

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT**

**PUBLIC MEETING DATE: September 5, 2023**

**REGULAR** \_\_\_\_\_ **CONSENT**  X  **EFFECTIVE DATE** \_\_\_\_\_ **N/A** \_\_\_\_\_

**DATE:** August 3, 2023

**TO:** Public Utility Commission

**FROM:** Kathy Zarate

**THROUGH:** Bryan Conway and Marc Hellman **SIGNED**

**SUBJECT:** NORTHWEST NATURAL:  
(Docket No. UM 1078(20))  
Approving reauthorization to defer unrecovered environmental costs.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission approve Northwest Natural's (NW Natural, NWN, or Company) application for reauthorization to defer costs associated with unrecovered environmental costs and insurance proceeds related to environmental remediation for the 12-month period beginning January 26, 2023.

**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 Law

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. 21-047.

Commission Order No. 09-263 lays out the Natural Gas Portfolio Development Guidelines and the Purchased Gas Adjustment Filing Guidelines.

## 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).<sup>1</sup>

Additionally, in its Order No. 12-408 issued in UG 221, the Commission authorized a cost recovery mechanism through which NW Natural will recover its environmental remediation costs. In that Order, the Commission determined that NW Natural should continue to defer these costs and determined that they would be collected through the Company's SRRM, subject to an earnings test and prudence review.<sup>2</sup>

The Company, on January 25, 2023, submitted this application for re-authorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-month period beginning January 26, 2023, through January 25, 2024, for unrecovered environmental costs associated with Gasco, Wacker (now known as Siltronic), Portland Gas (aka Front Street), Portland Harbor, Central Gas Hold, and Oregon Steel Mills to match appropriately the costs borne by and benefits received by ratepayers.

### *Description of Expense*

The Company will incur additional site study, clean-up, potential natural resource damages, Department of Environmental Quality ("DEQ")/Environmental Protection Agency, tribe and natural resource damage trustee oversight, and legal costs as well as administrative expenses related to feasibility studies and remediation activities associated with these sites.

In addition, Environmental Costs will be charged to deferred regulatory asset accounts. Insurance recoveries and other proceeds will be used as offsets to defer Environmental Costs. These anticipated expenses and recoveries from insurance and other proceeds are the cause of this filing. The Company states that, at this time, information is

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

<sup>2</sup> See In the Matters of Northwest Natural Gas Company, dba NW Natural, Request for a General Rate Revision, Order No. 12-408, Docket No. UG-221, at 5-6 (Oct. 26, 2012).

insufficient to more accurately estimate the total potential liability for investigation and remediation costs associated with the six sites.

*Reason for Deferral*

The Company's use of deferred accounting in each subsequent year. In its Order No. 12-408 issued in UG 221, the Commission authorized a cost recovery mechanism through which NW Natural will recover its environmental remediation costs. In that Order, the Commission determined that NW Natural should continue to defer these costs and determined that they would be collected through the Company's the Site Remediation and Recovery Mechanism (SRRM), subject to an earnings test and prudence review.

*Proposed Accounting*

The Company proposes to accrue estimates of the Environmental Costs to a separate liability account for each site.

Account 280040 Injuries & Damage Reserve-----Gasco  
Account 280050 Injuries & Damage Reserve-----Wacker (nka Siltronic)  
Account 280055 Injuries & Damage Reserve-----Portland Harbor  
Account 280060 Injuries & Damage Reserve-----Oregon Steel Mills  
Account 280070 Injuries & Damage Reserve-----Central Gas Hold  
Account 280075 Injuries & Damage Reserve-----Portland Gas (aka Front Street)

As environmental liabilities are paid, or as they are accrued, the costs will be deferred to the deferred regulatory asset.

Account 151310 Environmental Inv-----Gasco  
Account 151312 Environmental Inv----- Wacker (nka Siltronic)  
Account 151315 Environmental Inv-----Portland Harbor  
Account 151320 Environmental Inv-----Portland Gas (aka Front Street)  
Account 151325 Environmental Inv-----Oregon Steel Mills  
Account 151330 Environmental Inv-----Central Gas Hold

*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*

The interest rate for deferral accounts is 6.836%. As directed in the Commission's Order Nos. 12-408 and 12-437 issued in UG 221, a different interest rate will apply once the amounts have been reviewed for prudence, and until they are amortized.

### *Information Related to Future Amortization*

- Earnings Review – ORS 757.259 (5) requires an earnings review prior to amortization of amounts deferred under ORS 757.259 (2)(e). The SRRM requires application of an earnings test.
- Prudence Review – Prudence review should be performed at the time of deferral amortization. The review should also include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – This deferral is not subject to a sharing mechanism.

### 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, Staff recommends Commission approval.

The Company has reviewed a draft of this memo and voiced no concerns.

### **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, 2023.