

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 19, 2013**

REGULAR CONSENT EFFECTIVE DATE November 30, 2013

DATE: December 9, 2013

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

THROUGH: *J* Jason Eisdorfer, *AGMG* Maury Galbraith, and *M* Marc Hellman

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1636(2)) Requests reauthorization to defer expenses and revenues associated with the Manufactured Gas Plant in Eugene.

STAFF RECOMMENDATION:

I recommend that Cascade Natural Gas's application, as supplemented on December 2, 2013, be approved.

DISCUSSION:

Cascade Natural Gas (Cascade or Company) makes this filing pursuant to ORS 757.259 and OAR 860-027-0300 to request reauthorization to defer expenses and insurance proceeds related to environmental remediation at the Manufactured Gas Plant (MGP) in Eugene, Oregon, for the 12-month period beginning November 30, 2013. This deferral was initially authorized by Order No. 13-004.

Background

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. In 1958, Cascade sold the MGP and property to a predecessor of Northwest Natural.

On February 26, 1996, EWEB, PacifiCorp, and Cascade entered into a participation agreement for site investigation.

Description of Expense

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

Reason for Deferral

This Application is filed by Cascade pursuant to ORS 757.259(2)(e), requesting authorization to defer environmental costs and amounts from insurance recoveries because they are "identifiable 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."

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 parties identified as responsible for the remediation efforts for this project (of which Cascade is the major party) have not received a final report from the Oregon Department of Environmental Quality which would include actual remediation requirements. Cascade has been expecting this report for some time now. Until the report is received Cascade cannot determine the extent or cost of required cleanup efforts.

Deferrals during Current Period

The Company has been working to identify potential insurance providers and policy coverage during the relevant time periods. Costs deferred to date of \$1,427,631 are associated with this effort.

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) and (8)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding year. The limit for these deferrals will be determined at the time of amortization. Should a deferred balance result in a credit to customers, the balance is exempt from the three percent test per the advice of Staff's counsel. The three percent test is applicable to this deferred account.

Staff Analysis

After a discussion with Staff, Cascade sent a notice of the application to the appropriate parties, and filed a Certificate of Service. On December 2, 2013, Cascade also filed a supplemental letter that provided the additional information that was necessary for Staff's complete review of the filing.

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

PROPOSED COMMISSION MOTION:

Cascade's filing, as supplemented, for reauthorization of deferred accounting related to the Manufactured Gas Plant in Eugene, Oregon, be approved for the 12-month period beginning November 30, 2013.