

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 13, 2003**

REGULAR _____ CONSENT X EFFECTIVE DATE April 7, 2003

DATE: April 21, 2003

TO: John Savage through Lee Sparling and Ed Busch

FROM: Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1078) Requests authorization to defer unrecovered environmental costs associated with Gasco, Wacker, Portland Gas, Portland Harbor, and Eugene Water and Electric Board sites.

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's request for authorization, under ORS 757.259, to defer costs relating to unrecovered environmental costs associated with Gasco, Wacker, Portland Gas, Portland Harbor, and Eugene Water and Electric Board sites, for a 12-month period beginning April 7, 2003. I further recommend that the Commission only consider recovery of these costs in future general rate cases.

DISCUSSION:

On April 7, 2003, Northwest Natural (NW Natural) requested authorization to defer unrecovered environmental costs including investigation, study, oversight, and likely remediation costs that are associated with five projects designated the Gasco, Wacker, Portland Gas, Portland Harbor, and Eugene Water and Electric Board (EWEB) sites.

NW Natural anticipates recovery of some environmental costs from the company insurance carriers, but at this point it is unable to determine the extent of the environmental costs or any related insurance recovery. NW Natural proposes to record these environmental costs and any offsetting insurance proceed revenues in deferred accounts and consider their proper ratemaking treatment at a future company general rate case or purchase gas adjustment (PGA) filing after the magnitude of costs and insurance recovery associated with a particular site are known.

Staff believes the proper ratemaking treatment should only be handled in a general rate case. The magnitude and importance of these costs are potentially too great to be

included in a summary fashion in a PGA filing where time is extremely short for review. In addition, during a general rate case, Account 925 (Injuries & Damages) would be reviewed to determine whether customers have already paid any portion of the costs.

Reason for Deferral

Adoption of this deferred account is authorized by 757.259(2)(e) in order to minimize the frequency of rate changes or fluctuation of rate levels. NW Natural has met the requirements of OAR 860-027-0300 in its filing.

Proposed Accounting

The proposed deferrals would be recorded in separate subaccount of account 186 (Miscellaneous Deferred Debits) for each environmental site. In the absence of deferral approval, the company would record the amounts in the subaccounts of FERC account 401 (Utility Operation Expense).

Estimated Deferrals in Authorization Period

At this time, accurate estimates for the potential liability for investigation and remediation costs associated with the five sites or estimates for total insurance recovery are unknown.

PROPOSED COMMISSION MOTION:

NW Natural's request for authorization to defer costs relating to unrecovered environmental costs associated with Gasco, Wacker, Portland Gas, Portland Harbor, and Eugene Water and Electric Board sites, for a 12-month period beginning April 7, 2003, be approved and NW Natural should file for recovery of these costs only in the context of future general rate cases.