

ORDER NO. 11 336

ENTERED AUG 30 2011

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(8)

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, 2011, 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 previously authorized unrecovered environmental costs. The application was filed in accordance with ORS 757.125, ORS 757.259(2)(e), and OAR 860-027-0300(4).

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 August 23, 2011, the Commission adopted Staff's Recommendation as set forth in the Staff Report and approved NW Natural's application.

ORDER

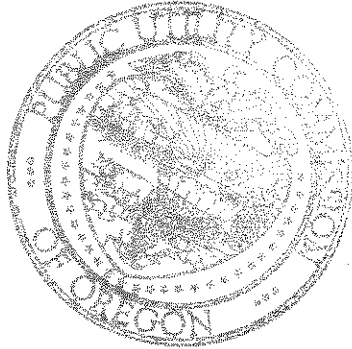
IT IS ORDERED that:

1. Northwest Natural Gas Company's request for reauthorization to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2011, is approved for accounting purposes only.

2. Ratemaking treatment will be determined at a later time.

Made, entered, and effective AUG 30 2011.

BY THE COMMISSION:



Becky L. Beier

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

ITEM NO. CA10

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 23, 2011**

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2011

DATE: August 17, 2011

TO: Public Utility Commission

FROM: Carla Bird *CB*

THROUGH: Lee Sparling *LS*, Maury Galbraith *MG* and Judy Johnson *JJ*

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(8)) Defers Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Northwest Natural's request to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2011, 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.

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 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 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

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

NWN- UM 1078 Environmental Costs
 August 17, 2011
 Page 2

(FAIS) beginning January 25, 2008. Commission Order 10-117 authorized NWN to continue deferring costs associated with nine projects described in its application, but denied NWN's request to defer costs associated with a tenth project referred to as the Tualatin site.

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.

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.

Unrecovered Environmental Account Balances as of December 31, 2010			
Account Number/ Site	Recorded Liability	Recorded Expense	Accrued Interest on Expense
186145/ Gasco	\$72,847,178	\$25,271,052	\$4,659,744
186146/ EWEB	\$0	\$145,738	\$50,085
186147/ Wacker (nka Siltronic)	\$2,907,753	\$2,637,729	\$529,056
186148/ Portland Harbor	\$16,745,170	\$13,915,799	\$3,543,724
186149/ Portland Gas	\$1,937,539	\$932,647	\$82,162
186151/ Tar Body (subset of Portland Harbor)	\$9,888,017	\$15,582,720	\$5,060,916
186152/ OR Steel Mills	\$200,000	\$31,878	\$10,956
186153/ Central Gas Hold	\$549,815	\$37,798	\$7,743
186154/ FAIS	\$138,482	\$174,278	\$26,475
Total	\$105,213,954	\$58,729,639	\$13,970,861

Staff originally recommended that the disposition of these account balances be held until the Company filed a general rate case. However, NWN is presently restricted from

NWN- UM 1078 Environmental Costs
August 17, 2011
Page 3

doing so until 2012². Due to the size of the balances and the significant interest that is presently accruing at the Company's currently authorized Rate of Return of 8.62%, Staff believes other ratemaking/recovery options should be considered during the amortization phase of this docket.

Staff Analysis:

Staff notes that the effective date on NWN's request is January 26, 2011, however, the Staff recommendation is just now coming in July. The reasons are because immediately following the filing of this application, NWN filed its request to purchase gas from Encana. Due to the special nature of that request, the Company delayed activity on other applications, such as this one. Also, immediately following the finalization of the Encana application, a public information request related to this docket removed the files from Staff's desk for a period of time.

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. In late 2010, the Company reports that it was not able to reach settlements within a reasonable period of time, so the Company has filed a lawsuit against the insurers to seek the recovery of funds.

Staff remains concerned with the size of the interest provision and the lack of progress on the insurance recovery. This is the eighth year since NWN first requested authorization to defer unrecovered environmental expenses. Staff does not believe that any of the parties, including the Company, initially contemplated such a long, arduous process.

Although NWN reports its estimate of liability to be approximately \$105 million (see table above) as of December of 2010, the Company has spent over \$59 million on project remediation. The amount of capital the Company has *actually* invested (\$59 million) varies from the liability the Company is required to show on its balance sheet (\$105 million) due to GAAP and other reporting agency requirements.

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

NWN- UM 1078 Environmental Costs
August 17, 2011
Page 4

PROPOSED COMMISSION MOTION:

Northwest Natural's request to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 26, 2011, be approved for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

NWN UM 1078(8) Defer Env. Costs