NW Natural is in the business of furnishing natural gas service within the State of Washington as a public service company and is subject to the regulatory authority of the Commission as to its rates, service, facilities, and practices. The Company’s principal place of business is 250 SW Taylor Street, Portland, Oregon 97204-3038.

3 Communications regarding this Petition should be addressed to:

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4 The name and address of the Company's attorneys for purposes of this proceeding are:

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### III. SUPPORT FOR PETITION

#### A. Legal Authority

5 The Commission is vested by statute with the authority to regulate, among other things, the rates and accounts of public service companies, including gas companies.<sup>1</sup> WAC 480-07-370(3) allows public service companies to file petitions, including petitions for deferred accounting.<sup>2</sup> The Commission grants petitions for deferred accounting where “good cause” is shown.<sup>3</sup>

#### B. Factual Background

6 The TSA issued Security Directive 2 on July 19, 2021, requiring designated pipeline owners and operators to (1) implement specific mitigation measures to reduce the risks of cyberattacks, (2) develop a cybersecurity contingency response plan to reduce the risk of operational disruption from a cybersecurity incident, and (3) conduct an annual cybersecurity architecture design review.<sup>4</sup> NW Natural has already started working towards Security Directive 2 compliance and expects to soon begin incurring additional expenses to meet these new requirements.

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<sup>1</sup> RCW 80.01.040, RCW 80.04.160, RCW 80.28.020; *see also In the Matter of the Petition of Nw. Nat. Gas Co. for an Accounting Order Authorizing Deferred Accounting Treatment of Certain Costs Associated with Environmental Remediation*, Docket UG-110199, Order 01 (June 30, 2011).

<sup>2</sup> *See* Docket UG-110199, Order 01 ¶ 6.

<sup>3</sup> Docket UG-110199, Order 01 ¶ 10; *see also In the Matter of the Petition of Avista Corp. d/b/a Avista Utils. for an Accounting Order Authorizing Deferred Accounting Treatment for Residential and Farm Energy Exchange Benefit Amounts*, Docket UE-071091, Order 01 ¶ 11 (Aug. 29, 2007).

<sup>4</sup> Security Directive 2 is attached hereto as Exhibit 1.

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The TSA initially designated all of Security Directive 2 as Sensitive Security Information (“SSI”) pursuant to 49 CFR 1520.5 because of the highly sensitive nature of the subject matter, the disclosure of which the TSA determined would be detrimental to the security of transportation. Subsequently, however, the TSA released a significant portion of Security Directive 2 to the public in response to a Freedom of Information Act request by the Washington Post.<sup>5</sup> Now, the portions of Security Directive 2 that remain designated as SSI include a single section of the document as well as most of the Security Directive 2 compliance deadlines. Additionally, NW Natural’s plans for complying with the SSI portions of Security Directive 2, including its planned timelines for meeting SSI-designated compliance deadlines, remain SSI and must be treated as such.<sup>6</sup> Accordingly, NW Natural’s ability to share the SSI-designated portions of Security Directive 2 and the Company’s related compliance activities is severely limited by 49 CFR 1520.9 and the Company may only do so with persons with a “need to know” as defined by 49 CFR 1520.11 or with those whom the TSA or another federal agency has granted written authorization pursuant to 49 CFR 1520.9(a)(2). Furthermore, NW Natural’s plans for complying with the non-SSI portions of Security Directive 2 remain highly sensitive and preventing public disclosure thereof is therefore critical to ensuring that the intent of Security Directive 2 is realized.<sup>7</sup>

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The Company recognizes the importance of these new rules given the increase in cybersecurity incidents targeting the energy industry and because of the Company’s role as an owner and operator of critical pipeline infrastructure. NW Natural expects to incur significant compliance costs due to the comprehensive aims and reach of Security Directive 2 but does not yet know the extent of these costs. If this Petition is approved, the Company will document all

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<sup>5</sup> Aaron Scheffer and Ellen Nakashima, *New emergency cyber regulations lay out ‘urgently needed’ rules for pipelines but draw mixed reviews*, The Washington Post (Oct. 3, 2021, 2:34 PM), [https://www.washingtonpost.com/national-security/cybersecurity-energy-pipelines-ransomware/2021/10/03/6df9cab2-2157-11ec-8200-5e3fd4c49f5e\\_story.html](https://www.washingtonpost.com/national-security/cybersecurity-energy-pipelines-ransomware/2021/10/03/6df9cab2-2157-11ec-8200-5e3fd4c49f5e_story.html) (last visited Nov. 17, 2021).

<sup>6</sup> 49 CFR 1520.5(b)(1).

<sup>7</sup> NW Natural plans to file a motion for amended protective order soon after filing this Petition to protect its highly confidential compliance plans and to ensure that the SSI will be treated in accordance with applicable federal requirements.

costs known to be incurred as a result of compliance with Security Directive 2 and will seek later ratemaking treatment for such costs.

**C. Reasons for Deferral**

9           Deferred accounting treatment is appropriate because complying with Security Directive 2 is mandated by a federal agency, imperative to ensuring pipeline security, and will cause NW Natural to incur significant costs, including capital investments and incremental operations and maintenance (“O&M”) expenses, that are not currently accounted for in the Company’s rates. NW Natural is currently working towards complying with Security Directive 2, and expects that the costs will relate to the purchase of hardware and software, the provision of third-party managed services, and the design and implementation of mitigation measures, among other mandated actions. Importantly, these critical and mandated actions may not otherwise be recoverable absent authorization of deferred accounting. Therefore, deferral is appropriate and a lack of opportunity to recover these unusual and extraordinary costs would seriously undermine the Company’s ability to earn near its authorized rate of return.

**D. Estimated Amounts Subject to Deferral**

10           NW Natural cannot predict the exact value of the costs the Company will incur to comply with Security Directive 2. NW Natural will document actual expenses and capital expenditures incurred to comply with Security Directive 2 and will seek amortization of the deferred costs in a future Commission proceeding.

**E. Proposed Accounting Treatment**

11           NW Natural proposes to account for the expenses and capital expenditures incurred because of Security Directive 2 compliance on the Company’s balance sheet for later inclusion in customer rates. In the absence of approval of deferred accounting, NW Natural would record O&M costs in FERC 921 expense accounts and capital expenses in FERC account 403 (Depreciation Expense) and FERC plant account 300. NW Natural proposes to track and defer these costs for later review.

#### **IV. RELIEF REQUESTED**

12 NW Natural requests authorization to defer the costs of complying with Security  
Directive 2, plus interest at its allowed rate of return.

13 WHEREFORE, the Company respectfully requests that the Commission enter an order  
approving deferred accounting treatment for the Security Directive 2 compliance costs described  
in this Petition.

Dated this 17th day of November 2021.

Respectfully Submitted,

**MCDOWELL RACKNER GIBSON PC**

*/s/ Jocelyn Pease*

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