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Washington Utilities & Transportation Commission
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COMMISSION

Re: Docket UG-110199 – 2019 Annual Report on Environmental Costs

Northwest Natural Gas Company, dba NW Natural (“NW Natural” or the “Company”), hereby files its 2019 annual report of environmental costs deferred, in compliance with condition (3)(i) of Order No. 01 in Docket UG-110199 and later revised in Order No. 02¹ on May 31, 2018.

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 Deposit², 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

¹ This order changed the reporting requirement from semi-annual to annual, with the annual filing due on March 1 of each year.

² “Tar Deposit” is related to remedial action at the Gasco site.

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. Eventually, the Company was able to reach a settlement with all insurers. 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 Oregon, NW Natural has received approval for a Site Remediation and Recovery Mechanism (SRRM), through which NW Natural recovers the costs of environmental remediation from its Oregon customers. The Public Utility Commission of Oregon (OPUC) has determined that it will allow NW Natural to allocate 96.68% of all remediation costs to Oregon customers, based on the historic proportion of gas that was used in Oregon from the manufactured gas plants NW Natural's predecessors operated.

Through a previous 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 consider this request when the Company actually sought rate recovery in Washington.

Remediation Activities

In accordance with Order No. 02, the Company has provided a narrative summary around the remediation activities. NW Natural has seven sites at which the Oregon Department of Environmental Quality (DEQ) or the Environmental Protection Agency (EPA) has required clean-up. These include: Portland Harbor, Portland Gas Manufacturing (PGM), Gasco³, Central, Eugene Water and Electric Board, French American International School, and Oregon Steel.⁴ NW Natural also incurred litigation costs related to Portland Harbor cost recovery and natural resource damage litigation and minor litigation costs related to collections under the settlement agreements. The PGM site is not allocated to Washington customers.

A. 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.

³ The Gasco site includes Siltronic, as the property is now being managed as one area.

⁴ The remediation at the Eugene Water and Electric Board and French American International School sites is now complete. A complaint was filed in 2004 alleging NW Natural has exposure at the Oregon Steel site; in August 2017, the case was stayed pending outcome of the Portland Harbor allocation process or other mediation.

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 harbor wide remedy through an initial round of baseline sampling. During the period of January through December 2018, the Company responded to EPA’s demand that responsible parties perform this baseline sampling. Ultimately, in December 2017, four other parties signed an order with EPA agreeing to conduct this initial sampling. NW Natural has provided \$27,500 in funding toward this work through the allocation group but was not directly involved performing the sampling. NW Natural is obligated to make a second payment of \$27,500 toward this work in 2019. NW Natural also incurred costs in 2018 in preparation for the harbor wide allocation.

NW Natural also participates in the Portland Harbor Natural Resource Damage (NRD) cooperative assessment process. During the period of January through December 2018, 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. The defendants, including NW Natural, filed several motions to dismiss some or all claims in the case. NW Natural, the Port of Portland, the City of Portland and the United States also filed motions to stay any portions of the case that survive the motions to dismiss. These motions were argued in April 2018, and, in January 2019, the federal magistrate judge recommended staying the case consistent with related litigation over Portland Harbor cleanup costs.

B. Gasco

The Gasco site covers approximately 45 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 2018, NW Natural continued work with DEQ to integrate the data sets from the parcel currently owned by Siltronic into the Gasco data set and develop an addendum to the Gasco risk assessment and submitted an interim feasibility study. During 2018, NW Natural also evaluated potential stormwater source control options for the Gasco property, submitted an application for coverage and worked to complete a source control evaluation of Doane Creek.

EPA's January 2017 ROD for Portland Harbor included a selected remedy for the Gasco Sediments site. In July 2018, NW Natural worked with EPA to develop 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 began preparation for remedial design field work to be performed in 2019.

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 2018, NW Natural operated the system and submitted an application to renew the discharge permit for the system. The Company will continue to incur costs associated with operating the wells and environmental regulatory oversight.

C. 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.

During the period of January 2018 through December 2018, the Company completed the following tasks:

- 1) Negotiated with Oregon DEQ for the conditions and issuance of a Conditional No Further Action (cNFA) for the site.
- 2) Preparation of a written Contaminated Media Management Plan (CMMP) to address the management of soil and groundwater for any potential future development plans.

In accordance with Order No. 02 in UG-110199, the table below shows 3.32% of total expenses deferred for the period January 1, 2018 through December 31, 2018 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).

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, as is the proposal in our current rate case filing UG-181053.

Washington Environmental Spend			
As of 12/31/2018			
Site Name	Recorded Liability	Expense Through (12/31/2018)	2018 Expense Activity
Gasco - Washington Allocation	-	\$3,364,709.68	\$439,324.84
Central Gas Hold - Washington Allocation	-	\$24,130.38	\$451.26
Tar Deposit - Washington Allocation	-	\$367,391.44	\$0.00
Portland Harbor - Washington Allocation	-	\$663,329.76	\$27,228.39
Wacker (aka Siltronic) - Washington Allocation	-	\$125,799.94	\$0.00
TOTAL	-	\$4,545,361.20	\$467,004.49

Please note, insurance receipts received to date, and allocable to Washington under NW Natural's proposed allocation more than offset the expenditures to date. As of December 31, 2018, the insurance amount allocated to Washington exceeded total expenses to date by \$0.55 million.

In addition to the above information, NW Natural would be happy to meet with Staff or the Commissioners at your offices to present any further information that would be helpful to the Commission at this time. If you have any immediate questions, please call me at (503) 226-4211 Ext. 5858.

Sincerely,

/s/ Kyle T. Walker, CPA

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