

ITEM NO. CA3

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: January 25, 2005**

REGULAR \_\_\_\_\_ CONSENT  X  EFFECTIVE DATE  December 20, 2004

**DATE:** January 10, 2005

**TO:** Commissioners Lee Beyer, Ray Baum, and John Savage

**FROM:** Ed Durrenberger

**THROUGH:** Lee Sparling, Ed Busch, Judy Johnson and Bonnie Tatom

**SUBJECT:** NORTHWEST NATURAL: (Docket No. UM 1184) Requests authorization to defer unrecovered expenses associated with the Molalla Gate Station of the South Mist Pipeline Extension Project.

**STAFF RECOMMENDATION:**

I recommend the Commission approve Northwest Natural's (NW Natural or Company) request for authorization, under ORS 757.259, to defer unrecovered expenses associated with the Company's completion of the Molalla Gate Station portion of the South Mist Pipeline Extension Project (SMPE or Project).

**DISCUSSION:**

On December 20, 2004, NW Natural requested authorization to record and defer unrecovered expenses associated with the operation of the Molalla Gate Station, a portion of the SMPE.

History

On September 22, 2004, NW Natural completed the SMPE and placed it in service. This project expanded pipeline capacity from the Mist storage facility and improved volume deliverability to the southern portion of the Company's distribution system. The Company began recovering the incremental cost of service for SMPE, subject to true up, as part of its Purchased Gas Adjustment (PGA) on October 1, 2004.

On December 13, 2004, NW Natural completed construction on the Molalla Gate Station portion of the Project and placed it into service. This increased the injection capacity from the interstate pipeline into the Mist Storage through the SMPE.

Description of Expense or Revenue

NW Natural proposes to defer the unrecovered expenses incurred by the Company due to operation of the Molalla Gate Station, and consider their proper ratemaking treatment in a future rate case or PGA filing.

Reason for Deferral

Adoption of deferred accounting is authorized pursuant to 757.259(2)(e), under which a deferral mechanism may be authorized in order to minimize the frequency of rate changes or fluctuation of rate levels.

Proposed Accounting

The proposed deferral would be recorded in subaccounts of account 186 (Miscellaneous Deferred Debits). In the absence of a deferral approval, no provision would be recorded and FERC account 400 (Utility Revenues) would be understated for the impact of the Molalla Gate Station expenses.

Estimated Deferrals in Authorization Period

The precise amounts of the revenue differentials cannot be determined at this time. However, NW Natural estimates that the Molalla Gate Station costs for the next twelve-month period will be approximately \$500,000.

**PROPOSED COMMISSION MOTION:**

NW Natural's request for authorization, under ORS 757.259, to defer unrecovered expenses associated with the Molalla Gate Station be approved.