

ITEM NO. **CAS**

**PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: May 17, 2016**

REGULAR CONSENT EFFECTIVE DATE January 1, 2016

DATE: April 25, 2016

TO: Public Utility Commission

FROM: Judy Johnson 

THROUGH: Jason Eisdorfer and Marc Hellman 

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1732(1)) Requests Prudence Review of Environmental Remediation Costs for Calendar Year 2015.

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, 2015, through December 31, 2015, are prudent and eligible for recovery.

ISSUE:

Whether NW Natural's environmental remediation costs incurred between January 1, 2015, and December 31, 2015, are prudent and are eligible for recovery.

APPLICABLE LAWS:

NW Natural makes this filing in accordance with Commission Order No. 12-137 in Docket UG 221 approving 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).

DISCUSSION AND ANALYSIS:

Description:

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.² The total expenditures for the period of January 1, 2015, through December 31, 2015, are \$10,525,343.

The largest expenditures for 2015 were at the Gasco site. Expenditures at Gasco were \$7,921,365. 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 now in the feasibility phase. The primary work activities conducted in 2015 were finalizing the risk assessment and performing upland groundwater monitoring activities, and the initial scoping of the feasibility study. The expenditures for 2015 for the Gasco Upland site were \$1,859,907.

The Sediments site is still in the Engineering Evaluation/Cost Analysis (EE/CA) phase. In 2015, 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. The expenditures for 2015 for the Gasco Sediments site were \$708,579.

Construction of the 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 2015 for the Gasco Source Control were \$5,352,878. Of that amount, \$5,129,194 was expended for the Optimization of Water Treatment Plant at Gasco.

Staff requested further information from NW Natural about the costs associated with the Optimization of Water Treatment Plant. The Company responded with sufficient information so that Staff can state that the costs were appropriate.

² The remediation at the Eugene Water and Electric Board and French American International School sites is now complete.

Staff requested additional information about the two main contractors associated with the work done for the Optimization of Water Treatment Plant. The first contractor is Anchor QEA. Anchor QEA's work was primarily related to operation of the hydraulic control and containment (HC&C) portion of the system. The HC&C system is in continuous operation throughout the year. The primary tasks include operation, maintenance, testing, and optimization of 23 groundwater extraction wells and associated pipelines installed along approximately 2,000 feet of the shoreline of the Willamette River to prevent discharge of contaminated groundwater to the river. The extracted groundwater is directed to the groundwater treatment system located at the Gasco Site and operated by SES.

The second contractor is Severson Environmental Services (SES). SES's work was primarily related to providing labor, equipment, and materials to operate, maintain, and optimize the NW Natural and Siltronic Pretreatment plants and Groundwater Treatment plant to treat water extracted by the HC&C system. The treatment system is in continuous operation throughout the year. Subcontractor costs were directly related to providing optimization design support, compilation support for treatment plant manuals, monthly and quarterly reporting to the permitting agencies, Supervisory Control and Data Acquisition (SCADA) technical support, transportation and disposal of treatment plant residuals, and laboratory analytical costs related to testing of treatment plant residuals, influent, and effluent.

SES staff physically monitors the operation of the Groundwater Treatment System (GTS) by looking at a user interface that depicts flow rates, water levels, chemical feeds, PH levels, and other parameters related to operation of the system. If any of the programmed specifications go outside of programmed limits, alarms are sent and SES staff identify the issue(s) and implement corrective actions. SES staff also physically performs routine operation and maintenance on all of the system components. For example, pumps are serviced, blocked pipe lines are cleaned, filters are replaced, and chemical parameters are double checked to verify automated sampler readings. Samples are collected for regulatory compliance purposes, to evaluate plant function, and to support optimization of systems. SES also manages all vendors that supply chemicals and other materials needed to continually treat the groundwater pumped to the system from the hydraulic containment wells. The system runs twenty-four hours a day, seven days a week.

NW Natural's Internal Audit of Gasco Source Control:

Overall, NW Natural's Internal Audit team did not find any high risk issues. However, in their summary, the auditors noted the following:

[Begin Confidential]



[End Confidential]

Staff believes this is an important finding and urges NW Natural to follow its Internal Auditors' recommendations. Staff will continue to follow-up on whether the Company followed its Internal Auditors' recommendations in all future prudence reviews.

Staff Analysis and Recommendation:

Staff has reviewed the costs reported by NW Natural for January 1, 2015, through December 31, 2015. Staff concludes the 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, 2015, through December 31, 2015, are prudent and eligible for recovery.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request to find that the Environmental Remediation Costs from January 1, 2015, through December 31, 2015, are prudent and eligible for recovery and instruct the Company to implement the recommendations of its Internal Audit team before its next prudency request.