

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(3)

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY,)	
dba NW NATURAL)	ORDER
)	
Application for Reauthorization of Deferred)	
Accounting of Unrecovered Environmental)	
Costs Associated with Gasco, Wacker,)	
Portland Gas, Portland Harbor, Eugene Water)	
and Electric Board and Oregon Steel Mills.)	
)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 26, 2006, Northwest Natural Gas Company (NW Natural), filed an application with the Public Utility Commission of Oregon (Commission) requesting reauthorization for deferral of unrecovered environmental costs including investigation, study, oversight, and likely remediation associated with six project sites. Five of the initial project sites, designated Gasco, Wacker, Portland Gas, Portland Harbor and Eugene Water and Electric Board, were originally authorized beginning April 7, 2003, in Order No. 03-328. The sixth site, designated Oregon Steel Mills, was authorized beginning March 15, 2005, in Order No. 05-138. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on April 25, 2006, the Commission adopted Staff's Recommendations and approved NW Natural's current request, with conditions.

ORDER

IT IS ORDERED that:

- 1) Northwest Natural's request for reauthorization to defer unrecovered environmental costs, under ORS 757.259 for Gasco, Wacker, Portland Gas, Portland Harbor including the Tar Body, Eugene Water and Electric Board and Oregon Steel Mills, is approved for a 12-month period, beginning January 27, 2006.


- 2) Only incremental costs from pursuing insurance recovery may be recorded and deferred.
- 3) The company will be allowed to accrue interest on deferred balances provided it demonstrates to the Commission's satisfaction, at its annual program audit, that it has maximized its insurance recovery or made substantial progress in securing insurance recovery for unrecovered environmental expenses.

Made, entered, and effective _____

4/27/06

BY THE COMMISSION:





Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 25, 2006

REGULAR _____ CONSENT X EFFECTIVE DATE January 27, 2006

DATE: April 18, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger *E*

THROUGH: ^{*ws*} Lee Sparling, ^{*EB*} Ed Busch, ^{*JJ*} Judy Johnson and ^{*bbt*} Bonnie Tatom

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078 (3)) Application for Reauthorization of Deferred Accounting of Unrecovered Environmental Costs Associated with Gasco, Wacker, Portland Gas, Portland Harbor, Eugene Water and Electric Board and Oregon Steel Mills.

STAFF RECOMMENDATION:

I recommend the Commission approve, with conditions, Northwest Natural's (NW Natural or company) request for reauthorization to defer environmental costs associated with Gasco, Wacker (now known as Siltronic), Portland Gas, Portland Harbor, Eugene Water and Electric Board (EWEB), and Oregon Steel Mills, for a 12-month period beginning January 27, 2006.

DISCUSSION:

On January 26, 2006, NW Natural requested reauthorization, under ORS 757.259, to defer unrecovered environmental costs including investigation, study, oversight and likely remediation associated with six project sites. The company also requests authorization to defer costs from pursuing insurance recovery and to accrue interest on the unrecovered account balances.

Deferred accounting for five initial project sites, Gasco, Wacker, Portland Gas, Portland Harbor and EWEB, was originally authorized beginning April 7, 2003, in Order No. 03-328 (Docket UM 1078). The sixth site, Oregon Steel Mills, received authorization to defer environmental costs beginning March 15, 2005, in Order No. 05-138. Although the company has been unable to determine the full extent of the environmental costs, some costs may be covered by insurance. The company proposes to record environmental costs to deferred regulatory asset accounts and to offset the costs with the insurance proceeds.

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Commission Order No. 05-138 states that these costs will be dealt with only in a future rate case. The magnitude, importance, and the extent to which customers will be responsible for these costs are issues potentially too important and controversial to be included in a summary fashion such as in a PGA filing, where time is extremely short for review. As of the date of the application, the company had total unrecovered expenditures in excess of \$17 million.

Staff believes that deferred accounting treatment for the costs for pursuing insurance recovery is appropriate, provided the company can demonstrate that the insurance recovery costs are incremental and exceed legal costs currently in rates. Accruing interest on unrecovered deferred balances is also acceptable, provided the company is making substantial progress toward resolving the outstanding insurance recovery issues. The burden will be with the company to demonstrate that this is the case each year at the annual program audit.

Reason for Deferral

Adoption of this deferred account is authorized by 757.259(2)(e) in order to minimize the frequency of rate changes or fluctuation of rate levels. NW Natural has met the requirements of OAR 860-027-0300 in its filing.

Proposed Accounting

The proposed deferrals would be recorded in separate sub accounts of account 186 (Miscellaneous Deferred Debits) for each environmental site. In the absence of deferral approval, the company would record the amounts in the sub accounts of FERC account 401 (Utility Operation Expense).

Estimated Deferrals in Authorization Period

Accurate estimates of the unrecovered environmental costs including insurance recovery for the six sites are unknown for this authorization period. Expenses as of December 2005 are as follows:

1. Gasco has recorded liabilities of \$6.5 million of which \$5.1 million has been spent.
2. Wacker (currently known as Siltronic) has recorded liabilities of \$600,000 of which \$600,000 has been spent.
3. Portland Harbor has recorded liabilities of \$6.4 million and spending of \$4.2 million. The Tar Body at Portland Harbor, a subset of Portland Harbor, has recorded liabilities of \$10 million and current costs of \$7.2 million.
4. The costs for Portland Gas are unknown.
5. The cost for EWEB is also unknown.
6. Oregon Steel Mills has recorded liabilities of \$200,000 and spending of \$21,000.

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Estimated insurance receivables are currently \$14.5 million, however, the company does not know how much of this it will actually be able to collect. Any recovery from insurance will offset deferred environmental costs. At this time there is insufficient information to accurately estimate the total potential liability for investigation and remediation costs associated with the six sites, or to accurately estimate the corresponding total insurance recovery amounts.

PROPOSED COMMISSION MOTION:

NW Natural's request for reauthorization to defer unrecovered environmental costs, under ORS 757.259, for Gasco, Wacker, Portland Gas, Portland Harbor including the Tar Body, EWEB and Oregon Steel Mills be approved for a 12-month period beginning January 27, 2006, with the following conditions;

1. Only incremental costs from pursuing insurance recovery may be recorded and deferred.
2. The company will be allowed to accrue interest on deferred balances provided it demonstrates to the Commission's satisfaction, at its annual program audit, that it has maximized its insurance recovery or made substantial progress in securing insurance recovery for unrecovered environmental expenses.

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