

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1078(4)

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, 2007, 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.

NW Natural seeks deferred accounting treatment for a seventh site, Central Gas Hold, which was assigned a high priority for further environmental investigation on September 22, 2006, by the Oregon Department of Environmental Quality. 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 10, 2007, the Commission adopted Staff's Recommendations and approved NW Natural's current requests, with conditions.

**ORDER**

IT IS ORDERED that:

- 1) Northwest Natural Gas Company's request for authorization to defer costs relating to unrecovered environmental costs associated with Central Gas Hold, for a 12-month period beginning January 27, 2007, is approved.

- 2) Northwest Natural Gas Company's request for reauthorization to defer unrecovered environmental costs for Gasco, Wacker, Portland Gas, Portland Harbor, Eugene Water and Electric Board, and Oregon Steel Mills, is approved for a 12-month period, beginning January 27, 2007.
- 3) Only incremental costs from pursuing insurance recovery may be recorded and deferred.
- 4) 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 APR 13 2007.

BY THE COMMISSION:



*Becky L. Beier*  
\_\_\_\_\_  
**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. CA2

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 10, 2007

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE January 27, 2007

DATE: March 29, 2007

TO: Public Utility Commission

FROM: Deborah Garcia *DB*

THROUGH: *LS* Lee Sparling, *EB* Ed Busch and *JJ* Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078 (4)) Application for Deferred Accounting of Unrecovered Environmental Costs Associated with Central Gas Hold, and Reauthorization of Deferred Accounting of Unrecovered Environmental Costs Associated with Gasco, Wacker (Siltronic), Portland Gas, Portland Harbor, Eugene Water and Electric Board, and Oregon Steel Mills.

**STAFF RECOMMENDATION:**

I recommend the Commission approve Northwest Natural's application for deferral for the 12-month period beginning January 27, 2007, with the condition that the Central Gas Hold deferral account is subject to the same requirements as the other deferral accounts previously established by Commission orders in Docket No. UM 1078.

**DISCUSSION:**

Northwest Natural (NWN or Company) makes this filing in accordance with ORS 757.125, 757.259(2)(e) and OAR 860-027-0300(4).

NWN seeks reauthorization of deferred accounting for six project sites. The Commission authorized deferred accounting beginning April 7, 2003, for five project sites, Gasco, Wacker, Portland Gas, Portland Harbor and Eugene Water and Electric Board (EWEB), in Order No. 03-328. Deferred accounting associated with the sixth site, Oregon Steel Mills, was granted beginning March 15, 2005, in Order No. 05-138.

NWN also seeks deferred accounting treatment for a seventh site, Central Gas Hold. This site, located at 2630 SE 9<sup>th</sup> Avenue, Portland, Oregon, was assigned a high priority for further environmental investigation on September 22, 2006, by the Oregon

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Department of Environmental Quality (DEQ). At Staff's request, NWN provided copies of correspondence between NWN and the DEQ in which the issues are discussed, and NWN's signed agreement to proceed. The cause of contamination may be associated with releases of condensate from stored manufactured gas from three manufactured gas storage tanks previously located on the premises, or due to historic gas handling practices.

Last, NWN seeks to begin accruing interest to the deferred balances. As of the date of the application, NWN has spent over \$24 million on these projects. As the amounts continue to be outstanding in anticipation of insurance offsets or recovery from ratepayers there is an ongoing burden to finance the spent amounts.

#### 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. NWN 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 2006 are as follows:

1. Gasco has recorded liabilities of \$13.6 million of which \$7.2 million has been spent.
2. Wacker (currently known as Siltronic) has recorded liabilities of \$740,000 of which \$697,000 has been spent.
3. Portland Harbor has recorded liabilities of \$7.7 million and spending of \$6.1 million. The Tar Body at Portland Harbor, a subset of Portland Harbor, has recorded liabilities of \$10.3 million and current costs of \$9.8 million.
4. The costs that will be associated for Portland Gas are unknown as NWN is still engaged in testing at the site. A cost estimate will be prepared after the test results are analyzed.
5. The cost for EWEB is approximately \$103,432. NWN and EWEB have settled and NWN does not expect additional accruals to this account.
6. Oregon Steel Mills has recorded liabilities of \$200,000 and spending of \$22,600.
7. Central Gas Hold has recorded liabilities of \$15,000, none of which had been spent.

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Beginning in November 2006, NWN initiated efforts to resolve its claims for insurance coverage. If the negotiations are unsuccessful, the Company intends to pursue litigation. As of January 2007, NWN had entered into settlement with six of its major insurers, and expected to begin discussion with another four insurers during the next several months. There is a possibility that negotiations will be concluded with some of the insurers during 2007. NWN anticipates that its overall insurance recovery effort will extend out several years. 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. As of the date of this application, NWN has accrued unrecovered expenditures in excess of \$24 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.

In its orders that are associated with Docket No. UM 1078, the Commission has added multiple conditions that apply to the six deferral accounts that are currently established. If the Commission grants NWN's request to establish a deferral account for the Central Gas Hold site, Staff recommends that the Commission approval include those same conditions.

**PROPOSED COMMISSION MOTION:**

Approve NWN's application for deferral for the 12-month period beginning January 27, 2007, with the condition that the Central Gas Hold deferral account is subject to the same requirements as other deferral accounts previously established by Commission orders in Docket No. UM 1078.

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