

**NW NATURAL****ENVIRONMENTAL COST RECOVERY MECHANISM REGULATORY REPORT****For Environmental Remediation Costs Incurred for the period  
DECEMBER 1, 2018 – DECEMBER 31, 2019**

In accordance with Northwest Natural Gas Company's (NW Natural) Rate Schedule 303 and pursuant to Commission Order 06 in Docket UG-181053, NW Natural submits this annual report for its Environmental Cost Recovery Mechanism ("ECRM"). Per Order 06, the first annual report filed in July of 2020 addresses expenses incurred between December 1, 2018 and December 31, 2019. Subject to the prudence review, the expenses incurred for the period December 1, 2018 through June 30, 2019 will be offset entirely with insurance proceeds, and the expenses incurred for the period July 1, 2019 through December 31, 2019 will be included in rates for rates effective November 1, 2020 shown in Exhibit C.

**A. Background**

NW Natural's predecessor companies operated five sites located in and around Portland, Oregon, and federal and state agencies have directed the Company to undertake environmental remediation associated with the Gasco, Siltronic, Portland Harbor, Tar Deposit, and Central Gas Holdings sites. The Company began to incur costs associated with this environmental remediation activity in 2003 and will continue to do so over the next decade.

NW Natural has now seven sites at which the Oregon Department of Environmental Quality (DEQ) or the Environmental Protection Agency (EPA) has required clean-up or at which another party has asserted that NW Natural is liable for environmental cleanup. These include: Portland Harbor, Portland Gas Manufacturing (PGM), Gasco<sup>1</sup>, Central, Eugene Water Electric Board, French American International School, and Oregon Steel. Of these sites, the original Gasco plant -- Gasco, Portland Harbor, Tar Deposit, and Central Gas Holdings are referred to as "shared sites" given that the costs of these efforts are allocable to both Oregon and Washington customers.

**B. Order 06 in Docket UG-181053**

In the 2018 Washington rate case (Docket UG-181053), NW Natural requested approval to apply insurance proceeds to previously incurred environmental costs allocated to Washington. In addition, the Company requested a recovery mechanism for future expenditures to coincide with the annual Purchased Gas Adjustment (PGA) filing.

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<sup>1</sup> Due to consolidation of two project areas by DEQ the Gasco site includes a portion of the property currently owned by Siltronic Corporation.

In May of 2019, all parties in the docket reached a settlement for the state allocation of environmental remediation costs, proposed treatment of historical environmental costs, and the creation of an environmental cost recovery mechanism. The settlement was approved by the Commission on October 21, 2019 in Order No. 06 of the docket.

#### **State Allocation of Environmental Costs**

A 3.32% Washington state allocation factor applies to the shared sites.

#### **Treatment of Historical Environmental Costs and Insurance Proceeds**

NW Natural applied \$3.017 million in existing insurance proceeds as a full offset to remediation expenses deferred during the period February 1, 2011, to November 30, 2018. From July 1, 2019, onward, the Company will apply the remaining \$1,825,441 balance of insurance proceeds to offset deferred expenses through the ECRM, which will be amortized over the 10.5 year period July 1, 2019, through December 31, 2029. The amortization for July 1, 2019, through December 31, 2019, will be a 6-month, pro rata share in the amount of \$86,926 of the remaining balance of insurance proceeds.

#### **Environmental Cost Recovery Mechanism**

Per Order 06, NW Natural will make annual ECRM tariff adjustment filing on or before July 15 for rates effective each November 1. NW Natural's first annual report will cover environmental costs from December 2018 through December 2019. If deemed prudent, the costs incurred specifically from December 2018 through June 2019 shall be offset entirely with insurance proceeds. For costs incurred from July 1, 2019, through December 31, 2019, the ECRM rate will recover prudent expenditures, less that year's allocation of insurance proceeds. The ECRM rate will go into effect on November 1, 2020.

### **C. Environmental Remediation Activity for the Period December 1, 2018 through December 31, 2019.**

#### **Portland Harbor**

The Portland Harbor site is a stretch of approximately ten miles along the Willamette River that is listed as a Superfund site by the EPA.

EPA issued its Record of Decision ("ROD") for Portland Harbor in January 2017. EPA estimates the cost of the selected remedy at \$1.05 billion net present value and projects 13 years of construction to complete active cleanup. The ROD indicates EPA will exercise site-specific flexibility during remedial design, and EPA may decide to break the site into smaller "work areas." DEQ may take a lead role in overseeing portions of the cleanup.

EPA began implementation of the harborwide remedy through an initial round of baseline sampling. In December 2017, four parties signed an order with EPA agreeing to conduct this initial sampling. NW Natural agreed to provide funding toward this work through the allocation group but was not directly involved performing the sampling.

In December 2018, EPA requested that Portland Harbor responsible parties, including NW Natural, enter into consent orders to perform remedial design work. EPA offered to delay initiation of consent decree negotiations or other enforcement action for harborwide cleanup in exchange for these remedial design commitments. NW Natural incurred costs in 2019 negotiating with EPA and other responsible parties to address EPA's request for additional remedial design work.

NW Natural also incurred costs in 2019 in preparation for the harborwide allocation.

NW Natural also participates in the Portland Harbor Natural Resource Damage (NRD) cooperative assessment process. During the period of January through December 2019, the Company worked with the Natural Resource Trustees in the NRD cooperative process on pathways to reach settlement. On January 30, 2017, the Confederated Tribes and Bands of the Yakama Nation filed a lawsuit against NW Natural and 29 other potentially responsible parties for alleged Portland Harbor response costs and natural resource damage assessment costs related to the Portland Harbor Superfund Site, as well as natural resource damage assessment costs related to the Multnomah Channel, Lower Willamette and Columbia Rivers. In August 2019, the federal court stayed the case consistent with related litigation over Portland Harbor cleanup costs.

### **Gasco**

The Gasco site covers approximately 83.5 acres and is located on the Willamette River between the St. Johns Bridge and the Railroad Bridge. The manufacturing facility is gone, and the site is currently occupied by the Company's Portland liquefied natural gas storage facility and two tenant facilities. Work at this site consists of various projects: the Uplands Project (which, due to DEQ project restructuring in 2016, also includes a 38.5 acre portion of the adjacent property previously owned by Portland Gas & Coke and currently owned by Siltronic Corporation), the Sediments Project (which addresses sediments in the adjacent Willamette River), and the Source Control Project. These projects are subject to EPA and DEQ oversight.

The Gasco Upland site is now in the feasibility study phase. In 2019, NW Natural continued work with DEQ to integrate the data sets from the parcel currently owned by Siltronic into the Gasco data set, develop an addendum to the Gasco risk assessment, and addressed DEQ comments on the interim feasibility study submitted in 2018. During 2019, NW Natural also evaluated whether potential source control measures might be appropriate following removal of improvements by a departing tenant and modifications to the liquefied natural gas storage facility.

EPA's January 2017 ROD for Portland Harbor included a selected remedy for the Gasco Sediments site. In 2019, NW Natural worked with EPA to reach agreement on technical approaches for the use of site-specific information and data, including information and data developed for the 2012 Engineering Evaluation/Cost Analysis, to refine technology assignments and other aspects of the ROD. NW Natural also performed remedial design field investigations in 2019; the Company expects to complete those investigations in 2020.

The Company also conducted monthly visual monitoring of the shoreline area in the direct vicinity of the pilot cap area.

Construction of the Source Control wells and groundwater treatment plant was completed in October 2013. Following a period of optimization, DEQ approved the system for long-term operation on December 30, 2016. In 2019, NW Natural maintained and operated the system. The Company will continue to incur costs associated with operating the wells and environmental regulatory oversight.

**Central**

The Central Service Center is the former site for company operations including as a gas holder site and other activities. At the end of 2006, the Central Service Center site was identified by DEQ for cleanup and ranked as a high priority site. In October of 2018 the company received a Conditional No Further Action (cNFA) determination from Oregon DEQ which outlines the company’s continued obligations for a 5-year period extending beyond the issuance of this cNFA.

During the period of January 2019 through December 2019, the Company finalized and submitted to Oregon DEQ a Contaminated Media Management Plan per the conditions of the sites’s No Further action Determination. There were no other actions required during this time period.

**Major Reports and Communications with Environmental Regulators**

To assist the Commission, Staff, and any parties in reviewing NW Natural’s costs for the December 1, 2018 to December 31, 2019 period, the Company is providing the major reports and communications with environmental regulators related to the activities described above, found in Exhibit D.

**D. Application of the ECRM for the Periods December 2018 through June 2019 and for July 2019 through December 2019**

In accordance Order No. 06 in UG-181053, the table below shows 3.32% of total expenses deferred for the period December 1, 2018 through December 31, 2019 and total expenses deferred to date for environmental remediation at the following sites: Gasco, Central Gas Holding, Tar Deposit, Portland Harbor, and Wacker (aka Siltronic). These expenditures for theses periods are further detailed in Exhibit A and B of this report.

<u>SITE</u>	<u>100% SYSTEM AMOUNT</u>	<u>3.32% WA AMOUNT</u>	<u>96.68% OR AMOUNT</u>
Gasco (1)	\$15,876,779	\$525,220 (2)	\$15,351,558
Harbor	1,283,693	42,619	\$1,241,074
Central	9,889	328	\$9,561
	<u>\$17,170,360</u>	<u>\$568,167</u>	<u>\$16,602,193</u>

(1) Includes Gasco Uplands, Sediments, operation of Source Control, and Siltronic.

(2) Include an adjustment of \$1,888 related to employee expenses that are not recoverable per Docket UG-110199

As shown in the table below, the costs incurred from December 1, 2018 through June 30, 2019 have been fully offset by insurance proceeds. Remediation costs deferred from July 1, 2019 through December 31, 2019 exceeded the applicable \$86,926 of offsetting amortization of insurance proceeds by \$220,701. The rate adjustment for the environmental costs incurred from July 1, 2019 through December 31, 2019 are shown in Exhibit C.

**Summary of Deferred Environmental Costs and Insurance Application  
For the period of December 1, 2018 through December 31, 2019**

	12/1/18 - 6/30/19	7/1/19 - 12/31/19	Total
Deferred costs allocated to Washington	260,540	307,627	568,167
Application of insurance to fully offset costs	(260,540)	n/a	(260,540)
Amortization of insurance proceeds		(86,926)	(86,926)
Remaining deferred costs for amortization	\$ -	\$ 220,701	<b>\$ 220,701</b>