

ORDER NO. 24-396

ENTERED Oct 31 2024

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(21)

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Application for Reauthorization of
Deferred Accounting of Unrecovered
Environmental Costs.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on October 29, 2024, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:



Alison Lackey

Chief Administrative Law Judge



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 Circuit Court for Marion County in compliance with ORS 183.484.

ITEM NO. CA4

**PUBLIC UTILITY COMMISSION OF OREGON
REDACTED STAFF REPORT
PUBLIC MEETING DATE: October 29, 2024**

REGULAR **CONSENT** **EFFECTIVE DATE** _____ **N/A**

DATE: October 7, 2024

TO: Public Utility Commission

FROM: Kathy Zarate

THROUGH: Caroline Moore, Scott Gibbens, and Michelle Scala **SIGNED**

SUBJECT: NORTHWEST NATURAL:
(Docket No. UM 1078(21))
Request Reauthorization of Deferred Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Northwest Natural's (NW Natural, NWN, or Company) application for reauthorization to defer costs associated with unrecovered environmental costs and insurance proceeds related to environmental remediation for the 12-month period beginning January 26, 2024.

DISCUSSION:

Issue

Whether the Commission should approve NW Natural's request for reauthorization to defer unrecovered environmental costs related to six project remediation sites, as well as insurance proceeds related to environmental remediation.

Applicable Law

ORS 757.259 provides the Commission with authority to authorize the deferral of utility revenues and expenses for later inclusion in rates.

OAR 860-027-0300 is the Commission's rule governing the use of deferred accounting by energy and large telecommunications utilities. Previous approval of this deferral was most recently granted by Order No. 21-047.

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Commission Order No. 09-263 lays out the Natural Gas Portfolio Development Guidelines and the Purchased Gas Adjustment Filing Guidelines.

Analysis

Background

In its Order No. 12-408 issued in UG 221, the Commission authorized a cost recovery mechanism through which NW Natural will recover its environmental remediation costs.

In that Order, the Commission determined that NW Natural should continue to defer these costs and determined that they would be collected through the Company's SRRM, subject to an earnings test and prudence review.

The Company, on January 23, 2024, submitted this application for re-authorization to use deferred accounting pursuant to ORS 757.259 and OAR 860-027-0300, for the 12-month period beginning January 26, 2024, through January 25, 2025, for unrecovered environmental costs associated with Gasco, Wacker (now known as Siltronic), Portland Gas (aka Front Street), Portland Harbor, Central Gas Hold, and Oregon Steel Mills to match appropriately the costs borne by and benefits received by ratepayers.¹

Reason for Deferral

This application is made pursuant to ORS 757.259(2)(e), which authorizes the deferral of:

Utility expenses or revenues, the recovery or refund of which the commission finds should be deferred in order to minimize the frequency of rate change or...to match appropriately the costs borne by and benefits received by ratepayers.

Proposed Accounting

The Company proposes to accrue estimates of the Environmental Costs to a separate liability account for each site.

- Account 280040 Injuries & Damage Reserve-----Gasco
- Account 280050 Injuries & Damage Reserve-----Wacker (nka Siltronic)
- Account 280055 Injuries & Damage Reserve-----Portland Harbor
- Account 280060 Injuries & Damage Reserve-----Oregon Steel Mills

¹ The Oregon Public Utility Commission, in Docket No. UM 1635, determined that 96.68% of the deferred costs amortized through the Site Remediation and Recovery Mechanism ("SRRM") will be allocated to Oregon customers.

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- Account 280070 Injuries & Damage Reserve-----Central Gas Hold
- Account 280075 Injuries & Damage Reserve-----Portland Gas (aka Front Street)

As environmental liabilities are paid, or as they are accrued, the costs will be deferred to the deferred regulatory asset.

- Account 151310 Environmental Inv-----Gasco
- Account 151312 Environmental Inv----- Wacker (nka Siltronic)
- Account 151315 Environmental Inv-----Portland Harbor
- Account 151320 Environmental Inv-----Portland Gas (aka Front Street)
- Account 151325 Environmental Inv-----Oregon Steel Mills
- Account 151330 Environmental Inv-----Central Gas Hold

Description of Expense

The Company will incur additional site study, clean-up, potential natural resource damages, Department of Environmental Quality (“DEQ”)/Environmental Protection Agency, tribe and natural resource damage trustee oversight, and legal costs as well as administrative expenses related to feasibility studies and remediation activities associated with these sites.

In addition, insurance recoveries and other proceeds will be used as offsets to defer Environmental Costs. These anticipated expenses and recoveries from insurance and other proceeds are the cause of this filing.

Estimate of Amounts

At this time, information is insufficient to more accurately estimate the total potential liability for investigation and remediation costs associated with the six sites, however, the company included in regulatory deferrals **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** **[END CONFIDENTIAL]** of total estimated future costs.

As of December 31, 2023, the Company has spent approximately **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** on environmental remediation and recovered **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** in insurance and other proceeds.

The Company has received **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** in insurance or other proceeds from January 1, 2023, through December 31, 2023.

Also, the costs found prudent by the Commission and allowed for recovery are included in the SRRM Post Prudent account. The balance in that account as of

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December 31, 2023, was [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL].

The Amount Deferred Last Year

The Company deferred [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] in the 2023 calendar year. This amount includes [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL] in interest on the deferred amounts.

The Amount Amortized Last Year

The Commission authorized NW Natural to collect \$9,631,608 of costs deemed prudent (excluding revenue sensitive effects) for the period November 1, 2023, through October 31, 2024.

The remaining balance to be amortized as of December 31, 2023, was [BEGIN CONFIDENTIAL] [REDACTED] [END CONFIDENTIAL].

Note: The costs found prudent by the Commission and allowed for recovery are included in the Company's Site Remediation and Recovery Mechanism (SRRM) Post Prudent account. Amortization of these deferred costs will be as specified under the SRRM

The Interest Rate

The interest rate for deferral accounts is 6.836 percent. As directed in the Commission's Order Nos. 12-408 and 12-437 issued in UG 221, different interest rates will apply once the amounts have been reviewed for prudence, and until they are amortized.

Information Related to Future Amortization

- Earnings Review – ORS 757.259 (5) requires an earnings review prior to amortization of amounts deferred under ORS 757.259 (2)(e). The SRRM requires application of an earnings test.
- Prudence Review – Prudence review should be performed at the time of deferral amortization. The review should also include verification of the accounting methodology used to determine the final amortization balance.
- Sharing – This deferral is not subject to a sharing mechanism other than an earnings sharing component where an offset to the extent the Company earns over its authorized return on equity after adding 50% of the Company's optimization revenues.

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Conclusion

As NW Natural's application to reauthorize deferral of environmental remediation costs for the six projects is consistent with ORS 757.259 and the Commission's orders authorizing the SRRM, Staff recommends Commission approval.

The Company has reviewed a draft of this memo and voiced no concerns.

PROPOSED COMMISSION MOTION:

Approve Northwest Natural's request to defer costs associated with unrecovered environmental costs and insurance proceeds related to environmental remediation for the 12-month period beginning January 26, 2024.

NWN UM 1078(21) Environmental Cost Deferral