

ITEM NO. CA4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 18, 2017

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2017

DATE: April 11, 2017

TO: Public Utility Commission

FROM: Mitchell Moore *MPM*

THROUGH: Jason Eisdorfer and Marc Hellman *J* *Ab*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(14)) Defers Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

Staff recommends that Northwest Natural's (NW Natural or Company) application for reauthorization to defer costs associated with unrecovered environmental costs and insurance proceeds related to environmental remediation be approved for the 12-month period beginning January 26, 2017, for accounting purposes only.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer unrecovered environmental costs related to six project remediation sites as well as insurance proceeds related to environmental remediation.

Applicable rule and law

NW Natural submitted its deferral application on February 24, 2017, in accordance with ORS 757.259, and OAR 860-027-0300. ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates. OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently granted by Order No. 16-066.

Analysis

Background

In Commission Order No. 03-328, the Commission authorized deferred accounting beginning April 7, 2003, for costs related to environmental remediation at five project sites; Gasco, Wacker (aka Siltronic), Portland Gas (aka Front Street), Portland Harbor and Eugene Water and Electric Board (EWEB)¹. The Commission has reauthorized deferral of remediation costs for these plants in each subsequent year and allowed NW Natural to begin deferring costs related to environmental remediation for Oregon Steel Mills beginning March 15, 2005, in Commission Order No. 05-138, and for Central Gas Hold beginning January 27, 2007, in Commission Order No. 07-147. Finally, Commission Order No. 08-247 allowed NW Natural to defer costs related to French American International School (FAIS) beginning January 25, 2008. Commission Order No. 10-117 authorized NW Natural to continue deferring costs associated with nine projects described in its application, but denied NW Natural's request to defer costs associated with a tenth project referred to as the Tualatin site.

Additionally, in its Order Nos. 12-408, issued in UG 221, and 15-049, issued in UM 1635, the Commission authorized a cost recovery mechanism through which NW Natural can recover its prudent environmental remediation costs. In those Orders, the Commission determined that NW Natural should continue to defer these costs and determined that the costs will be collected through its Site Remediation and Recovery Mechanism, subject to an earnings test and prudence review.

Description of deferral

NW Natural seeks reauthorization to record all environmental costs which will include, but are not necessarily limited to, all costs related to investigation, study, monitoring, oversight, legal and remediation costs, and all costs associated with pursuing insurance recoveries (Environmental Costs) that are associated with six projects at the following sites: Gasco, Wacker, Portland Harbor, Oregon Steel Mills, Central Gas Hold, and Portland Gas.² In past deferral applications NW Natural also requested authorization to defer costs associated with EWEB, Tar Body (a subset of Portland Harbor), and French American International School. These three sites are closed and no longer require further remediation action.

¹ As NWN and EWEB have reached settlement for this site, only interest will continue to accrue to the associated deferral account.

² Application for Reauthorization to Defer Certain Expenses 1-2.

Proposed Accounting

NW Natural proposes to accrue estimates of the Environmental Costs in a separate liability account for each site with the charge recorded to FERC Account 262, with separate subaccounts for each site. As environmental liabilities are paid, or as they are accrued, the costs will be deferred to the following deferred regulatory asset account FERC account 186, with separate subaccounts for each site.³

Recoveries from insurance are, and will continue to be recorded in the 186160 accounts and will offset the recorded expenses for the purpose of amortization, as determined by the Commission.

Estimated Deferrals in Authorization Period

Accurate estimates for the sites of the unrecovered environmental costs, including insurance recovery, are unknown for this authorization period.

Insurance

Since early 2006, NW Natural has been pursuing recovery of insurance for its environmental liabilities. 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. Over the next three years, through January 2014, the Company and the insurers aggressively litigated this coverage case. Total settlements received life-to-date are approximately \$150 million.

Amortization

The costs found prudent by the Commission and allowed for recovery are included in the Company's Site Remediation and Recovery Mechanism (SRRM) Post Prudent account. Amortization of these deferred costs will be as specified under the SRRM.

Interest Rates

Under Order No. 12-437, deferred environmental remediation costs that have not been reviewed for prudence will accrue interest at the company's rate of return. Amounts that have been moved into an amortization account will accrue interest at the modified blended treasury rate (MBTR). Amounts that have been reviewed for prudence, but have not yet been moved into an amortization account, will accrue interest at the average of the five-year Treasury rates used in calculating the MBTR for the applicable year, with an added 100 basis points.⁴

³ Application for Reauthorization to Defer Certain Expenses 3-4.

⁴ See Order No. 12-437 at 31-32 (Nov 16, 2012).

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Conclusion

As NW Natural's application to reauthorize deferral of environmental remediation costs for six projects is consistent with ORS 757.259 and the Commission's orders authorizing the SRRM, I recommend Commission approval.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request to defer costs associated with unrecovered environmental costs and insurance proceeds related to environmental remediation for the 12-month period beginning January 26, 2017, for accounting purposes only.

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