

ORDER NO.

12 090

ENTERED

MAR 13 2012

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(9)

In the Matter of

NW NATURAL GAS COMPANY

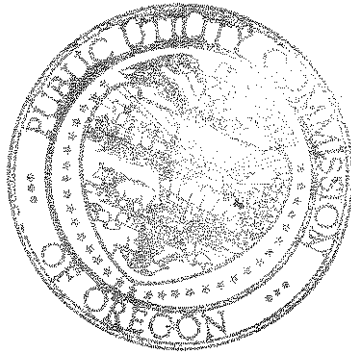
Application for Reauthorization of Deferred
Accounting.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its Public Meeting on March 13, 2012, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter, attached as Appendix A.

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. CA7

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: March 13, 2012**

REGULAR _____ CONSENT X EFFECTIVE DATE January 25, 2012

DATE: February 10, 2012

TO: Public Utility Commission

FROM: Judy Johnson *JJ*

THROUGH: *BAC* Bryan Conway and *MG* Maury Galbraith

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(9)) 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 25, 2012, for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

DISCUSSION:

Northwest Natural (NWN, NW Natural 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 nine 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.

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(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. Commission Order 11-336 authorized the Company to continue deferring costs associated with nine projects described in its application.

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). NW Natural has recorded amounts estimated as insurance receivables or reimbursements, Account 143008---Insurance Recovery for Gasco and Portland Harbor and Account 186160---OR Environ Recovery and Reimbursement. Recoveries from insurance are, and will continue to be recorded in the 143008 or 186160 accounts and will offset the recorded expenses for the purpose of amortization as determined by the Commission in the currently filed rate case UG 221.

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.

Since early 2006, NW Natural has been pursuing recovery of insurance for its environmental liabilities. It has identified and analyzed all of the liability insurance policies issued between the late 1930s 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. The Company states that because the coverage issues involve complex legal and factual issues, the insurers have not agreed that coverage exists. However, the Company states that most insurers agreed to enter into negotiations in an effort to resolve the claims. In late 2010, NW Natural determined it would not be able to reach settlements within a reasonable period of time, so the Company filed a lawsuit against the insurers seeking a recovery of funds. Recently, the Company received a settlement payment

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from one of its insurance providers, and anticipates that the payment and appropriate interest will be used to offset deferred costs that will be amortized as directed by the Commission at the close of the current rate case, UG 221.

Staff Analysis:

Unrecovered Environmental Account Balances as of December 31, 2011			
Account Number/ Site	Recorded Liability	Recorded Expense	Accrued Interest on Expense
186145/ Gasco	\$89,571,478	\$36,426,572	\$7,305,142
186146/ EWEB	\$0	\$158,770	\$63,117
186147/ Wacker (nka Siltronic)	\$3,316,753	\$3,194,588	\$789,784
186148/ Portland Harbor	\$18,000,170	\$16,305,449	\$4,834,503
186149/ Portland Gas (Front Street)	\$3,174,539	\$1,649,055	\$191,061
186151/ Tar Body (subset of Portland Harbor)	\$9,888,017	\$16,926,601	\$6,401,364
186152/ OR Steel Mills	\$200,000	\$34,729	\$13,806
186153/ Central Gas Hold	\$638,508	\$141,991	\$13,765
186154/ FAIS	\$19,958	\$207,714	\$42,198
Total	\$124,809,423	\$75,045,469	\$19,654,740

Although NWN reports its estimate of liability to be approximately \$125 million (see table above) as of December of 2011, the Company has spent over \$75 million on project remediation. The amount of capital the Company has *actually* invested (\$75 million) varies from the liability the Company is required to show on its balance sheet (\$125 million) due to GAAP and other reporting agency requirements.

PROPOSED COMMISSION MOTION:

Northwest Natural's request to defer costs associated with previously authorized unrecovered environmental costs for the 12-month period beginning January 25, 2012, be approved for accounting purposes only. Ratemaking treatment should be reserved for a ratemaking proceeding.

NWN UM 1078(9) Defer Env. Costs