

NW NATURAL**ENVIRONMENTAL COST RECOVERY MECHANISM REGULATORY REPORT****For Environmental Remediation Costs Incurred for the period
JANUARY 1, 2020 – DECEMBER 31, 2020**

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 annual report is due on or before July 15 for rates effective each November 1st. The filing of ECRM rates will collect prudent expenditures deferred during the previous calendar year, less that year's allocation of insurance proceeds.¹

A. Background

NW Natural's predecessor companies operated five sites located in and around Portland, Oregon, and federal and state agencies have directed NW Natural to undertake environmental remediation associated with the Gasco, Siltronic, Portland Harbor, Tar Deposit, and Central Service Center/Central Gas Holdings (Central) 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 seven sites at which the Oregon Department of Environmental Quality (DEQ) or the Environmental Protection Agency (EPA) has required cleanup or at which another party has asserted that NW Natural is liable for environmental cleanup. These include: Portland Harbor, Portland Gas Manufacturing (PGM), Gasco², Central, Eugene Water Electric Board, French American International School, and Evraz/Oregon Steel Mills. Of these sites, the original Gasco plant -- Gasco, Portland Harbor, Tar Deposit, and Central 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.

¹ The annual environmental remediation deferral amount in the ECRM Account is collected from all customers on an equal percent of margin basis.

² 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.

C. Environmental Remediation Activity for the Period January 1, 2020 through December 31, 2020.

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 2020 negotiating with EPA and other responsible parties to address EPA’s request for additional remedial design work.

In March 2020, EPA and NW Natural agreed to amend the 2009 EPA Consent Order for the Gasco Sediments Site (discussed below) to include remedial design work at two additional Portland Harbor project areas, the US Moorings Project Area and the B1 Navigation Channel Project Area. The State of Oregon and the City of Portland are obligated through an earlier settlement with EPA to provide up to \$2,664,000 in funding for remedial design work in these two Project Areas. NW Natural incurred costs in 2020 to develop and negotiate work plans for pre-design investigations in these two Project Areas, negotiate necessary access agreements, and implement Phase I data gaps investigations. NW Natural also incurred costs in 2020 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 2020, 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. NW Natural incurred costs in 2020 related to a motion filed by the Yakama Nation to modify the stay to allow discovery. The motion was denied.

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 one 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 2020, 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 address DEQ comments on the interim feasibility study submitted in 2018. During 2020, NW Natural also implemented interim source control measures, including a system to collect shallow groundwater across a portion of the site.

EPA's January 2017 ROD for Portland Harbor included a selected remedy for the Gasco Sediments site. In 2020, NW Natural completed remedial design field investigations.

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 2020, NW Natural continued to maintain and operate the system and expanded certain components of it to support the additional interim source controls discussed above. The Company will continue to incur costs associated with operating the wells and environmental regulatory oversight.

Central

Central is the former site for company operations including as a gas holder site and other activities. At the end of 2006, the Central 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 2020 through December 2020, the only required activity was occasional communications with DEQ (relaying upcoming schedules, updates on site due to Facility upgrades, etc.). There were no in-the-field obligations related to the cleanup status of this site.

D. Application of the ECRM for the Periods January 2020 through December 2020

In accordance with Order No. 06 in UG-181053, the table below shows total, Oregon, and Washington expenses deferred for the period January 1, 2020 through December 31, 2020 at the following sites: Gasco, Central, Tar Deposit, Portland Harbor, and Wacker (aka Siltronic). The expenditures for these 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)	\$17,840,949	\$592,188 (2)	\$17,248,761
Harbor	1,279,383	42,476	\$1,236,908
Central	0	0	\$0
	<u>\$19,120,332</u>	<u>\$634,664</u>	<u>\$18,485,668</u>

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

(2) Include an adjustment of \$131.07 related to employee expenses that are not recoverable per Docket UG-110199

As shown in the table below, the costs incurred from January 1, 2020 through December 31, 2020 have been fully offset by insurance proceeds. Remediation costs deferred from January 1, 2020 through December 31, 2020 exceeded the applicable \$193,755 of offsetting amortization of insurance proceeds by \$440,909. The calculation of rate increments and effect on customer bills for the environmental costs incurred from January 1, 2020 through December 31, 2020 are shown in Exhibit C.

**Summary of Deferred Environmental Costs and Insurance Application
For the period of January 1, 2020 through December 31, 2020**

	<u>Total</u>
Deferred costs allocated to Washington	634,664 (1)
Amortization of insurance proceeds	<u>(193,755)</u>
Remaining deferred costs for amortization	<u>\$ 440,909</u>

(1) Include an adjustment of \$131.07 related to employee expenses that are not recoverable per Docket UG-110199

E. Major Reports and Communications with Environmental Regulators

To assist the Commission, Staff, and any parties in reviewing NW Natural's costs for the January 1, 2020 to December 31, 2020 period, the Company is providing the major reports and communications with environmental regulators related to the activities described above, found in Exhibit D.