

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: September 19, 2006**

REGULAR  CONSENT  EFFECTIVE DATE October 1, 2006

DATE: September 11, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL: (Docket No. UM 1030(6)) Extend Risk Mitigation and Repair Program and Cap the Cost to be Recovered for Salmon River Geo-hazard Project.

**STAFF RECOMMENDATION:**

I recommend the Commission approve Northwest Natural's (NW Natural or company) Stipulation extending the Risk Mitigation and Repair Program (Geo-hazard program or program) for a 12-month period beginning October 1, 2006, and authorizing, under Oregon Revised Statute (ORS) 757.259, deferred accounting treatment of costs that are capped at no more than \$2.5 million for the Salmon River Geo-hazard Project.

**DISCUSSION:**

On August 28, 2006, Northwest Natural filed a Stipulation requesting to extend the Geo-hazard program to September 30, 2007.

The Geo-hazard program was originally part of a safety program deferred accounting application in 2001 which was approved by the Commission in Order No. 01-843. The Geo-hazard program had a sunset date of December 31, 2006. Commencing in 2002, and in each year since, the company has performed repairs to their system, caused by landslide hot spots, erosion and other geo-hazards pursuant to the program. In each year the company applied for, and received, deferred accounting treatment of the costs and was permitted to recover these investments as part of the annual gas tracking cost and technical adjustment filing. In the current deferral period, ending September 30, 2006, the company has Geo-hazard program expenditures totaling \$2.9 million.

The company is now requesting that the termination date be extended, so that the Salmon River Geo-hazard Project, a project to replace transmission pipeline exposed due to stream erosion, can be undertaken in the most cost effective way under this program. Current contractor bids for completing this project have come in significantly higher than NW Natural's internal estimates. The discrepancy is due to a number of factors including Oregon Department of Transportation (ODOT) permit conditions, contractor availability and high material prices. Rather than complete the project now, before the Geo-hazard program sunsets, at the higher than expected costs, the company has proposed to re-engineer the job and proceed with this project on a schedule that would minimize costs, but would overlap into 2007 after the Geo-hazard program is due to terminate.

NW Natural has met with Staff, other stakeholders and intervenors. All parties agree that the approach the company proposes makes sense and, therefore, have signed a stipulation that extends the program until the end of September 2007. Customers benefit by the lower project costs that are eventually paid for in rates. The company benefits by being able to recover costs more quickly under the Geo-hazard program. The Stipulation also includes an agreement by the company to cap recovery of project costs through this program at \$2.5 million, less than the current contractor bids, and in line with internal cost estimates.

**PROPOSED COMMISSION MOTION:**

The Stipulation to extend NW Natural's Risk Mitigation and Repair Program to September 30, 2007, set a spending cap at \$2.5 million, and authorize deferred accounting treatment of Geo-hazard program expenses be approved.

Attachment

**BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON**

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In the Matter of

NORTHWEST NATURAL

Extend Risk Mitigation and Repair Program and  
Cap the Cost to be Recovered for Salmon River  
GeoHazard Project.

STIPULATION

**STIPULATION**

This stipulation is entered into to extend Northwest Natural Gas Company's Risk Mitigation and Repair Program to September 30, 2007, and to cap the cost to be recovered for the Salmon River GeoHazard Project at \$2.5 million.

**PARTIES**

1. The parties to this Stipulation are Northwest Natural Gas Company ("NW Natural" or "Company"), Staff of the Public Utility Commission of Oregon ("Staff"), Citizens' Utility Board of Oregon ("CUB"), and Northwest Industrial Gas Users ("NWIGU").

**BACKGROUND**

2. In 2001, NW Natural asked the Commission to approve the Company's deferred accounting application for its safety program costs that included, among other things, the Company's GeoHazard Risk Mitigation and Repair Program ("Program"). See Schedule 177. Geohazards are risks to distribution infrastructure from such things as landslide, washout, and earthquake. The Commission approved the application in Order No. 01-843.

3. The Company commenced the Program in 2002 and since that time has been repairing and mitigating landslide hot spots, erosion, and other geohazards pursuant to the Program.

4. In 2002, 2003, 2004, and 2005, the Commission permitted the Company to recover its investment in the Program as a part of its annual gas tracking cost and technical adjustment filing. Effective October 1, 2002, 2003, 2004, and 2005, the Commission approved the Company's applications for reauthorization to defer costs relating to the Program.

5. The Program is currently set to expire on December 31, 2006.

6. As a part of the Program, the Company is undertaking the Salmon River GeoHazard Project ("Project"). This Project entails the installation of approximately 8,500 lineal feet of 12", 600 PSI rated transmission pipeline along Highway 18 in the Van Duzer Corridor. The pipeline will replace pipe that is either exposed or too shallow due to river and stream erosion. The total internal estimate for the project has been approximately \$2 million. The contractor bids,

however, were significantly higher, bringing the total project cost up to about \$3.5 million. The higher cost is due to a number of factors, including: (a) uncertainties on rock and ODOT paving requirements; (b) ODOT permit conditions such as night work hours and temporary paving each night; and (c) higher demand in the market at this time for contract construction work generally.

7. While the Company could proceed to award a contract at this time, it would result in a total project cost of \$3.5 million, and under the cost recovery mechanism, this increased cost would be passed on to customers. The parties do not believe that it would be prudent to award the contract at this time under these circumstances.

8. The Company has proposed to re-engineer the project and to seek a solution that reduces the cost by a significant amount, perhaps by an amount exceeding \$1 million. In order to do this re-engineering and to complete the work, the Company would be required to spend a major portion of the project expenses in 2007, after the Program would otherwise have expired. The Company is willing to cap the amount it will recover for the Project. The other parties agree it is prudent to re-engineer the project, the result of which will mean a lower cost being passed on to customers, and they are willing to stipulate to an extension of the program.

Therefore, it is agreed:

9. The parties agree the GeoHazard Risk Mitigation and Repair Program should be extended through September 30, 2007 in order to complete the Project.

10. The Company agrees it will not recover through the geohazard cost tracking mechanism an amount exceeding \$2.5 million for the Salmon River GeoHazard Project.

11. The parties agree the Company's current deferred cost tracking mechanism for this Project only should be reauthorized and extended from October 1, 2006, through September 30, 2007.

12. The parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any party disadvantaged by such action shall have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration or appeal of the Commission's Order.

13. By entering into this Stipulation, no party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other party in arriving at the terms of this Stipulation. No party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

14. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each party on the date entered below such party's signature.

DATED: August 28, 2006

NORTHWEST NATURAL GAS COMPANY

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By: C. Alex Miller

C. Alex Miller  
Director, Regulatory Affairs & Forecasting

By: \_\_\_\_\_

Ed Busch  
Administrator, Electric & Natural Gas  
Division

Date: 8-28-06

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD OF OREGON

By: \_\_\_\_\_

Paula E. Pyron  
Executive Director

By: \_\_\_\_\_

Bob Jenks  
Executive Director

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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Director, Regulatory Affairs & Forecasting

By: Ed Busch  
Ed Busch  
Administrator, Electric & Natural Gas  
Division

Date: \_\_\_\_\_

Date: 8-10-06

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By: \_\_\_\_\_  
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Executive Director

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Executive Director

By: \_\_\_\_\_  
Bob Jenks  
Executive Director

Date: August 11, 2006

Date: \_\_\_\_\_

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By: Bob Jenks  
Bob Jenks  
Executive Director

Date: \_\_\_\_\_

Date: 8-9-06

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