

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

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2015

DATE: January 26, 2015

TO: Public Utility Commission

FROM: Judy Johnson *JJ*
JE by MH

THROUGH: Jason Eisdorfer and Marc Hellman *A*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(12)) Defers Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural's request to defer costs associated with unrecovered environmental costs for the 12-month period beginning January 26, 2015, for accounting purposes only.

DISCUSSION:

Northwest Natural (NW Natural) makes this filing in accordance with ORS 757.125, 757.259(2)(e) and OAR 860-027-0300. NW Natural seeks reauthorization to defer costs related to nine project remediation sites.

Background:

In Commission Order No. 03-328, the Commission authorized deferred accounting beginning April 7, 2003, for five project sites; Gasco, Wacker, Portland Gas, Portland Harbor and Eugene Water and Electric Board (EWEB)¹. In the following year, NW Natural was allowed to continue deferred accounting for the same five project sites pursuant to Commission Order No. 04-244. Subsequently, NW Natural was allowed to defer costs related to Oregon Steel Mills beginning March 15, 2005, in Commission Order No. 05-138 and 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

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

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.

Description:

NW Natural seeks authorization 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 nine projects at the following sites: Gasco, Wacker (aka Siltronic) EWEB, Portland Harbor, Oregon Steel Mills, Tar Body (a subset of Portland Harbor), Central Gas Hold, Portland Gas (aka Front Street), and FAIS.

NW Natural has received approval from the Washington Utilities and Transportation Commission (WUTC) to defer environmental costs. NW Natural expects that through the OPUC's order in Docket No. 1635 (pending), the Commission will establish the percentage of the total environmental costs that will be attributable to Oregon.

Justification:

Authorization to defer Environmental Costs and amounts from insurance recoveries can be authorized pursuant to ORS 757.259(2)(d) because they are 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 to match appropriately the costs borne by and benefits received by ratepayers.

Additionally, in its Order No. 12-408 (Order), issued in UG 221, the Commission authorized a cost recovery mechanism through which NW Natural can recover its prudent environmental remediation costs. In that Order, the Commission determined that NW Natural should continue to defer these costs and determined that the costs be collected through its Site Remediation and Recovery Mechanism, subject to an earnings test and prudence review.

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.

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's Order.

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:

NW Natural has met with Staff on an annual basis to discuss the progress of these projects. Insurance recoveries will be used as offsets to deferred Environmental Costs as determined by the Commission's Order. At this time, information is insufficient to more accurately estimate the total potential liability for investigation and remediation costs associated with the nine sites, or to accurately estimate the corresponding total insurance recovery amounts.

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.

Unrecovered Environmental Account Balances as of December 31, 2014			
Account Number/ Site	Recorded Liability	Recorded Expense*	Accrued Interest on Expense
186145/ Gasco	\$128,628,056	\$80,375,084	\$20,482,609
186146/ EWEB	\$95,653	\$201,492	\$105,840
186147/ Wacker (aka Siltronic)	\$4,711,600	\$5,202,480	\$1,778,930
186148/ Portland Harbor	\$20,702,319	\$24,245,680	\$9,665,782
186149/ Portland Gas (Front Street)	\$4,481,712	\$4,211,358	\$871,632
186151/ Tar Body (subset of Portland Harbor)	\$10,523,100	\$21,408,560	\$10,894,553
186152/ OR Steel Mills	\$194,060	\$37,137	\$22,154
186153/ Central Gas Hold	\$685,263	\$592,651	\$92,349
186154/ FAIS	\$158,120	\$254,573	\$96,453
Total	\$170,188,883	\$136,530,015	\$44,010,302
*Recorded expense includes interest			

In October 2013, \$20.1 million in total Gasco Source Control costs were transferred from the deferral account to plant and NW Natural included \$19.0 million in rate base on

November 1, 2013. The \$80.4 million in account 186145 does not reflect any of the costs associated with constructing Source Control wells.

Amortization:

In NW Natural's most recent rate case, docketed as UG 221, it requested authorization to begin amortizing environmental remediation costs deferred in accordance with the authorization granted under Docket UM 1078. The Commission granted NW Natural a mechanism through which it can recover prudent deferred costs, but determined that certain specifics regarding the mechanism as well as a prudence review and earnings test of the deferred costs would need to be separately investigated.

Docket No. UM 1635, was initiated, through which this investigation will be completed.

Interest Rates:

The interest rate for the deferral accounts is 7.78 percent as directed in the Commission's Order Nos. 12-408 and 12-437, issued in UG 221, and a different interest rate will apply once the amounts have been reviewed for prudence.

Staff Analysis:

Staff and Parties are awaiting the Commission's Order in Docket No. UM 1635. Staff believes that NW Natural has met the requirements for deferred accounting in this application.

PROPOSED COMMISSION MOTION:

Northwest Natural's request to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2015, be approved.