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August 26, 2015

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-2148

**Re: Docket No. UM 1717 – In the Matter of NW Natural Application for Prudence
Review of Costs of Post Carry Wells**

Dear PUC Filing Center:

Attached for filing in the above referenced case is an electronic copy of the Stipulation and the Joint Explanatory Brief.

If you have any questions, please do not hesitate to contact this office.

Very truly yours,

A handwritten signature in black ink that reads "Wendy McIndoo". The signature is written in a cursive style.

Wendy McIndoo
Office Manager

Attachment

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM 1717**

4 In the Matter of:

5 Northwest Natural Gas Company, dba
6 NW Natural

7 Application for Prudence Review of Costs
of Post-Carry Wells

STIPULATION

8 This Stipulation resolves all issues among all parties to this docket related to Northwest
9 Natural Gas Company's ("NW Natural" or "Company") Application for Prudence Review of Costs
10 of Post-Carry Wells ("Application"). The Application addresses NW Natural's investment in gas
11 wells made in 2014 under the Company's joint venture agreement, originally entered into with
12 Encana Oil and Gas, Inc. ("Encana") and later transferred to Jonah Energy, LLC. In the
13 Application, the Company requested that the Public Utility Commission of Oregon
14 ("Commission") issue an order finding that (1) the investment was prudent; and (2) the costs of
15 the investment should be included in customer rates through the 2015 purchased gas costs
16 adjustment ("PGA"), and subsequent PGAs as additional costs are incurred.

17 **PARTIES**

18 1. The parties to this Stipulation are Staff of the Public Utility Commission of Oregon
19 ("Staff"), the Northwest Industrial Gas Users ("NWIGU"), the Citizens' Utility Board of Oregon
20 ("CUB"), and NW Natural (together, the "Stipulating Parties").

21 **BACKGROUND**

22 2. In 2011, NW Natural negotiated an agreement to enter into a joint venture with
23 Encana to develop natural gas wells in Wyoming's Jonah Field. Under the original transaction
24 ("Original Agreement") NW Natural expected to invest approximately \$251 million over five
25 years and to receive approximately 93 billion cubic feet of gas over a 30 year term, with
26 approximately 80 percent of the gas to be received in the first ten years. The purpose of the

1 transaction was to provide NW Natural's customers with a reasonably-priced, long-term, stable
2 source of gas – in other terms, a long-term hedge.

3 3. In January of 2011, the Company filed for regulatory approval of the Original
4 Agreement. Specifically, the Company requested that the Commission find the transaction
5 prudent, and approve the costs for inclusion in customer rates. The Commission opened an
6 investigative docket, UM 1520, and ultimately adopted a stipulation filed by all parties agreeing
7 that the investment was prudent. Importantly for this Application, the Commission accepted the
8 following provision in the stipulation without comment:

9

10 [T]he Parties agree that a prudence finding by the Commission at this time
11 should apply only to the Company's decision to enter into the Proposed
12 Transaction, and not to any subsequent decisions the Company might make
13 in terms of exercising its discretion to manage the contract. The Parties
14 specifically agree that a prudence finding by the Commission at this time
15 should not, for example, extend to a future decision by the Company to
16 participate in drilling Elective [post-carry] Wells, as that term is defined in the
17 Carry and Earning Agreement (NWN/501). ***If the Company does choose to
18 participate in drilling Elective Wells, the Parties agree that such decisions
19 would be subject to separate determinations of prudence in future
20 proceedings.***¹

21 4. After 72 of the 102 carry wells had been drilled under the Original Agreement,
22 Encana notified NW Natural that it intended to sell its interests in Jonah Field. At that same
23 time, Encana requested that NW Natural terminate its obligation to fund and drill the remaining
24 30 carry wells, in order to remove certain conditions of the Original Agreement that Encana
25 believed might make the asset harder to sell. In exchange for this request, NW Natural sought
26 and received an increased interest in gas production from the 72 carry wells. All other rights
and obligations conferred by the Original Agreement remained in place, including the terms
governing the drilling of post-carry wells. NW Natural agreed.

24

25 ¹ Application for Deferred Accounting Order Regarding Purchase of Natural Reserves and Proposed
26 Purchase of Natural Gas Reserves, Docket Nos. UM 1520 and UG 204, Order No. 11-1140, Appendix
A at 6 (Apr. 28, 2011). Emphasis added.

1 5. In December of 2013, Encana sold its interests in Jonah Field to Jonah Energy
2 LLC (“Jonah Energy”), a newly formed subsidiary of TPG Capital. On May 7, 2014, Jonah
3 Energy formally requested to drill the first two post-carry wells. Shortly thereafter, Jonah Energy
4 made requests to drill seven more post-carry wells. The Company analyzed data related to
5 forecast volumes and costs and, given that the investment in the Original Agreement was
6 intended to act as a long-term hedge, NW Natural consented to any post-carry well for which
7 the expected cost of gas compared favorably to the costs of a ten-year financial hedge. Based
8 on its analysis, NW Natural agreed to invest in seven of nine of the wells proposed.

9 6. On February 26, 2015, NW Natural filed its Application, along with supporting
10 testimony and exhibits. NW Natural’s testimony supported its view that its decisions to (a)
11 release Encana from the Original Agreement and enter into the Second Amended Agreement
12 in exchange for certain accommodations; and (b) to invest in the post-carry wells, were both
13 prudent. NWIGU and CUB intervened.

14 7. On March 16, 2015, Administrative Law Judge Patrick Power held a prehearing
15 conference at which the parties to docket UM 1717 agreed upon a procedural schedule that set
16 a hearing for August 26, 2015.

17 8. Staff and CUB served discovery on NW Natural. The parties conducted a thorough
18 investigation of the Application.

19 9. On May 11, 2015, Staff, NWIGU and CUB filed Opening Testimony regarding the
20 prudence of NW Natural’s decisions related to its joint venture agreement, originally entered
21 into with Encana and later transferred to Jonah Energy, LLC, and its 2014 investments in the
22 post-carry wells. Staff filed testimony in support of its position that NW Natural’s decision to
23 release Encana from the Original Agreement and enter into an amended agreement with
24 Encana (Second Amended Agreement) in return for certain accommodations and concessions
25 was prudent. CUB and NWIGU neither support nor oppose Staff’s prudence determination with
26 regards to the Company’s decision to enter into the Second Amended Agreement. Staff,

1 NWIGU and CUB all submitted testimony in support of their view that the Company's decision
2 to invest in the post-carry wells at issue in this proceeding was not prudently made.

3 10. On July 10, 2015, NW Natural filed Reply Testimony in response to the parties'
4 Opening Testimony, supporting the prudence of its decision to invest in the post-carry wells.

5 11. Thereafter, on July 16, 2015, the Stipulating Parties participated in a settlement
6 conference. During the settlement discussions the Stipulating Parties agreed to resolve all the
7 issues in this case.

8 12. This Stipulation, presented on behalf of all parties to the docket, resolves all issues
9 in the docket.

10 **AGREEMENT**

11 13. In light of the fact that a dispute exists between the parties regarding whether the
12 Company's decision to invest in the drilling of the post-carry wells was prudently made, the
13 parties agree that it is reasonable to resolve this dispute by including all gas produced from the
14 seven post-carry wells that are the subject of this docket in customer rates at the fixed 10-year
15 hedge price, including the cost of credit facility, of \$4.725 per dekatherm, which price is
16 supported in NW Natural's testimony. If the cost of gas from the post-carry wells is above
17 \$4.725 per dekatherm, NW Natural will have the sole responsibility for the cost of gas that
18 exceeds the \$4.725 per dekatherm fixed price. If the cost of gas from the post-carry wells is
19 below \$4.725 per dekatherm, the difference between the cost of the gas and the \$4.725 per
20 dekatherm fixed price will accrue to the sole benefit of NW Natural.

21 14. If the Commission adopts this Stipulation by a date that allows incorporation of its
22 terms into the September 15, 2015 PGA filing, NW Natural will recover the price agreed-upon
23 in paragraph 15 through the 2015 and subsequent PGAs. If the Commission adopts the
24 Stipulation after a date that allows incorporation of its terms into the September 15, 2015 PGA
25 filing, NW Natural will recover the price agreed-upon in paragraph 15 through the 2016 and
26 subsequent PGAs. NW Natural will track and file with the Commission, for informational

1 purposes only, the production and the costs to customers and to the Company of gas produced
2 from the seven post-carry wells as line items separate from the wells previously drilled under
3 the Original Agreement in its annual PGA filings.

4 15. NW Natural will revise its tariff Schedule P – Purchased Gas Cost Adjustments, to
5 reflect Paragraph 14 of this Stipulation.

6 16. The Stipulating Parties agree that at any time during the life of the wells, any of the
7 Stipulating Parties has the right to request that the Commission revise the terms of this
8 Stipulation if the party determines that such a revision would benefit both customers and NW
9 Natural. The other Stipulating Parties reserve the right to support or oppose such a request.

10 17. The Stipulating Parties agree that the rates and terms resulting from this
11 agreement are fair, just, and reasonable.

12 18. The Stipulating Parties agree that rate for post-carry well gas set forth in this
13 Stipulation (i.e \$4.725 dekatherm) is effective on the date post-carry well gas is first delivered
14 for sale, and this rate will be included in customer rates through the 2015, and subsequent,
15 PGAs.

16 19. The Stipulating Parties agree to submit this Stipulation to the Commission and
17 request that the Commission approve the Stipulation as presented.

18 20. This Stipulation will be offered into the record of this proceeding as evidence
19 pursuant to OAR 860-001-0350(7). The Stipulating Parties agree to support this Stipulation
20 throughout this proceeding and any appeal, (if necessary) provide witnesses to sponsor this
21 Stipulation at the hearing, and recommend that the Commission issue an order adopting the
22 settlements contained herein.

23 21. If this Stipulation is challenged, the Stipulating Parties agree that they will continue
24 to support the Commission's adoption of the terms of this Stipulation. The Stipulating Parties
25 agree to cooperate in cross-examination and put on such a case as they deem appropriate to
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1 respond fully to the issues presented, which may include raising issues that are incorporated in
2 the settlements embodied in this Stipulation.

3 22. The Stipulating Parties have negotiated this Stipulation as an integrated document.
4 If the Commission rejects all or any material part of this Stipulation, or adds any material
5 condition to any final order that is not consistent with this Stipulation, each Stipulating Party
6 reserves its right, pursuant to OAR 860-001-0350(9), to present evidence and argument on the
7 record in support of the Stipulation or to withdraw from the Stipulation. Stipulating Parties shall
8 be entitled to seek rehearing or reconsideration pursuant to OAR 860-001-0720 in any manner
9 that is consistent with the agreement embodied in this Stipulation.

10 23. By entering into this Stipulation, no Stipulating Party shall be deemed to have
11 approved, admitted, or consented to the facts, principles, methods, or theories employed by any
12 other Stipulating Party in arriving at the terms of this Stipulation, other than those specifically
13 identified in the body of this Stipulation. No Stipulating Party shall be deemed to have agreed
14 that any provision of this Stipulation is appropriate for resolving issues in any other proceeding,
15 except as specifically identified in this Stipulation.

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

18 25. This Stipulation is entered into by each Stipulating Party on the date entered below
19 such Stipulating Party's signature.

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STAFF

By: Mike
Date: 8/26/15

NWIGU

By: _____
Date: _____

NW NATURAL

By: _____
Date: _____

CITIZENS' UTILITY BOARD OF OREGON

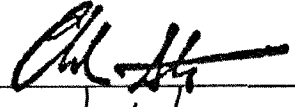
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STAFF

By: _____
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NWIGU

By:  _____
Date: 8/26/15 _____

NW NATURAL

By: _____
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CITIZENS' UTILITY BOARD OF OREGON

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STAFF

NWIGU

By: _____

By: _____

Date: _____

Date: _____

NW NATURAL

CITIZENS' UTILITY BOARD OF OREGON

By: *Jason Ruckner*

By: _____

Date: 8-26-15

Date: _____

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STAFF

By: _____

Date: _____

NW NATURAL

By: _____

Date: _____

NWIGU

By: _____

Date: _____

CITIZENS' UTILITY BOARD OF OREGON

By: Summer Moyer

Date: 8/26/15

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM 1717**

4 In the Matter of:

5 Northwest Natural Gas Company, dba
6 NW Natural

7 Application for Prudence Review of Costs
8 of Post-Carry Wells

JOINT EXPLANATORY BRIEF

9 This brief explains and supports the Stipulation filed in this proceeding on August 26, 2015,
10 among Northwest Natural Gas Company (“NW Natural” or “Company”), Staff of the Public Utility
11 Commission of Oregon (“Staff”), the Northwest Industrial Gas Users (“NWIGU”), and the
12 Citizens’ Utility Board of Oregon (“CUB”) (together, the “Stipulating Parties”). This Stipulation
13 resolves all issues raised by the Stipulating Parties related to NW Natural’s Application for
14 Prudence Review of Costs of Post-Carry Wells (“Application”). The Stipulating Parties urge the
15 Commission to adopt the Stipulation because it will fairly resolve all of the issues in this docket,
16 is supported by competent evidence, and will produce fair and reasonable rates.

17 **I. BACKGROUND**

18 **A. Original Agreement**

19 In 2011, NW Natural negotiated an agreement to enter into a joint venture with Encana
20 Oil and Gas (USA) Inc., (“Encana”) to develop natural gas wells in Wyoming’s Jonah Field.
21 Under the original transaction (“Original Agreement”) NW Natural expected to invest
22 approximately \$251 million over five years and to receive approximately 93 billion cubic feet of
23 gas over a 30 year term, with approximately 80 percent of the gas to be received in the first ten
24 years. The purpose of the transaction was to provide NW Natural’s customers with a
25 reasonably-priced, long-term, stable source of gas – in other terms, a long-term hedge. In
26

1 analyzing the transaction, NW Natural relied on well volume forecasts prepared by oil and gas
2 consultants, Netherland Sewell & Associates, Inc. (“NSAI”).

3 Under the Original Agreement, NW Natural and Encana were obligated to jointly fund 102
4 “carry wells” -- the name referring to the fact that NW Natural had agreed to “carry” a portion of
5 Encana’s pro rata share of the drilling costs in three separate sections of Jonah Field. In
6 exchange, NW Natural would receive a share in the total production of the field in which the well
7 was drilled, and, in some cases, a share in the individual well’s production as well. In addition,
8 after the drilling of the carry wells had been completed, NW Natural would have the option to
9 participate in drilling additional elective “post-carry” wells. For each post-carry well for which
10 NW Natural helped fund the drilling, NW Natural would receive a percentage of the gas
11 produced from that specific well (as opposed to a percentage from one of the sections).
12 Importantly for the post-carry wells, NW Natural was required to fund only its own pro rata share
13 of the drilling costs, equivalent to its interest in the relevant section.

14 In January of 2011 the Company filed for regulatory approval of the Original Agreement.
15 Specifically, the Company requested that the Commission find the transaction prudent, and
16 approve the costs for inclusion in customer rates. The Commission opened an investigative
17 docket, UM 1520, and ultimately adopted a stipulation filed by all parties agreeing that the
18 investment was prudent. Importantly for this Application, the Commission accepted the
19 following provision in the stipulation without comment, which clarifies that any Company
20 decision to invest in Post-Carry, or “elective wells” would be subject to future prudence reviews:

21 [T]he Parties agree that a prudence finding by the Commission at this time
22 should apply only to the Company’s decision to enter into the Proposed
23 Transaction, and not to any subsequent decisions the Company might
24 make in terms of exercising its discretion to manage the contract. The
25 Parties specifically agree that a prudence finding by the Commission at this
26 time should not, for example, extend to a future decision by the Company
to participate in drilling Elective [post-carry] Wells, as that term is defined
in the Carry and Earning Agreement (NWN/501). *If the Company does
choose to participate in drilling Elective Wells, the Parties agree that such*

1 *decisions would be subject to separate determinations of prudence in
future proceedings.*¹

2 **B. Second Amended Agreement**

3 After 72 of the 102 carry wells had been drilled under the Original Agreement, Encana
4 notified NW Natural that it intended to sell its interests in the Jonah Field. At that same time,
5 Encana requested that NW Natural agree to terminate its obligation to fund and drill the
6 remaining 30 carry wells, in order to remove certain conditions of the Original Agreement that
7 Encana believed might make the asset harder to sell.² NW Natural agreed to release Encana
8 from the obligation to drill additional carry wells in return for certain accommodations. The most
9 important accommodation was Encana’s agreement to increase NW Natural’s ownership share
10 of the drilling that had occurred to-date. The parties implemented these changes in the Second
11 Amended Agreement.³ Importantly all other rights and obligations conferred by the Original
12 Agreement remained in place, including the terms governing the drilling of post-carry wells. ⁴

13 **C. NW Natural’s Decision to Invest in Post-Carry Wells**

14 In December of 2013, Encana sold its interests in Jonah Field to Jonah Energy LLC
15 (“Jonah Energy”), a newly formed subsidiary of TPG Capital, and on May 7, 2014, Jonah Energy
16 proposed that NW Natural participate in the drilling of two post-carry wells; requests for another
17 seven wells followed close behind.⁵ As had been the case under the Original Agreement,
18 Second Amended Agreement required NW Natural to respond within 30 days.

19 _____
20 ¹ *Application for Deferred Accounting Order Regarding Purchase of Natural Reserves and Proposed*
21 *Purchase of Natural Gas Reserves*, Docket Nos. UM 1520 and UG 204, Order No. 11-140, Appendix A
at 6 (Apr. 28, 2011). (Emphasis added).

22 ² NWN/100 at 3.

23 ³ The parties had previously entered into a first amendment of the agreement when NW Natural
24 transferred its interests in the Original Transaction to an affiliate, in order to ensure entitlement to certain
25 tax credits. The Commission approved the transfer in *Application for Approval of Affiliated Interest*
Transaction with Encana Oil & Gas and Application for Property Transfer to Encana Oil & Gas, Docket
Nos. UI 329 and UP 284, Order No. 13-065 (Feb. 26, 2013).

26 ⁴ NWN/100 at 11.

⁵ NWN/100 at 3-4 and NWN/200 at 2-3. See also Application at 4.

1 NW Natural developed a framework by which to analyze each of the first nine requests for
2 consent presented by Jonah Energy. Given that the investment in the Original Agreement was
3 intended to act as a long-term hedge, NW Natural determined to consent to any well for which
4 the expected cost of gas compared favorably to the costs of a 10-year financial hedge. In order
5 to establish the costs of a 10-year financial hedge, the Company obtained two quotes, and
6 determined that such a hedge (with the addition of a credit facility) would be \$4.725 per
7 dekatherm. The Company calculated the estimated cost of gas for each well, using several
8 different approaches and, based on its analysis, NW Natural agreed to invest in seven of nine
9 of the wells proposed, because it expected the gas from those wells would compare favorably
10 in cost compared to the ten year hedge.⁶

11 In early October of 2014, NW Natural began receiving reports on the early performance
12 of the seven post-carry wells. This preliminary data showed that initial volumes were below
13 forecasts, and suggested that ultimate recovery might fall short as well.⁷ NW Natural engaged
14 NSAI to investigate the possible causes of the apparent underperformance, and to update its
15 forecasts for these and the remaining post-carry wells. Based on this analysis, NSAI has
16 revised downward its forecasts, and as a result, NW Natural did not consent to the additional
17 two wells proposed by Jonah Energy in October.⁸ As explained in its initial testimony in the
18 proceeding, NW Natural now expects the costs of the gas from the wells in which it participated
19 to be close to \$6.64 per dekatherm.

20 **D. Commission Proceeding**

21 On February 26, 2015, NW Natural, filed its Application and requested that the Public
22 Utility Commission of Oregon (“Commission”) issue an order finding that its investment in the
23 post-carry wells: (1) was prudent; and (2) should be included in customer rates through the

24 _____
⁶ NWN/100 at 15-24.

25 ⁷ NWN/100 at 24-26.

26 ⁸ NWN/100 at 3-4 and 21-22.

1 2015 purchased gas costs adjustment (“PGA”)—and subsequent PGAs as additional costs are
2 incurred. The Company supported its Application with the testimony of two witnesses, Ms.
3 Barbara Summers⁹ and Mr. C. Alex Miller.¹⁰

4 After NW Natural filed its Application, parties undertook discovery. The Company
5 provided responses to numerous requests for data and provided additional information and
6 supporting documentation addressing relevant issues in this case. On May 11, 2015, Staff,
7 NWIGU, and CUB all filed opening testimony evaluating NW Natural’s Application.

8 Staff’s testimony offered its assessment of NW Natural’s decisions related the post-carry
9 wells.¹¹ Staff found NW Natural’s decision to release Encana from the Original Agreement and
10 enter into the Second Amended Agreement to be prudent.¹² However, Staff stated its opinion
11 that the Company should have performed a more robust risk analysis before investing in the
12 reserves—similar to the analysis required for resources evaluated in the Company’s Integrated
13 Resource Plan. Therefore, Staff recommended that the Commission conclude that the
14 Company’s investment in the seven post-carry wells was not prudent and decline to include the
15 post-carry well gas in customer rates at the cost of gas, as recommended by the Company.
16 Instead, Staff offered two alternatives regarding the recovery of 2014 investments in the post-
17 carry wells: customers pay up to the market cost of gas, or the 10-year financial hedge rate.

18 NWIGU and CUB also concluded that the Company’s investment in the seven post-carry
19 wells was not prudent because NW Natural should have performed a more robust risk analysis
20 prior to electing to participate in the post-carry wells. These parties argued that because the
21 risks of the post-carry wells were greater than those of the original carry wells, the Company
22 should have performed a more comprehensive review.¹³ NWIGU recommended that customers

23 ⁹ NWN/100

24 ¹⁰ NWN/200.

25 ¹¹ Staff/100.

26 ¹² Staff/100 at 10.

¹³ NWIGU/100 at 4-6. See also CUB/100 at 3-14.

1 pay no more than the 10-year hedge price.¹⁴ CUB recommended that the cost of the gas not
2 be included in customer rates at all.¹⁵

3 NW Natural filed Reply Testimony on July 10, 2015. In addition to testimony from Ms.
4 Summers, NW Natural provided the testimony of a reserves engineer from NSAI, who testified
5 that the risk analysis performed by the Company was consistent with industry standards.¹⁶

6 On July 16, 2015, the Stipulating Parties participated in a settlement conference. During
7 the settlement discussions the Stipulating Parties agreed to resolve all the issues in this case.

8 II. DISCUSSION

9 A. Terms of the Stipulation

10 1. The Stipulating Parties agree that all the gas produced from the seven post-carry wells
11 that are the subject of this docket will be included in customer rates at the fixed 10-year hedge
12 price, including the cost of credit facility, of \$4.725 per dekatherm, which price is supported in
13 NW Natural's testimony.¹⁷

14 2. NW Natural will recover the fixed 10-year hedge price (including the cost of credit
15 facility) of \$4.725 per dekatherm, through the 2015 and subsequent PGAs. NW Natural will
16 track and file with the Commission, for informational purposes only, the fixed costs to customers
17 and the actual costs to the Company of gas produced from the seven post-carry wells in a
18 separate filing concurrent with its annual PGA filings.¹⁸

19 3. The Stipulating parties agree that NW Natural will revise its tariff Schedule P –
20 Purchased Gas Cost Adjustments, to reflect the fixed 10-year hedge price (including the cost of
21 credit facility) of \$4.725 per dekatherm, through the 2015 and subsequent PGAs.¹⁹ NW Natural

22 ¹⁴ NWIGU/100 at 6.

23 ¹⁵ CUB/100 at 13-14.

24 ¹⁶ NWN/300 and NWN/400.

25 ¹⁷ Stipulation ¶ 13.

26 ¹⁸ Stipulation ¶ 14.

¹⁹ Stipulation ¶ 15, 13.

1 will be allowed to include \$4.725 per dekatherm in the PGA as the cost of the gas produced by
2 the wells. If the cost of gas from the post-carry wells is above \$4.725 per dekatherm, NW
3 Natural will have the sole responsibility for the cost of gas that exceeds the \$4.725 per
4 dekatherm fixed price. If the cost of gas from the post-carry wells is below \$4.725 per
5 dekatherm, the difference between the cost of the gas and the \$4.725 per dekatherm fixed price
6 will accrue to the sole benefit of NW Natural. Further, NW Natural will track and file with the
7 Commission, for informational purposes only, in its annual PGA filings the production and the
8 costs to customers and to the Company of gas produced from the seven post-carry wells as
9 line items separate from the wells previously drilled under the Original Agreement.

10 4. The Stipulating parties agree that at any time during the life of the wells, any of the
11 Stipulating Parties has the right to request that the Commission revise the terms of this
12 Stipulation if the party determines that such a revision would benefit both customers and NW
13 Natural. The Stipulating Parties reserve the right to support or oppose such a request.²⁰

14 5. The Stipulating Parties agree that the rates and terms resulting from this agreement
15 are fair, just, and reasonable.²¹

16 6. The Stipulating Parties agree that rate for post-carry well gas set forth in this Stipulation
17 (i.e. \$4.725 dekatherm) is effective on the date post-carry well gas is first delivered for sale, and
18 this rate will be included in customer rates through the 2015, and subsequent, PGAs, unless
19 the Commission's decision approving the Stipulation is not issued in time to allow NW Natural
20 to incorporate its terms in the 2015 PGA, in which case the terms of the Stipulation will be
21 effected in the 2015 and subsequent PGAs.

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25 ²⁰ Stipulation ¶ 16.

26 ²¹ Stipulation ¶ 17.

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2 **B. The Stipulation Represents a Reasonable Resolution of the Issues, is Supported by**
3 **Competent Evidence in the Record, and will Result in Fair and Reasonable Rates.**

4 The Commission will adopt a stipulation if it is supported by competent evidence in the
5 record, appropriately resolves the issues in a case, and results in just and reasonable rates.²²
6 When evaluating the rates, the Commission examines “the reasonableness of the overall
7 rates.”²³ Here, the Stipulation satisfies these standards.

8 **1. The Stipulation Reasonably Resolves the Issues Presented in this Docket and**
9 **is Supported by Competent Evidence in the Record.**

10 *First*, in light of the fact that a dispute exists between the parties regarding whether the
11 Company’s decision to invest in the drilling of the post-carry wells was prudently made, the
12 parties agree that it is reasonable to resolve this dispute by including the gas from the post-
13 carry wells in rates at a price equal to the price of a ten-year hedge available to the Company
14 at the time it determined to participate in drilling the wells. The post-carry wells, like the carry
15 wells approved by the Commission, were intended to provide NW Natural’s customers with a
16 long-term hedge against future gas price volatility.²⁴ It is thus reasonable, in this case, to price
17 them, for ratemaking purposes, as such.

18 *Second*, including the price of a ten-year hedge for the volumes associated with the post-
19 carry wells will result in a reasonable amount of hedging within NW Natural’s gas portfolio and
20 protect customers from the risk associated with low volumes of production from the wells. On

21 ²² See *Re PacifiCorp’s 2010 Transition Adjustment Mechanism*, Docket UE 207, Order No. 09-432 at 6
22 (Oct. 30, 2009) (“The Commission concludes that the Stipulation is an appropriate resolution of all primary
23 issues in this docket.”); See *Re PacifiCorp Request for a General Rate Revision*, Docket UE 210, Order
24 No. 10-022 at 6 (Jan. 26, 2010) (“When considering a stipulation, we have the statutory duty to make an
independent judgment as to whether any given settlement constitutes a reasonable resolution of the
issues.”); *Re PacifiCorp Request for a General Rate*, Docket UE 217, Order No. 10-473 at 7 (Dec. 14,
2010) (“We have reviewed the Stipulation, and find that it will result in rates that are fair, just, and
reasonable.”).

25 ²³ *Re Application of Portland General Electric Co. for an Investigation into Least Cost Plant Retirement*,
Docket DR 10 et al., Order No. 08-487 at 7-8 (Sept. 30, 2008).

26 ²⁴ NWN/100 at 2-4.

1 approving the Original Agreement, the Commission recognized that the carry wells would
2 provide 10 percent of NW Natural's annual gas supply and the Commission determined that
3 level of commitment was reasonable.²⁵ However, because the Company terminated the carry
4 well program, the portion of NW Natural's portfolio invested in long-term hedges is expected to
5 fall well below 10 percent in future years.²⁶ The investment in post-carry wells will not cause the
6 percentage of long-term hedges in NW Natural's portfolio to exceed 10 percent.²⁷

7 *Third*, the specific price for the 10-year hedge agreed to by the parties is reasonable and
8 supported by the record. To arrive at the 10-year hedge price, NW Natural obtained quotes
9 from two financial counterparties for 10-year financial derivative swaps, which came in at \$4.35
10 per dekatherm and \$4.545 per dekatherm, respectively.²⁸ The Company then added the
11 additional cost of securing a credit facility, which added 18 cents per dekatherm to the hedge
12 quote. This produced a total long-term hedge benchmark price range between \$4.53 and
13 \$4.725.²⁹ While CUB believes that there may be more appropriate approaches to determining
14 the cost of a 10-year hedge³⁰, all parties, including CUB, believe that the rate upon which the
15 parties have agreed is a reasonable one for purposes of settling the disputes within this docket.

16 *Fourth*, the recovery of the investment through the 2015 and subsequent PGAs was
17 proposed in NW Natural's Application, and is supported in other parties' testimony.³¹

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20 ²⁵ *Application for Deferred Accounting Order Regarding Purchase of Natural Reserves and Proposed*
21 *Purchase of Natural Gas Reserves*, Docket Nos. UM 1520 and UG 204, Order No. 11-176 at 10 (May 25,
2011).

22 ²⁶ NWN/100 at 15.

23 ²⁷ NWN/100 at 15.

24 ²⁸ NWN/100 at 19.

25 ²⁹ A credit facility is a necessary insurance policy to protect the Company and customers in the event that
the counterparty to the 10-year hedge was unable to fulfill its part of the deal. NWN/100 at 19.

26 ³⁰ CUB/100 at 3-9.

³¹ See NWN/100; NWN/200; Staff/100.

1 Furthermore recovery of the investment through the 2015 and subsequent PGAs is consistent
2 with the Commission's previous treatment of NW Natural's investment in the carry wells.³²

3 *And finally*, the Stipulation provides that at any time during the life of the wells any of the
4 Stipulating Parties may request that the Commission revise the terms of the Stipulation if the
5 party determines that such revision would benefit both customers and NW Natural.³³ For
6 instance, it is possible that the Company may be able to sell the wells on terms beneficial to
7 customers. The ability to modify the Stipulation to the benefit of customers provides the
8 Stipulating Parties additional protections and potential benefits.

9 The Stipulation results in a balanced approach to resolving the issues in this proceeding,
10 by shielding customers from higher than expected costs associated with the post-carry wells,
11 and by allowing the Company to recover the costs of a ten-year hedge related to the investment.
12 Under this agreement, customers assume none of the reserve or production cost risk from the
13 post-carry wells, but instead bear only the market risk (i.e. the risk that hedge costs are greater
14 than spot prices) that is inherent in any hedge, regardless of duration or type.

15 **2. The Stipulation will Result in Fair and Reasonable Rates.**

16 The level of recovery, as well as the method of recovery agreed to in the Stipulation fairly
17 balances the interests of consumers and the Company by minimizing the Stipulating Parties'
18 exposure to volatility in gas prices going forward, at a reasonable cost. Accordingly, offering
19 the gas produced by the post-carry wells at the ten-year hedge price will result in fair and
20 reasonable rates that fall within the "range of reasonableness" for resolution of these issues.³⁴

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24 ³² *Application for Deferred Accounting Order Regarding Purchase of Natural Reserves and Proposed*
Purchase of Natural Gas Reserves, Docket Nos. UM 1520 and UG 204, Order No. 11-176 (May 25,
2011).

25 ³³ Stipulation ¶ 16.

26 ³⁴ See *Re US West*, Docket UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).

DATED: August 26, 2015

Respectfully submitted,

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