



PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 12, 2016

REGULAR _____ CONSENT X EFFECTIVE DATE December 1, 2015

DATE: December 23, 2015

TO: Public Utility Commission

FROM: Brian Bahr 

THROUGH:  Jason Eisdorfer and  Marc Hellman

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 1636(4)) Requests
Reauthorization to Defer Costs Associated with the Manufactured Gas
Plant in Eugene.

STAFF RECOMMENDATION:

The Public Utility Commission of Oregon (Commission) should approve Cascade Natural Gas Corporation's (Cascade or Company) request to defer expenses associated with the Manufactured Gas Plant (MGP) in Eugene, Oregon for a period of 12 months commencing December 1, 2015, and also order Cascade to defer related insurance proceeds for the same time period.

ISSUE:

The Company requests reauthorization to defer expenses related to environmental remediation at the MGP in Eugene, Oregon, for the 12-month period beginning December 1, 2015. This deferral was approved originally by Order No. 13-004, and most recently reauthorized by Order No. 15-010. Staff proposes that the Commission reauthorize the deferral of expenses and also order deferral of insurance proceeds related to the MGP site.

APPLICABLE RULES AND LAWS:

This Application is filed by Cascade pursuant to OAR 860-027-0300 and 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."

ANALYSIS:

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. 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 on February 26, 1996.

In 2012, Cascade submitted its first application to defer expenses associated with environmental remediation of the MGP site. The Commission approved this request and has reauthorized the deferral twice.

Description of Expense

The Company proposes to defer its share of all related environmental costs 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

In January of 2015, the Department of Environmental Quality issued a Record of Decision that identified and authorized specific remediation measures. The Company anticipates that its portion of the effort will amount to approximately \$1.7 million.

Deferrals during Current Period

The Company has been working to identify potential insurance providers and policy coverage during the relevant time periods. As of September 30, 2015, Cascade has deferred costs in the amount of approximately \$122,000 associated with this effort, net

of insurance proceeds.¹ The Company is continuing to seek insurance recovery of remediation costs.

Staff recommendation

Staff supports Cascade's request to reauthorize the deferral of environmental remediation costs. However, Staff recommends that the Commission specify that the deferral order applies to both expenses and revenues (insurance proceeds) related to environmental remediation at the MGP site. Cascade has deferred insurance proceeds in past years; however, its application does not specify a request to defer the insurance proceeds. Staff believes it would be appropriate for the Commission to formalize Cascade's obligation to defer insurance proceeds.

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.

¹ The Company states in its filing that its net deferral amount is \$278,517.26. However, in response to a Staff request for information, the Company affirms this amount is an error, and the correct amount is \$121,750.47. Staff verified the balance by reviewing a detailed accounting of all expenses and proceeds associated with deferred account since its inception, which was provided as a confidential attachment to the Company's response.

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Conclusion

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:

Cascade's filing for reauthorization to defer expenses associated with the Manufactured Gas Plant (MGP) in Eugene, Oregon be approved for the 12 months commencing December 1, 2015, and also Cascade be ordered to defer related insurance proceeds for the same time period.

Cascade UM 1636(4) Eugene MGP