

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 21, 2004**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ October 1, 2004

DATE: August 30, 2004

TO: Lee Sparling through Ed Busch and Judy Johnson

FROM: Ed Durrenberger

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1030 (3)) Requests reauthorization for deferral of Bare Steel Replacement and Geo-Hazard Risk Mitigation Program Costs.

STAFF RECOMMENDATION:

I recommend the Commission approve Northwest Natural's request for reauthorization, under ORS 757.259, to defer costs relating to the company's Bare Steel Replacement and Geo-hazard Risk Mitigation programs, for a 12-month period beginning October 1, 2004.

DISCUSSION:

On August 16, 2004, Northwest Natural (NW Natural) requested reauthorization for deferral of costs related to the company's Bare Steel Replacement and Geo-hazard Risk Mitigation programs. The Commission originally authorized deferral of costs related to these programs for twelve months beginning October 1, 2001 under ORS 757.259. The original deferral was authorized in Order No. 01-843 (Docket UM 1030). The Commission approved reauthorization of this deferral on September 29, 2003, in its Order No. 03-567, for the twelve months beginning October 1, 2003.

The company's Bare Steel Replacement and Geo-hazard Risk Mitigation programs were developed following extensive negotiations by all parties and a signed stipulation, which was accepted by the Commission in its regular public meeting on September 25, 2001. NW Natural expected to invest as much as \$3.0 million in its Bare Steel Replacement Program in the twelve-month period beginning October 1, 2003. The company met its goal, investing \$3.1 million. NW Natural had no estimate of the amount it might spend on its Geo-hazard Risk Mitigation Program when it requested deferred accounting treatment reauthorization. The company shows, in its 2004 PGA filing, that it spent \$0.1 million for this program.

NW Natural estimates that through September 30, 2021, the company will spend approximately \$3.0 million per year in program costs for accelerated bare steel replacement and an undetermined amount for geo-hazard risk mitigation and repair. The geo-hazard risk mitigation program is scheduled to continue until 2006.

Reason for Deferral

Adoption of this deferred account is authorized by 757.259(2)(e) in order to better match the costs borne and benefits received by the ratepayer. NW Natural has met the requirements of OAR 860-027-0300 in its filing.

Proposed Accounting

The proposed continued 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 FERC account 401 (Utility Operation Expense).

Estimated New Deferrals in Next Authorization Period

The estimated amount to be recorded in the 186 subaccount over the 12-month period subsequent to this application is not determined at this time. The majority of costs in these programs are capital costs that do not go into a deferred account; only incremental operating and maintenance expenses are eligible for deferral.

PROPOSED COMMISSION MOTION:

NW Natural's request for reauthorization to defer costs relating to the company's Bare Steel Replacement and Geo-hazard Risk Mitigation programs, for a 12-month period beginning October 1, 2004 be approved.