

PUBLIC UTILITY COMMISSION OF OREGON  
CONFIDENTIAL STAFF REPORT  
PUBLIC MEETING DATE: October 12, 2017

REGULAR  CONSENT  EFFECTIVE DATE January 1, 2017

DATE: October 3, 2017

TO: Public Utility Commission

FROM: Mitchell Moore

THROUGH: Jason Eisdorfer and John Crider

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1732(2)) Requests Prudence Review of Environmental Remediation Costs for Calendar Year 2016.

**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, 2016, through December 31, 2016, are prudent and eligible for recovery.

**DISCUSSION:**

Issue

Whether NW Natural's environmental remediation costs incurred between January 1, 2016, and December 31, 2016, are prudent.

Applicable Law

The Commission approved NW Natural's Schedule 183 - Site Remediation Recovery Mechanism (SRRM) with Order No. 12-137, Docket UG 221, and also with 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, the Commission reviews the Company's actions, based on all that the Company knew or should have known at the

time, to determine whether the actions were reasonable and prudent in light of the circumstances, which then existed.<sup>1</sup>

### Discussion and Analysis

#### *Background:*

NW Natural has eight 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 Commission issued Order No. 16-069 finding that environmental remediation costs incurred between April 1, 2014 and December 31, 2014 are prudent and eligible for recovery under the SRRM. In Order No. 16-187, the Commission determined that the remediation costs incurred between January 1, 2015 and December 31, 2015 were prudent and eligible for recovery under the SRRM.

NW Natural incurred environmental remediation expenses at five of the eight sites in 2016. Total remediation expenditures for the period of January 1, 2016, through December 31, 2016, for which NW Natural seeks a prudence determination, are \$10,489,170.

#### *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 No. 12-137; and c) reasonable and prudent at the time incurred.

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

**[End Confidential]**

The Commission instructed the Company to follow its Internal Auditors' recommendations and Staff noted that it will continue to follow-up on whether the Company followed its auditors' recommendations in future prudence reviews. Staff issued an information request on this topic. In response to Staff's request, **[Begin Confidential]**

**[End Confidential]**

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<sup>1</sup> *In re PacifiCorp, dba Pacific Power, Request for a General Rate Revision, Docket No. UE 246, Order No. 12-493 at 25 (December 20, 2012).*

Staff believes that is an important component of ensuring the prudence and reasonableness of environmental remediation costs and will continue to follow-up on this topic in future prudence reviews.

*Description of expenses:*

Gasco

The largest expenditures for 2016 were at the Gasco site. Expenditures at Gasco were \$8,590,190. 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 agreed to restructure the Gasco Upland and Siltronic projects to incorporate the adjacent portion of the Siltronic property as part of the Gasco manufactured gas plant into the feasibility study. The expenditures for 2016 for the Gasco Upland site were \$3,751,267 and included continuing development of the feasibility study, integrating data sets from the Gasco Uplands and Siltronic parcels, and groundwater monitoring.

The Gasco Sediments site is still in the Engineering Evaluation/Cost Analysis (EE/CA) phase. In 2016, NW Natural continued to work with the EPA on its regulatory requirements for the site. Although revision of the EE/CA has been delayed due to a delay in the release of the EPA Portland Harbor Superfund Site Feasibility Study, NW Natural continued to work with EPA to incorporate the results of the EE/CA into EPA's proposed plan for Portland Harbor. NWN also conducted monthly visual monitoring of the shoreline area. The expenditures for 2016 for the Gasco Sediments site were \$331,228.

Construction of the Gasco Source Control wells was completed in October 2013. DEQ-required testing of the source control system is ongoing. The Company will continue to incur costs associated with operating the wells and environmental regulatory oversight. The expenditures for 2016 for the Gasco Source Control were \$4,507,695. Of that amount, \$4,299,516 was expended for the Optimization of Water Treatment Plant at Gasco.

#### Portland Harbor

The Portland Harbor site is designated a superfund site, an approximately 10-mile stretch along the Willamette River. Expenditures for 2016 were \$1,427,661, primarily for legal fees associated with a proposed remedy for NW Natural's obligation, as well as allocation proceedings and resource damage assessment.

#### PGM

The PGM site covers approximately 3.7 upland acres along the Willamette River, and in 2016 NW Natural finalized the Feasibility Study and received a DEQ recommendation regarding its proposed cleanup plan. Expenditures for 2016 at this location were \$331,022.

#### Central

The Central Service Center is the former site for company operations, and was identified by DEQ for cleanup and ranked as a high priority site. NW Natural activities at this location were related to DEQ reporting, as well as developing a scope of work to address additional groundwater monitoring and sampling. Expenditures for 2016 at this location were \$73,509.

#### Siltronic

The Siltronic site is adjacent to the Gasco site, and approximately 38.5 acres of it was previously owned by NW Natural's predecessor company. NW Natural completed its source control evaluation at the site in 2016. Expenditures for 2016 at this location were \$66,788.

#### Conclusion

Staff finds that NW Natural's environmental remediation costs were reasonable at the time NW Natural incurred them. Staff recommends that the Commission find that that NW Natural's Environmental Remediation Costs from January 1, 2016, through December 31, 2016, are prudent and eligible for recovery.

#### **PROPOSED COMMISSION MOTION:**

Approve Northwest Natural's request to find that the Environmental Remediation Costs from January 1, 2016, through December 31, 2016, are prudent and eligible for recovery and instruct the Company to continue to implement the recommendations of its Internal Audit team.