

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 13, 2015

REGULAR _____ CONSENT X EFFECTIVE DATE December 1, 2014

DATE: January 5, 2015

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

THROUGH: Jason Eisdorfer *JE* and Marc Hellman *A*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1636(3)) 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 23, 2014, 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 December 1, 2014. This deferral was most recently authorized by Order No. 13-484.

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, Eugene Water & Electric Board, 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 Record of Decision (ROD) from the Oregon Department of Environmental Quality (DEQ) which would include actual remediation requirements. DEQ staff circulated its draft report for public comments (due September 30, 2014) and received no comments. Based on the DEQ staff report, Cascade expects the ROD to be issued sometime in 2015. Until the ROD is issued, Cascade cannot determine the extent or cost of required cleanup efforts. With its supplemental filing, Cascade included copies of pertinent information, including the DEQ staff report mentioned above.

Deferrals during Current Period

The Company has been working to identify potential insurance providers and policy coverage during the relevant time periods. As of November 30, 2014, Cascade has deferred costs of approximately \$187,000 associated with this effort.¹ No insurance proceeds have yet been collected.

¹ In last year's application and this year's initial application, Cascade included a reserve amount in error as part of its deferred account balance. Cascade corrected the amount in its supplemental filing.

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

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 December 1, 2014.