

ITEM NO. CA10

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: February 14, 2019

REGULAR  CONSENT  EFFECTIVE DATE December 1, 2018

DATE: February 5, 2019

TO: Public Utility Commission

FROM: Mitchell Moore *MM*

THROUGH: Jason Eisdorfer *JE* and John Crider *JC*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1636(7)) Requests reauthorization to defer costs associated with the Manufactured Gas Plant in Eugene.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Cascade Natural Gas Corporation's (Cascade or Company) request to defer expenses associated with the Manufactured Gas Plant (MGP) in Eugene, Oregon for the 12 month period beginning December 1, 2018.

**DISCUSSION:**

Issue

Whether the Commission should reauthorize deferral of costs associated with environmental remediation expenses at the MGP in Eugene, Oregon for the 12-month period beginning December 1, 2018.

Applicable Law

This application is filed by Cascade pursuant to OAR 860-027-0300 and ORS 757.259(2)(e), requesting authorization to defer environmental remediation costs and amounts from insurance recoveries because they are "[i]dentifiable 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 the fluctuation of rate levels or to match appropriately the costs borne by and benefits received by ratepayers."

Commission Order No. 18-423 acknowledges that costs eligible for deferred accounting under ORS 757.259 are for expenses only. Capitalized costs and depreciation expense are not eligible for deferral.

This deferral was approved originally by Order No. 13-004, and most recently reauthorized by Order No. 17-491.

### Discussion and Analysis

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. Cascade sold the MGP and property to a predecessor of Northwest Natural five years later, in 1958. Eugene Water & Electric Board, PacifiCorp, and Cascade entered into a participation agreement for site investigation and remediation on February 26, 1996.

In 2012, Cascade submitted its first application to defer expenses associated with environmental remediation of the MGP site.

In January of 2015, the Department of Environmental Quality issued a Record of Decision that identified and authorized specific remediation measures. The Company estimates that the total of its portion of the cleanup effort will amount to approximately \$1.9 million.

#### *Description of Expense*

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

#### *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*

It anticipates completing the majority of the remediation work in 2019 and will defer approximately \$1.7 million in 2019.

*Deferrals during Current Period*

As of September 30, 2018 the Company had deferred a total of \$316,813. The Company has been working to identify potential insurance providers and policy coverage during the relevant time periods and continues to seek insurance recovery of remediation costs.

Amortization has begun through Schedule 197, along with prudence review conducted in the Company's two most recent general rate cases – UG 305 and UG 347.

*Information Related to Future Amortization*

- Earnings review – An earnings review should be conducted prior to future 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 – Costs are spread to all customer classes on an equal centers per therm basis.
- 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), (8), and (10)) the aggregated deferral amortizations during a 12-month period to no more than three percent of the utility's gross revenues for the preceding calendar year. The limit for these deferrals will be determined at the time of amortization. The three percent test is applicable to this deferred account.

Conclusion

Staff supports Cascade's request to reauthorize the deferral of environmental remediation costs.

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

**PROPOSED COMMISSION MOTION:**

Approve Cascade's filing for reauthorization to defer expenses associated with the Manufactured Gas Plant (MGP) in Eugene, Oregon for the 12 months beginning December 1, 2018.

Cascade UM 1636(7) Cascade deferral gas plant