

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 24, 2015**

REGULAR CONSENT EFFECTIVE DATE _____ N/A

DATE: March 10, 2015

TO: Public Utility Commission

FROM: Judy Johnson 

THROUGH: Jason Eisdorfer and Marc Hellman  

SUBJECT: NORTHWEST NATURAL: (Advice No. 14-23) Request to continue Schedule 177, the System Integrity Program Recovery Mechanism.

STAFF RECOMMENDATION:

Staff recommends that the Commission suspend Northwest Natural Gas Company's (NW Natural) Advice No. 14-23, which is its request to continue Schedule 177, the System Integrity Program (SIP) Recovery Mechanism, and open an investigation.

DISCUSSION:

NW Natural filed Advice No. 14-23 on October 21, 2014, with an effective date of March 1, 2015. Subsequently, NW Natural filed on February 6, 2015, to extend the effective date to April 1, 2015. The filing requests that Northwest Natural's SIP Recovery Mechanism be extended beyond its sunset date of October 31, 2014. (See Order No. 12-408 at page 10). On March 3, 2015, NW Natural filed a supplement to Advice No. 14-23. The purpose of this supplemental filing is to add language requiring that SIP costs be subject to an earnings test.

NW Natural notes in its filing that the regulatory component of the SIP program consists of the ability to update NW Natural's rate base on an annual basis to reflect certain system safety investments.

The SIP is comprised of three distinct programs: the Bare Steel Program, the Transmission Integrity Management Program (TIMP), and the Distribution Integrity Management Program (DIMP).

When NW Natural, the Public Utility Commission of Oregon Staff (Staff), the Citizens' Utility Board (CUB), and Northwest Industrial Gas Users (NWIGU) initially agreed to a SIP program, NW Natural was experiencing significant leakage from its cast iron pipes and significant damage to its transmission pipes from landslides. At that time, all parties agreed on a program that would allow NW Natural to more quickly recover the investments needed to replace cast iron pipe and mitigate the costs in what was then called the Geohazard program. Over time all the cast iron pipe was replaced.

NW Natural met with parties and requested that the original recovery mechanism be used to recover investments associated with replacing its bare steel pipe, which also had significant leakage problems. NW Natural believes that it can replace its bare steel by December 31, 2015, and its recovery mechanism is scheduled to sunset at that time. The Company and parties to the agreement for this program have no concerns about ending the recovery mechanism for bare steel replacement on December 31, 2015.

The TIMP recovery mechanism was developed by NW Natural, Staff, and parties because Congress passed the Pipeline Safety Improvement Act, which was forecast to be an expensive program extending over several years. At the time, NW Natural was in a rate case moratorium and the active parties who had worked with these issues over the years agreed that NW Natural needed a mechanism for recovery of these costs until the rate case moratorium ceased. A few years later, the federal government added to the program by passing DIMP. These recovery mechanisms allowed NW Natural to develop and implement a robust and safe system without regulatory lag or significant financial strain.

However, Staff expected these recovery mechanisms to be temporary and, in NW Natural's last rate case, agreed to a sunset date. Staff intended these programs to be temporary and unique and considered that for a number of years NW Natural was in a rate case moratorium.

NW Natural's current advice filing requests that Schedule 177 be used to recover \$8 million of projected capital costs annually over each of the next three years. NW Natural met with Staff, CUB, and NWIGU in October in 2014 to discuss this filing and its proposed extension of the recovery mechanism.

Other than NW Natural, the parties (Staff, CUB, and NWIGU) agreed that the extension was unnecessary. However, if there was to be an extension, parties felt that there should be a requirement of an earnings test before recovery. Subsequently, on March 3, 2015, NW Natural filed a supplement to its original filing Advice No. 14-23. This supplement proposes an earnings test for SIP costs. Under the earnings test, NW Natural proposes it would only collect through Schedule 177 the cost of service on

investments made during the prior PGA year to the extent it is earning at or below its authorized ROE. Parties to this filing have not had the opportunity to discuss the details of the proposed earnings test and would like to have the opportunity to spend some time reflecting on whether NW Natural's proposal is the appropriate way to structure this particular earnings test.

NW Natural is the only Oregon regulated company that has received special regulatory treatment for its safety programs. Staff, CUB, and NWIGU contend that NW Natural could recover its safety costs through a rate case as all other utilities are currently doing. There is no reason to continue the SIP funding when NW Natural may come in at any time for a general rate case. Therefore, Staff is recommending that the Commission suspend NW Natural's filing and open an investigation into these issues.

NW Natural has notified Staff that it intends to be present at the March 24, 2015, Public Meeting in order to present its position to the Commission on whether SIP should be continued. NW Natural has also indicated that it will write the Commission a letter stating its position prior to the meeting.

PROPOSED COMMISSION MOTION:

Staff recommends that the Commission suspend Northwest Natural's Advice No. 14-23, its request to continue Schedule 177, the System Integrity Program Recovery Mechanism, and open an investigation.