

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 12, 2013**

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2013

DATE: February 19, 2013

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman *ME* *AA*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(10)) Defers Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's request to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2013, for accounting purposes only.

DISCUSSION:

Northwest Natural (NW Natural or Company) makes this filing in accordance with ORS 757.125, 757.259(2)(e) and OAR 860-027-0300(4). The Company seeks reauthorization to defer costs related to nine project sites.

Background:

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 Commission Order 03-328. In the following year, NWN was allowed to continue deferred accounting for the same five project sites pursuant to Commission Order 04-244. Subsequently, NWN was allowed to defer costs related to Oregon Steel Mills beginning March 15, 2005, in Commission Order 05-138 and Central Gas Hold beginning January 27, 2007, in Commission Order 07-147. Finally, Commission Order 08-247 allowed NWN to defer costs related to French American International School (FAIS) beginning January 25, 2008. Commission Order 10-117 authorized NWN to continue deferring costs associated with nine projects described in its application, but

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

denied NWN's request to defer costs associated with a tenth projected referred to as the Tualatin site.

Description:

NW Natural seeks authorization to record all environmental costs which shall 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 French American International School.

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 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 they would be collected through the Company's 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 to 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 and if insurance recovery is uncertain, the costs will be deferred to deferred regulatory asset account FERC account 186, with separate subaccounts for each site.

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:

NWN 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. 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. It has identified and analyzed all of the liability insurance policies issued between the late 1930s and 1986 which may provide coverage. All of the insurers have been contacted. Most have signed confidentiality agreements and have been provided information about environmental liabilities. Because the coverage issues involve complex legal and factual issues, the insurers have not agreed that coverage exists. However, most insurers agreed to enter into negotiations in an effort to resolve claims. 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.

Unrecovered Environmental Account Balances as of December 31, 2012			
Account Number/ Site	Recorded Liability	Recorded Expense	Accrued Interest on Expense
186145/ Gasco	\$98,454,512	\$53,574,420	\$10,956,895
186146/ EWEB	\$0	\$172,753	\$77,101
186147/ Wacker (nka Siltronic)	\$3,733,070	\$3,889,627	\$1,083,284
186148/ Portland Harbor	\$15,736,118	\$18,920,040	\$6,325,460
186149/ Portland Gas (Front Street)	\$3,199,661	\$2,544,684	\$358,025
186151/ Tar Body (subset of Portland Harbor)	\$9,595,674	\$17,781,288	\$7,840,987
186152/ OR Steel Mills	\$200,000	\$37,788	\$16,865
186153/ Central Gas Hold	\$732,890	\$210,045	\$29,539
186154/ FAIS	\$13,061	\$218,162	\$60,042
Total	\$131,655,987	\$97,348,808	\$26,748,198

Amortization:

In NW Natural's most recent rate case, docketed as UG 221, the Company requested authorization to begin amortizing environmental remediation costs deferred in accordance with the authorization granted under this 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 prudency review and earnings test of the deferred costs would need to be separately investigated. A new docket, UM 1635, has been initiated, through which this investigation will be completed.

Interest Rates:

The interest rate for the deferral accounts is 8.618 percent from January 2012 to October 2012, and 7.78 percent thereafter. 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.

Staff Analysis:

Staff is committed to the process of UM 1635. That process was setup by the Commission in Order No. 12-437. Staff, the Company and established parties have been meeting and will continue to meet to solve the issues presented by the Commission in its order. 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, 2013, be approved.