

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(5)

In the Matter of)	
)	
NORTHWEST NATURAL GAS COMPANY,)	
dba NW NATURAL)	ORDER
)	
Application for Reauthorization of Deferred)	
Accounting of Certain Expenses or Revenues--)	
Unrecovered Environmental Costs Associated)	
with the French American International)	
School, Gasco, Wacker, Portland Gas, Portland)	
Harbor, Central Gas Hold, and Oregon Steel)	
Mills.)	

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 25, 2008, 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. Four of the initial project sites, designated Gasco, Wacker, Portland Gas, and Portland Harbor, were originally authorized beginning April 7, 2003, in Order No. 03-328.¹ The fifth site, designated Oregon Steel Mills, was authorized beginning March 15, 2005, in Order No. 05-138, and the sixth site, for Central Gas Hold, was authorized beginning January 27, 2007, in Order No. 07-147.

NW Natural also seeks deferred accounting treatment for the French American International School site. 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 May 6, 2008, the Commission adopted Staff's Recommendations and approved NW Natural's current requests, with conditions.

¹ Deferral for another site, involving the Eugene Water and Electric Board (EWEB) was authorized at the same time. However, as NW Natural and EWEB have reached settlement for this site, interest is the only expense that will accrue to the associated deferral account.

ORDER

IT IS ORDERED that:

1. Northwest Natural Gas Company's request for authorization to defer costs relating to unrecovered environmental costs associated with the French American International School, for a 12-month period beginning January 25, 2008, is approved.
2. Northwest Natural Gas Company's request for reauthorization to defer unrecovered environmental costs for Gasco, Wacker, Portland Gas, Portland Harbor, Oregon Steel Mills, and Central Gas Hold is approved for a 12-month period, beginning January 25, 2008.
3. Only incremental costs after 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 MAY 09 2008 .

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. CA5

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 6, 2008**

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2008

DATE: April 28, 2008

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

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

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078 (5)) Establishes or reauthorizes deferral of unrecovered environmental costs for the French American International School, Gasco, Wacker (Siltronic), Portland Gas, Portland Harbor, Central Gas Hold, and Oregon Steel Mills sites.

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's application for deferral for the 12-month period beginning January 26, 2007, with the condition that the French American International School 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),¹ in Order No. 03-328. Deferred accounting for Oregon Steel Mills was granted beginning March 15, 2005, in Order No. 05-138 and for Central Gas Hold beginning January 27, 2007, by Order 07-147.

NWN also seeks deferred accounting treatment for the French American International School (FAIS) site. From 1946 to 1959, NWN owned and operated a compressor

¹ As NWN and EWEB have reached settlement for this site, interest is the only expense that will accrue to the associated deferral account.

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station near 735 NW Miller Road on property that is now owned by FAIS. During the process of constructing a parking lot on the site, FAIS uncovered numerous abandoned underground diesel storage tanks that had been used by NWN to run the compressors. Groundwater contamination associated with one of the tanks was also discovered. NWN has agreed to clean up the site after completing an analysis of the available information. As of December 21, 2007, the total estimated liability for the FAIS site is \$82,500.

Last, NWN seeks to accrue interest to the deferred balances. As of the date of the application, NWN has spent nearly \$28 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 FERC 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 sites are unknown for this authorization period. As of December 2007, expenses including interest are as follows:

Account number/Site	Recorded Liabilities	Recorded Expense
186145/Gasco	\$32,300,000.00	\$8,524,395.77
186146/EWEB	\$0	\$112,705.97
186147/Wacker	\$2,500,000.00	\$764,080.20
186148/Portland Harbor	\$21,300,000.00	\$7,088,557.14
186149/Portland Gas	\$11,000.00	\$12,689.87
186151/Tar Body	\$10,800,000.00	\$11,415,128.04
186152 OR Steel Mills	\$200,000.00	\$24,653.01
186153/Central Gas Hold	\$545,000.00	\$16,547.75

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186154/FAIS	\$83,000.00	\$0
Total	\$67,739,000.00	\$27,958,757.75

By Order 06-211, the Commission allowed NWN to begin accruing interest on these account balances with the condition that it has either maximized its insurance recovery or made substantial progress in securing insurance recovery. In its previous application, NWN stated that it had made significant progress in this area and expected negotiations to be completed with some of the carriers in 2007. In this application, NWN stated that it had revised its settlement position and does not believe that negotiations with the insurance carriers will be concluded in 2008. Due to the increasing number of these sites and the significant account balances already recorded, Staff sent data requests to obtain additional information. Due to the highly confidential nature and complexity of the negotiations with its insurance carriers, NWN requested that it be allowed to answer the data requests in a meeting with Staff. In the meeting, Staff's concerns were answered and NWN provided the following:

Since early 2006, NW Natural has been aggressively pursuing recovery of insurance for its environmental liabilities. It has identified and analyzed all of the liability insurance policies issued between the early 1940s and 1986 which may provide coverage. All of the insurers have been contacted. Most have signed confidentiality agreements and have been provided detailed information about the environmental liabilities. Because the coverage issues involve complex legal and factual issues, the insurers have not agreed that coverage exists. However they have agreed to enter into negotiations in an effort to resolve the claims. Given the complexity of the claims, negotiations are expected to be lengthy. NW Natural has stated that it will pursue litigation against any of the insurers with which it is unable to reach settlements.

Based on the information obtained at the meeting, Staff agrees that NWN's efforts to resolve the complex issues over liability as well as its pursuit of insurance recovery appear to comply with the intent of the various Commission orders, and Staff recommends that the application be approved.

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

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PROPOSED COMMISSION MOTION:

NWN's application for deferral for the 12-month period beginning January 26, 2008, be approved with the condition that the FAIS 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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