

ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 5, 2017

REGULAR CONSENT EFFECTIVE DATE December 1, 2017

DATE: November 27, 2017

TO: Public Utility Commission

FROM: Mitchell Moore ^{mpm}
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THROUGH: Jason Eisdorfer and John Crider ^{Jo}

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1636(6)) Requests reauthorization to defer costs associated with the Manufactured Gas Plant in Eugene.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas Corporation's (Cascade or Company) request to defer expenses associated with the Manufactured Gas Plant (MGP) in Eugene, Oregon for a period of 12 months commencing December 1, 2017.

DISCUSSION:

Issue

Whether the Commission should reauthorize deferral of costs associated with environmental remediation expenses at the MGP in Eugene, Oregon for the 12-month period beginning December 1, 2017.

Applicable Law

This application is filed by Cascade pursuant to OAR 860-027-0300 and ORS 757.259(2)(e), requesting authorization to defer environmental remediation costs and amounts from insurance recoveries because they are "[i]dentifiable utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate changes or the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers."

This deferral was approved originally by Order No. 13-004, and most recently reauthorized by Order No. 17-306 and 17-313.

Discussion and Analysis

The MGP was constructed in 1907 as a coal carbonization process facility. In 1910-1911 the plant expanded and was converted to a water-gas processing facility. On January 1, 1929, a PacifiCorp predecessor sold the MGP and underlying property to Northwest Cities. In 1950, Northwest Cities ceased MGP gas operation and the plant was converted for propane-air gas storage and distribution. On October 12, 1953, Cascade merged with Northwest Cities. Cascade sold the MGP and property to a predecessor of Northwest Natural five years later, in 1958. Eugene Water & Electric Board, PacifiCorp, and Cascade entered into a participation agreement for site investigation on February 26, 1996.

In 2012, Cascade submitted its first application to defer expenses associated with environmental remediation of the MGP site.

Description of Expense

The Company proposes to defer its share of all related environmental costs that are associated with the MGP project. These costs include, but are not necessarily limited to, investigation, monitoring, legal, study, oversight, remediation, and pursuit of insurance recoveries.

Proposed Accounting

Cascade proposes to record the deferrals in a sub account of FERC Account 186 (Miscellaneous Deferred Debits). In the absence of deferral approval, Cascade would record the environmental costs of labor to FERC Account 920, Administrative and General Salaries, and the costs of outside services (e.g. consulting) to FERC Account 923, Outside Services Employed.

Estimated Deferrals in Authorization Period

The Company states that the nature of environmental remediation costs is variable and unpredictable. As such, the Company cannot estimate the amounts that will be deferred in the authorization period. In January of 2015, the Department of Environmental Quality issued a Record of Decision that identified and authorized specific remediation measures. The Company anticipates that the total of its portion of the effort will amount to approximately \$1.9 million.

Deferrals during Current Period

The Company has been working to identify potential insurance providers and policy coverage during the relevant time periods. For the period of November 2016 through September 30, 2017, Cascade has deferred costs in the amount of approximately \$137,591 associated with this effort, net of insurance proceeds. The Company is continuing to seek insurance recovery of remediation costs. It should be noted that staff will perform a prudence review prior to amortization of these costs, which will include a review of all costs incurred and revenues received from insurance proceeds. Although to date insurance proceeds are a small portion of costs (approximately \$48,083), to the extent that any costs are deemed imprudent, those costs would not be offset by insurance proceeds.

Information Related to Future Amortization

- Earnings review – An earnings review should be conducted prior to amortization.
- Prudence Review – A prudence review is a requirement of the earnings review which does apply to this deferral. The prudence review should extend to the accounting methodology used to calculate any amount to be amortized.
- Sharing – Whether sharing will be limited to the results of the earnings review or take some other form has not yet been determined in this docket.
- Rate Spread/Design – This has not yet been decided in this docket.
- Three Percent Test (ORS 757.259(6)) – The three percent test measures the annual overall average effect on customer rates resulting from deferral amortizations. The three percent test limits (exceptions at ORS 757.259(7), (8), and (10)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding calendar year. The limit for these deferrals will be determined at the time of amortization. The three percent test is applicable to this deferred account.

Conclusion

Staff supports Cascade's request to reauthorize the deferral of environmental remediation costs.

The Company's application meets the requirements of OAR 757.259 and OAR 860-027-0300, and the rationale for this deferral is still valid. For these reasons, Staff recommends Commission approval.

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PROPOSED COMMISSION MOTION:

Approve Cascade's filing for reauthorization to defer expenses associated with the Manufactured Gas Plant (MGP) in Eugene, Oregon for the 12 months beginning December 1, 2017.

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