

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 15, 2013

REGULAR _____ CONSENT X EFFECTIVE DATE November 30, 2012

DATE: December 17, 2012

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman *E* *MG* *MH*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1636) Requests authorization of deferred accounting for costs associated with environmental remediation.

STAFF RECOMMENDATION:

Staff recommends that the Commission allow Cascade Natural Gas (Cascade or Company) to defer environmental remediation costs associated with work at the Manufactured Gas Plant (MGP) in Eugene, Oregon for a period of twelve months starting November 30, 2012.

DISCUSSION:

On November 30, 2012, Cascade submitted an application requesting authorization to defer costs associated with environmental remediation work at the Manufactured Gas Plant (MGP) in Eugene, Oregon.

Background

The Eugene Manufactured Gas Plant was constructed in 1907 and was a coal carbonization process facility. In 1910-1911 the plant expanded and converted to a water-gas processing facility. 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 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.

Cascade states that it may present to the Commission a proposed ratemaking treatment for deferred costs associated with the MGP site, should costs and remediation at the particular site become known and certain. At the time of consideration for incorporation into rates, Cascade will propose an appropriate amortization period for the environmental costs for the Commission's consideration. Cascade does not request a determination of ratemaking treatment on the environmental costs at this time. Environmental costs will be charged to a deferred regulatory asset accounts and any insurance recoveries will be used as offsets to these environmental costs.

Description of Expense

Cascade states that it does not know as yet what type of environmental remediation will be done. The Company is awaiting a report from the Department of Environmental Quality that will determine the type and amount of work that will need to be done.

Reason for Deferral

This Application is filed by Cascade pursuant to ORS 757.259(2)(e), 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 that the deferrals be recorded 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 Account 920, Administrative and General Salaries, and the costs of outside services (e.g. consulting) to FERC Account 923, Outside Services Employed.

Estimate of Amounts

At this time, Cascade is unable to more accurately estimate the total potential liability for investigation and remediation costs or to accurately estimate the corresponding total insurance recovery amount due to lack of information.

Information Related to Future Amortization

- Earnings review –Based of the Commission Order 12-437, November 16, 2012, the Commission found that with Northwest Natural, "An earnings test with a deadband will be applied."
- Prudence Review – A prudence review is a requirement of the earnings review which does apply to this deferral.

- Sharing – Sharing 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. The three percent test is applicable to this deferred account.

Staff Analysis

The rationale for this deferral is valid, and the Company's application meets the requirements of ORS 757.259. For this reason, Staff recommends Cascade's application be approved.

PROPOSED COMMISSION MOTION:

The Commission allow Cascade Natural Gas to defer environmental remediation costs associated with work at the Manufactured Gas Plant in Eugene, Oregon for a period of twelve months starting November 30, 2012.