

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1078(6)

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 20, 2009, Northwest Natural Gas Company (NW Natural), filed an application with the Public Utility Commission of Oregon (Commission) requesting reauthorization for deferred accounting for seven 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; 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.

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 5, 2009, 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 reauthorization to defer unrecovered environmental costs for Gasco, Wacker, Portland Gas, Portland Harbor, Oregon Steel Mills, Central Gas Hold, and the French American International School, is approved for a 12-month period beginning January 26, 2009.
2. Ratemaking treatment will be determined at a later time.

Made, entered, and effective MAY 14 2009 .

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. CA3

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 5, 2009**

REGULAR _____ CONSENT X EFFECTIVE DATE January 26, 2009

DATE: April 27, 2009

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

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

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078(6)) Application for reauthorization to Defer Unrecovered Environmental Costs.

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's application for deferral for the 12-month period beginning January 26, 2009, for accounting purposes only, with ratemaking treatment to be considered at a later time.

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 seven project sites. The Commission authorized¹ deferred accounting beginning April 7, 2003, for five project sites, Gasco, Wacker, Portland Gas, Portland Harbor and Eugene Water and Electric Board (EWEB).² Subsequently, deferred accounting was approved for Oregon Steel Mills beginning March 15, 2005;³ Central Gas Hold beginning January 27, 2007;⁴ and for the French American International School (FAIS) beginning January 25, 2008.⁵

NWN also seeks permission to continue accruing interest to the deferred balances as granted in Order No. 06-211.

¹ See Order No. 03-328

² As NWN & EWEB have reached settlement for this site, only interest will continue to accrue to the associated deferral account.

³ See Order No. 05-138

⁴ See Order No. 07-147

⁵ See Order No. 08-247

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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.

Staff Analysis

As mentioned above, the Commission authorized NWN to begin accruing interest on these account balances 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.

This is the sixth year since NWN first requested authorization to defer unrecovered environmental expenses. The account balances continue to increase (see the table below) through the addition of expense and interest accrual, and NWN is not able to say with any certainty when insurance recovery will commence. NWN has met with Staff on an annual basis to discuss the progress of these projects. NWN also provided Staff with a synopsis of reports presented by NWN's Environmental Steering Committee to NWN's Board in response to a Staff data request⁶ that asked NWN to provide all internal audits or reports specific to these programs in order to verify the prudence of the expense that has already been booked to these accounts, and to verify NWN's claim that it is vigorously pursuing maximum insurance recovery. However, as a result of NWN's response to the above mentioned data request that it "has not performed internal audits on any aspect of the UM 1078 Deferral projects," (an apparent conflict

⁶ UM 1078(6) Staff Data Request No. 9

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with Commission Order No 06-211, Ordering paragraph No. 3.) the Commission's Economic Research and Financial Analysis Division has agreed to conduct a complete audit of these programs for the period of 2003 through December 31, 2008, that has already commenced.

Unrecovered Environmental Account Balances as of December 31, 2008			
Account Number/ Site	Recorded Liability	Recorded Expense	Interest included in Recorded Expense
186145/ Gasco	\$34,008,667	\$12,242,401	\$1,617,749
186146/ EWEB	\$0	\$122,812	\$27,159
186147/ Wacker (nka Siltronic)	\$2,590,490	\$1,485,733	\$172,757
186148/ Portland Harbor	\$22,265,800	\$9,350,899	\$1,548,698
186149/ Portland Gas	\$337,770	\$47,024	\$3,593
186151/ Tar Body (subset of Portland Harbor)	\$10,822,700	\$12,714,164	\$2,643,666
186152/ OR Steel Mills	\$200,000	\$26,864	\$5,941
186153/ Central Gas Hold	\$545,000	\$21,622	\$2,407
186154/ FAIS	\$104,002	\$109,197	\$2,277
Total	\$70,874,429	\$36,120,716	\$6,024,247

Staff originally recommended that the disposition of these account balances be held until the Company filed a general rate case. However, NWN is presently restricted⁷ from doing so until 2012. Due to the size of the balances⁸ and the significant interest⁹ that is presently accruing at the Company's currently authorized Rate of Return of 8.62%, Staff believes other options should be considered.

As soon as the results of the audit are available, Staff intends to invite the parties to this docket to a workshop for the purpose of exploring the best resolution of this issue. Staff will update the Commission as appropriate.

PROPOSED COMMISSION MOTION:

NWN's application for deferral for the 12-month period beginning January 26, 2009, be approved for accounting purposes only, with ratemaking treatment to be determined at a later time.

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⁷ See Order No. 07-426 (Docket Nos. UG 152/UG 163)

⁸ The December 31, 2008 account balances including interest total of \$36,120,716 represents approximately 3.6% of NWN's 2007 Gross Operating Revenues.

⁹ Even if no expense were added to these accounts in 2009, interest accrual for the period would be at least \$3.1M.