

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT**

PUBLIC MEETING DATE: November 20, 2001

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** October 20, 2001

DATE: November 2, 2001

TO: Phil Nyegaard through Lee Sparling and Ed Busch

FROM: Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 994) Requests
Reauthorization for Deferral of Pipeline Safety Operator Qualification
Program Compliance Costs

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's request for reauthorization, under ORS 757.259, to defer costs relating to Pipeline Safety Operator Qualification Program Compliance Costs through December 31, 2001.

DISCUSSION:

On October 17, 2001, Northwest Natural (NW Natural) requested reauthorization for deferral of costs related to implementing its Office of Pipeline Safety (OPS) Operator Qualification Program to the extent that the costs are incremental and are not currently included in rates. The Commission originally authorized deferral of costs related to this program for twelve months beginning October 20, 2000 under ORS 757.259. The original deferral was authorized in Order No. 01-113 (Docket UM 994).

The company states that it was not able to complete the program in the original twelve-month deferral period, but expects to do so by December 31, 2001. NW Natural has spent approximately \$747,000 to date and anticipates it will spend an additional \$271,000 by December 31, 2001, for a total deferral of \$1,018,000. Oregon's share is \$936,000. Oregon's share is based on June 2001 send-out volumes.

NW Natural states that it is affected by a new pipeline safety rule published by the Office of Pipeline Safety on August 26, 1999. The OPS rule requires the company to develop an overall operator qualification program that satisfies, at least, the minimum requirements of the rule. This requires the utility to document that personnel performing specific tasks on company-owned or operated pipeline facilities are qualified as required by the rule to perform tasks safely. The OPS rule applies to covered tasks performed

on approximately 500 miles of transmission pipeline, 11,000 miles of distribution mains, and over 500,000 services (services pipes and accessories between the main and the customer's meter) in the company's service territories.

The OPS rule was effective in 1999 and requires the company to complete its written qualification program by April 27, 2001 and to assure final qualification of individuals performing covered tasks by October 28, 2002. Thereafter, the rule requires ongoing, periodic requalification of persons performing the covered tasks.

NW Natural has initiated an Operator Qualification Project team to develop the program to assess the skills and abilities of company employees and contract personnel to perform covered pipeline tasks in full compliance with the OPS rule. Additionally, the company has engaged Accent Business Services to assist the Project team in developing an ongoing qualification and training program. The OPUC pipeline safety staff has been briefed regarding the progress of the company's Project team.

NW Natural states that deferral of these costs may be authorized under ORS 757.259(2)(e), because the operator qualification program compliance costs are utility expenses, the recovery of which should be deferred in order to minimize the frequency of rate changes and to match appropriately the costs borne by and benefits received by ratepayers. The company further states that the costs of developing the operator qualification program will be concentrated within a short time period, but the benefits to the company and its customers will be realized over a long period of time.

Staff believes it is appropriate to use deferred accounting for the initial development of the company's compliance with the OPS Operator Qualification Program to the extent that the costs are incremental and are not currently included in rates. NW Natural has met the requirements of OAR 860-027-0300 in its filing.

The proposed deferrals would be recorded in a subaccount of account 186 (Miscellaneous Deferred Debits). In the absence of deferral approval, the company would record the amounts in the subaccounts of either account 401 (Utility Operation Expense), or account 402 (Utility Maintenance Expense), as appropriate.

PROPOSED COMMISSION MOTION:

NW Natural's request for reauthorization to defer costs relating to Pipeline Safety Operator Qualification Program Compliance Costs through December 31, 2001 be approved.