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VIA ELECTRONIC FILING

David W. Danner
Executive Director & Secretary
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Post Office Box 47250
Olympia, Washington 98504-7250

Re: UG-120715- NW Natural's Responses to the Staff's Proposed Interim Pipeline Safety Cost Recovery Mechanisms

Dear Mr. Danner:

Northwest Natural Gas Company, dba NW Natural ("NW Natural" or the "Company"), submits these comments in response to the Washington Utility and Transportation Commission's ("Commission") Notice of Opportunity to Comment, issued August 24, 2012 in Docket No. UG-120715, concerning Staff's proposed methods for interim pipeline safety cost recovery.

The Staff presented two options for pipeline cost recovery: the Capital Cost Deferral and Recovery Mechanism (CCDR) and the Interim Pipeline Replacement Cost Recovery Mechanism (IPL-CRM). The CCDR would allow a utility to defer net-of-tax capital costs on pipeline safety projects, and later amortize these costs for recovery through rates as established in the utility's next general rate case. The IPL-CRM would allow a utility to recover between rate cases incremental O&M costs, income taxes, property taxes, depreciation and related return on investment costs. Each year, the utility would be allowed to recover these costs less an established cost for historical pipeline maintenance work, with a true-up that would be applied in the following year.

Both mechanisms would benefit customers by enhancing utilities' ability to invest in pipeline safety and receive appropriate cost recovery. However, NW Natural believes that the

CCDR proposal does not go far enough towards providing an adequate mechanism for recovering significant pipeline safety costs in a timely or sufficient manner. NW Natural strongly prefers the Staff's proposed IPL-CRM. As noted in the Commission's notice, this mechanism closely resembles the Company's System Integrity Program (SIP) mechanism that was adopted in 2009 for the Company's Oregon-based bare steel replacement, Transmission Integrity Management Program (TIMP), and Distribution Integrity Management Program (DIMP).[1] The SIP mechanism authorizes the Company to recover costs related to complying with federal pipeline safety regulations, and provides the Company with an opportunity and incentive to accelerate pipeline replacement for safety reasons. These pipeline replacement costs are booked as capital and annually tracked into rates when the Company files its Purchased Gas Adjustment (PGA) filing. Annual SIP expenditures are subject to a soft cap of $12 million dollars, and the amount tracked into rates is reduced to recognize a normalized, or historical amount of pipeline replacement performed under its leakage replacement program.

In short, NW Natural's SIP mechanism has worked well in Oregon and has benefited the Company, customers, and the general public by ensuring timely investments in system safety. Under the program, the distribution system infrastructure has been upgraded with the complete elimination of cast iron and progressive elimination of bare steel. Data collected on leakage incidents has trended significantly downward. To date, required transmission line inspections have identified 361 anomalies, ranging from third-party damage to corrosion due to coating failure. While the vast majority of these findings have been minor and easily repairable, the identification, assessment, and elimination of these specific threats lower the ultimate risk of any associated system failure.

Similar to SIP, the IPL-CRM allows for each utility to track costs into rates annually for recovery. It also is subject to a cost cap and only the incremental costs incurred after an established threshold of spending that would have occurred without the mechanism are considered for recovery.

The Company believes a mechanism like the IPL-CRM is appropriate in this environment of changing safety regulations, and in light of the Commission's and Company's commitment to system safety.

The Company recommends the Commission authorize the approach embodied in the IPL-CRM with certain clarifications. The Company advocates that bare steel replacement costs be included as part of the cost recovery mechanism. The natural gas industry as a whole recognizes that bare steel pipelines are a significant safety risk, and NW Natural strongly believes the IPL-CRM could accelerate its removal and replacement.

[1] *See* Public Utility Commission of Oregon ("OPUC") Order Nos. 09-067 and 11-337 adopted in OPUC Docket No. UM 1406.

Further, the Company believes the costs allowed under the IPL-CRM should include all DIMP and TIMP work that mitigates risks to pipeline safety. For example, the wet climate in Washington makes the state prone to landslides. Potential safety issues related to landslides can be mitigated under either TIMP or DIMP.

The Commission specifically sought comments on the appropriate amount of the soft cap that would apply to costs allowed to be added to rates under the IPL-CRM. NW Natural believes that these amounts, as well as the historical or normalized pipeline replacement amounts, should be established on a utility-by-utility basis. The pipeline replacement plans that will be submitted to the Commission by September 28, 2012 may provide a good starting point for determining these levels for each utility.

NW Natural appreciates the opportunity to comment in this docket. Please contact Jennifer Gross at (503)226-4211, extension 3590, if you have questions regarding our comments.

Thank you.

Sincerely,

/s/ Mark R. Thompson

Mark R. Thompson