

PUBLIC UTILITY COMMISSION OF OREGON
CONFIDENTIAL STAFF REPORT
PUBLIC MEETING DATE: August 28, 2018

REGULAR _____ CONSENT X EFFECTIVE DATE August 28, 2018

DATE: August 20, 2018

TO: Public Utility Commission

FROM: Mitchell Moore *mm*

THROUGH: Jason Eisdorfer *eps* and John Crider *eps*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1732(3)) Requests Prudence Review of Environmental Remediation Costs for Calendar Year 2017.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural Gas Company's (NW Natural or Company) request and find that the Environmental Remediation Costs from January 1, 2017 through December 31, 2017 are prudent and eligible for recovery.

DISCUSSION

Whether NW Natural's environmental remediation costs incurred between January 1, 2017 and December 31, 2017 are prudent and are eligible for recovery.

Applicable law

NW Natural makes this filing in accordance with Commission Order No. 12-437 in Docket UG 221 approving and modifying certain elements of NWN's requested Rate Schedule 183 – Site Remediation Recovery Mechanism (SRRM), and Order No. 15-049 in Docket UM 1635. In Order No. 15-049, the Commission determined that environmental remediation costs incurred on and after January 1, 2013, would be reviewed annually for prudence prior to becoming eligible for offset by insurance proceeds and amounts collected in base rates or amortization under the SRRM. To determine whether a cost was prudently incurred and recoverable in rates, "the Commission examines the objective reasonableness of a company's actions measured at the time the company acted."¹

¹ *In re PacifiCorp, dba Pacific Power, Application for an Accounting Order Regarding Excess Net Power Costs*, Docket No. UM 995, Order No. 02-469 at 4 (July 18, 2002).

Analysis

Background:

NW Natural has seven sites at which the Oregon Department of Environmental Quality (DEQ) or the Environmental Protection Agency (EPA) has required clean-up. These include: Portland Harbor, Portland Gas Manufacturing (PGM), Gasco, Central, Eugene Water Electric Board, French American School, and Oregon Steel. The total expenditures for the period of January 1, 2017 through December 31, 2017 are \$13,744,537.

Staff Review:

Staff reviewed the Company's filing, associated workpapers and Annual Report, in addition to issuing several data requests, to ensure that costs included for recovery are a) actually incurred; b) solely incremental and associated with the environmental and remediation activities as identified in Commission Order Nos. 12-408 and 12-437; and c) reasonable.

During Staff's prudence review of 2015 expenses, Staff noted that an internal audit by the Company suggested that the Company **[Begin Confidential]**

[End Confidential]

Staff urged the Company to follow up on this recommendation in 2016 and 2017. The Company completed the audit in 2017 and provided a copy to Staff for review.

[Begin Confidential]

[End Confidential]

Description of expenses:

The largest expenditures for 2017 were at the Gasco site. Expenditures for the various Gasco projects totaled \$12,148,106. The Gasco site covers approximately 45 acres and is located on the Willamette River between the St. Johns Bridge and the Railroad Bridge. Work at this site consists of various projects: the Uplands Project, the Sediments Project, and the Source Control Project. These projects are subject to EPA and DEQ oversight.

The Gasco Upland site is currently in the feasibility study phase. NWN and DEQ continued to integrate data sets from a parcel previously owned by NWN and currently owned by Siltronic, and completed additional tasks related to the feasibility study. Work also included field investigations and groundwater monitoring activities.

Expenditures related to the Portland Harbor site in 2017 were \$1,057,842. The Portland Harbor site is a stretch of approximately 10 miles along the Willamette River that has been designated as a Superfund site by the EPA. The EPA issued its Record of Decision ("ROD") for the entire site in January 2017, estimating a total remediation cost of \$1.05 billion over a 13 year cleanup period to be allocated among potentially responsible parties. Activities at this site included participation in baseline sampling activities along the river, as well as activities related to identifying the Company's potential liability for the cleanup. In addition, NWN participates in the Portland Harbor Natural Resource Damage (NRD) cooperative assessment process.

The PGM site covers approximately 3.7 upland acres along the Willamette River near the Steel Bridge. NWN performed pre-design investigation related to remedies identified by DEQ to remediate this site. Expenditures in 2017 were \$483,399.

At the Central Service Center site, NWN completed several tasks, including the decommissioning of a historical water well; the placement of an "environmental cap" over a contaminated area; submitted final reporting for groundwater monitoring. Expenditures in 2017 related to this site were \$55,191.

Conclusion

Staff recommends that the Commission find that that NW Natural's Environmental Remediation Costs from January 1, 2017 through December 31, 2017 are prudent and eligible for recovery through the SRRM. Staff also supports the Company's efforts to improve its internal process with regard to vendors contracted to work on remediation activities, and recommends including a follow-up report on the improvements made to be filed concurrent with NW Natural's next SRRM prudence review request.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request to find that the Environmental Remediation Costs from January 1, 2017 through December 31, 2017 are prudent and eligible for recovery, and direct the Company to implement the recommendations of its Internal Audit team, and provide a progress report concurrent with its next SRRM prudence review request.