

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(7)

In the Matter of

NORTHWEST NATURAL GAS, dba NW
NATURAL

Application for Reauthorization to Defer
Unrecovered Environmental Costs.

ORDER

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On January 21, 2010, Northwest Natural Gas Company (NW Natural or Company), filed an application with the Public Utility Commission of Oregon (Commission) requesting reauthorization for deferred accounting related to seven project sites, plus an additional new project site located in Tualatin. The application was filed in accordance with ORS 757.125, ORS 757.259(2)(e), and OAR 860-027-0300(4).

Four of the initial project sites, designated Gasco, Wacker, Portland Gas, and Portland Harbor and Eugene Water and Electric Board (EWEB), were originally authorized beginning April 7, 2003, in Order No. 03-328. The fifth site, designated Oregon Steel Mills, was authorized beginning March 15, 2005, in Order No. 05-138; the sixth site, for Central Gas Hold, was authorized beginning January 27, 2007, in Order No. 07-147; and the seventh site, for the French American International School, was authorized beginning January 25, 2008, in Order No. 08-247.

By December of 2009, NW Natural had completed an investigation of the soil and ground water conditions at the Tualatin site, and has recorded an expense of approximately \$117,000. On February 25, 2010, NW Natural amended its application to include a request to defer costs related to this site.

Since Northwest Natural's original application was filed on January 21, 2010, and the investigation related to the soil and ground water was completed prior to December 31, 2009, the Company acknowledges that the Commission cannot approve a request to defer the \$117,000 of costs that occur prior to the application date. However, NW Natural seeks to defer costs related to the Tualatin site on a going-forward basis.

The details of the filing and Staff's recommendation are described in Staff's Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on March 30, 2010, the Commission adopted Staff's Recommendations and denied NW Natural's request to defer costs related to the Tualatin site, and approved NW Natural's current requests to defer accounting of the Gasco, Wacker, Portland Gas, Portland Harbor and EWEB, Oregon Steel Mills, Central Gas Hold project, and the French American International School sites, with conditions.

ORDER

IT IS ORDERED that:

1. Northwest Natural Gas Company's request to defer costs related to the Tualatin site is denied.
2. Northwest Natural Gas Company's request for reauthorization to defer unrecovered environmental costs for Gasco, Wacker, Portland Gas, Portland Harbor and Eugene Water and Electric Board, Oregon Steel Mills, Central Gas Hold, and the French American International School sites, is approved for a 12-month period beginning January 26, 2010.
3. Ratemaking treatment will be determined at a later time.

Made, entered, and effective APR 02 2010.

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. CA6




**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 30, 2010**

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2010

DATE: March 9, 2010

TO: Public Utility Commission

FROM: Carla Owings 

THROUGH:  Lee Sparling,  Ed Busch and  Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(7)) Defers Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

Staff recommends the Commission:

- 1) Deny Northwest Natural's request to defer costs related to the Tualatin site; and
- 2) Approve Northwest Natural's request to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2010, for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

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). The Company seeks reauthorization to defer costs related to seven project sites plus an additional new projected located in Tualatin (*see discussion in Staff Analysis*).

Background:

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 Commission Order 03-328. In the following year, NWN was allowed

¹ As NWN & EWEB have reached settlement for this site, only interest will continue to accrue to the associated deferral account.

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to continue deferred accounting for the same five project sites pursuant to Commission Order 04-244. Subsequently, NWN was allowed to defer costs related to Oregon Steel Mills beginning March 15, 2005, in Commission Order 05-138 and Central Gas Hold project beginning January 27, 2007, in Commission Order 07-147. Finally, Commission Order 08-247 allowed NWN to defer costs related to French American International School (FAIS) beginning January 25, 2008. In this application, NWN seeks to add another location, Tualatin. NWN also seeks permission to continue accruing interest to the deferred balances as granted in Order No. 06-211.

Reason for Deferral

Adoption of these deferred accounts 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, NWN would record the amounts in the sub accounts of FERC Account 401 (Utility Operation Expense).

Estimated Deferrals in Authorization Period

Accurate estimates for the sites of the unrecovered environmental costs including insurance recovery are unknown for this authorization period.

Tualatin:

In its original application filed January 21, 2010, NWN intended to include a request to defer a new site referred to as "Tualatin". By December of 2009, the Company had completed an investigation of the soil and ground water conditions at the site and has recorded an expense of approximately \$117,000. On February 25, 2010, NWN amended its application to include a request to defer costs related to this site.

Since NWN's original application was filed on January 21, 2010, and the investigation related to the soil and ground water was completed prior to December 31, 2009, NWN acknowledges that the Commission cannot approve a request to defer the \$117,000 of costs that occur prior to the application date. However, NWN seeks to defer costs related to Tualatin on a going-forward basis.

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NWN has recorded a liability of \$130,000 related to the Tualatin project. Of that amount, it has already booked \$117,000 of expenses. Staff does not recommend that NWN be allowed to include Tualatin at this time as NWN has not provided evidence that this project has a material, incremental financial impact on a going-forward basis.

Oregon Steel Mills:

In 2005, Docket No. UM 1078(2), NWN requested that Oregon Steel Mills project be included in the request to defer unrecovered environmental costs. The justification for its request came in response to Staff's data request submitted February 16, 2005, where the Company stated that it believed this project should be included as it was necessary in the event that a claim against NWN was brought by a Third Party plaintiff. Staff supported NWN's request to include this site in the environmental deferrals.

Staff was unaware that at the time that the Company had made its request to include this project in the environmental deferrals, NWN had already submitted a motion to the courts to dismiss the claim brought by the Third Party plaintiff. NWN recorded a liability of approximately \$200,000 related to the Oregon Steel Mills project.

Since that time, NWN has recorded actual expenses of approximately \$21,000 related to the Oregon Steel Mills project. All actual expenses were recorded in 2005 and no expenses have since been recorded related to this project. Since interest began accruing in 2006, approximately \$8,500 in interest has now accrued to the balance of \$21,000. Left unamortized in a deferral account, by this time next year NWN will have accrued \$10,300 in interest; approximately 51 percent of the original expense.

Central Gas Hold and French American School:

Both Central Gas Hold and French American School have had very minor amounts of activity and remediation.

Central Gas Hold was approved in Commission Order 07-147. NWN booked a liability of approximately \$550,000. To date, Central Gas Hold has a total recorded expense amount of \$29,000; approximately \$7,000 in 2007, \$3,400 in 2008 and \$18,600 in 2009. The interest attributable to the Central Gas Hold project is approximately \$8,000.

French American School was approved in Commission Order 08-247. NWN has booked a liability of approximately \$125,000. Recorded expenses are approximately \$146,000; \$103,000 in 2008 and approximately \$43,000 in 2009. Interest attributable to the French American School is approximately \$13,000.

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In response to Staff's data request as to whether these projects are related to the original approved sites, NWN responded that they are similar in that they will attempt to recover insurance and they are incremental to base rates.

Insurance:

NWN has met with Staff on an annual basis to discuss the progress of these projects. The Commission's Economic Research and Financial Analysis Division has completed an audit of these programs for the period of 2003 through December 31, 2008. The main focus of the audit was to determine how legal costs included in current base rates are associated with legal costs for Environmental Services in order to determine whether the legal costs for Environmental Services are truly incremental. In addition, the audit focused on the calculation of interest in the deferral accounts and the status of the insurance proceeds. The result of the audit was a recommendation to remove approximately \$26,116 of labor, overhead and loading costs along with associated carrying charges, from its environmental cost deferrals.

Unrecovered Environmental Account Balances as of December 31, 2009			
Account Number/ Site	Recorded Liability	Recorded Expense	Accrued Interest on Expense
186145/ Gasco	\$70,032,888	\$17,458,956	\$2,874,991
186146/ EWEB	\$0	\$133,785	\$38,132
186147/ Wacker (nka Siltronic)	\$2,907,753	\$2,112,909	\$329,243
186148/ Portland Harbor	\$16,670,170	\$11,655,703	\$2,449,469
186149/ Portland Gas	\$890,539	\$412,924	\$19,600
186151/ Tar Body (subset of Portland Harbor)	\$9,888,017	\$14,104,216	\$3,789,632
186152/ OR Steel Mills	\$200,000	\$29,264	\$8,341
186153/ Central Gas Hold	\$549,815	\$33,205	\$4,693
186154/ FAIS	\$123,482	\$146,412	\$12,968
Total	\$101,262,664	\$46,204,538	\$9,527,069

Staff originally recommended that the disposition of these account balances be held until the Company filed a general rate case. However, NWN is presently restricted² from doing so until 2012. Due to the size of the balances³ and the significant interest⁴

² See Order No. 07-426 (Docket Nos. UG 152/UG 163)

³ The December 31, 2009 account balances plus interest total of \$55,731,607 represents approximately 6.0% of NWN's 2008 Gross Operating Revenues.

⁴ Interest accrual for the 2009 period alone was approximately \$3.6 million.

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8.62%, Staff believes other options should be considered during the amortization phase of this docket.

Staff Analysis:

As mentioned above, the Commission authorized NWN to begin accruing interest on account balances related to the remediation sites with the condition that it either maximized its insurance recovery or made substantial progress in securing insurance recovery. In its 2007 application, NWN stated that it had made significant progress in this area and expected negotiations to be completed with some of the insurance carriers in 2007. In its 2008 application, NWN stated that it had revised its settlement position and did not believe that negotiations with the insurance carriers would be concluded in 2008. With the passing of 2009, and as of January 2010, the Company states that there are no insurance settlements in the near horizon.

Staff remains concerned since this is the seventh year since NWN first requested authorization to defer unrecovered environmental expenses.

Staff believes that NWN's original request was specific in that it identified sites that had a potential for large amounts of remediation and was somewhat specific in the nature of the types of sites the Company identified. Since that time, it appears that other sites that are not specifically related have been included in the request to defer as though the deferral is a blanket-type of cost category. Staff disagrees with allowing the inclusion of unrelated sites under the assumption of a basic category of expenses such as "environmental services". Staff believes that the intent of ORS 757.259 is not to create an on-going deferral account to blanket a category of expenses, but rather the statute intends to create the ability for a utility to capture unforeseen expenses that cannot or have not been modeled into rates.

Staff believes the Company should be required to justify the inclusion of any additional environmental projects from the original sites identified and that the relationship to the original sites must be something more than the potential for insurance recovery.

That said, Staff believes that if, during the 12-month effective date of the reauthorization of this deferral, new information arises about the Tualatin project that rises to the level of incremental, material costs, then Staff recommends that the Company supplement this application with a request to include Tualatin based on the new information for reconsideration.

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Staff believes that the relationship to the original sites and the actual liability for each site added during the reauthorization phases of this deferral needs to be the subject of a stringent review during the amortization phase of this docket.

PROPOSED COMMISSION MOTION:

Northwest Natural's request to:

- 1) Defer costs related to the Tualatin site be denied; and
- 2) Defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2010, be approved for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

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