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July 25, 2014

VIA ELECTRONIC FILING & U.S. MAIL

Oregon Public Utility Commission
Attn: Filing Center
3930 Fairview Industrial Drive SE
PO Box 1088
Salem, OR 97308

Re: In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW Natural
Investigation of Interstate Storage and Optimization Sharing
Docket No. UM-1654

Dear Filing Center:

Enclosed please find the original and five (5) copies of the NORTHWEST INDUSTRIAL GAS USERS' POST HEARING BRIEF in the above-referenced docket.

Thank you for your assistance with this filing. Should you have any questions, please feel free to contact me.

Very truly yours,



Tommy A. Brooks

TAB:sk
Enclosures

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**
3 **UM 1654**

4 In the Matter of

5 NORTHWEST NATURAL GAS
6 COMPANY dba NW NATURAL

7 Investigation of Interstate Storage and
8 Optimization Sharing

NORTHWEST INDUSTRIAL GAS
USERS' POST-HEARING BRIEF

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10 **I. INTRODUCTION**

11 Pursuant to ALJ Pine's Prehearing Conference Memorandum dated June 26,
12 2014, the Northwest Industrial Gas Users ("NWIGU") submit this Post-Hearing Brief.

13 As explained in more detail in NWIGU's Prehearing Brief, NWIGU urges the
14 Public Utility Commission of Oregon ("Commission") to: (1) adopt the proposal set forth
15 by the Citizens' Utility Board of Oregon ("CUB") to temporarily continue the current
16 20/80¹ sharing mechanism for revenue from NW Natural's Interstate Storage Services,
17 until such time as a more-detailed cost analysis can be performed; (2) acknowledge that
18 ratepayer assets are necessary to NW Natural's Optimization activities, and adjust the
19 sharing of revenue from those activities accordingly; (3) adopt the position set forth by
20 Commission Staff ("Staff") and CUB to require all income earned from the optimization
21 of ratepayer-owned assets to be included in NW Natural's Results of Operations
22 ("ROO") filed annually with the Commission.

23 The facts adduced during the two hearings in this matter have not altered
24 NWIGU's recommendations as described above. NWIGU's incorporates the reasoning

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26 ¹ Consistent with the other parties' description of sharing mechanisms in their testimony, NWIGU will refer to a sharing mechanism a "XX/YY" where "XX" is the percent of revenue shared with ratepayers and "YY" is the percent of revenue retained by NW Natural.

1 in its Prehearing Brief into this Post-Hearing Brief by this reference. The remainder of
2 this Post-Hearing Brief will briefly summarize NWIGU's position and describe how
3 some of the evidence provided during the hearings serves as further support for
4 NWIGU's recommendations.

5 **II. ARGUMENT**

6 A. Revenue Sharing from Interstate Storage Services

7 In its Prehearing Brief, NWIGU urged the Commission to find that there is no
8 substantial evidence in the record to support the current 20/80 sharing mechanism for
9 revenue generated by NW Natural's Interstate Storage Services. That sharing mechanism
10 exists as the result of an informal agreement by the Company, Staff, and unidentified
11 stakeholders before NW Natural started actually providing Interstate Storage Services,
12 and before the full value of those services, or the costs and risks incurred to provide those
13 services, could be known.

14 What is not in dispute in this matter is the fact that the sharing mechanism was
15 based in part on a recognition that the Interstate Storage Services relies in part on existing
16 ratepayer-owned assets, and in part on new investments made by NW Natural's
17 shareholders. What remains in dispute, however, is how the Commission can quantify
18 the various risks and benefits that are associated with the Interstate Storage Services.
19 Without such a quantification, the current 20/80 sharing is nothing more than a guess.

20 The Company has identified several risks it believes its shareholders bear by
21 providing Interstate Storage Services and that it uses to justify continuation of the 20/80
22 split. For example, NW Natural states that its primary risk is the "price risk associated
23 with the Company's interstate storage contracts for Mist."² The Company also identifies
24 "historical risks associated with the development of the storage reservoirs" from
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26 ² NWN/100, White/12 lines 15-16.

1 permitting delays and variations in construction costs.³ But the Company also asserts that
2 core customers bear zero risk of the Company's Interstate Storage Services.⁴

3 Even if the testimony in this proceeding can be read to describe some risk to the
4 Company's shareholders for providing Interstate Storage Services, and to describe a
5 reduced or even *de minimus* risk to core customers from those activities, those facts do
6 not automatically justify a precise 20/80 split for sharing revenue. The Company would
7 have the Commission conclude that customers should be grateful for *any* sharing because
8 the Interstate Storage Services and sharing are "all up-side" for customers. That
9 argument misses the real point NWIGU and other parties raise, which is whether
10 shareholders are getting too much compensation for the risk they bear, and whether
11 customers' contributions that make shareholder profits from these activities possible are
12 being adequately acknowledged and compensated.

13 NWIGU has urged the Commission to adopt CUB's original proposal, which is
14 that the Commission approve temporarily the 20/80 sharing mechanism, but that the
15 Commission also require the Company to model interstate storage using a cost of service
16 model that will identify all shared facilities and resources that make the Interstate Storage
17 Services possible.⁵ As Staff testimony indicates, the 20/80 split was based on the then-
18 current weighted average cost of gas sharing percentage adopted for the Purchased Gas
19 Adjustment sharing mechanism.⁶ CUB similarly pointed out in its testimony that NW
20 Natural's decision to propose a 20/80 sharing mechanism was simply an estimate of the
21 overall value attributable to customers and shareholders.⁷ More precise modeling and
22 identification of shared resources will allow the Commission to move away from
23 outdated information and estimates and move toward fact-based justifications.

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³ NWN/100, White/14 lines 3-5.

25 ⁴ Northwest Natural Gas Company's Prehearing Brief at 19:13-17.

26 ⁵ CUB/100, Jenks-McGovern/12 lines 2-4.

⁶ Staff/100, Colville/4 lines 17-20.

⁷ CUB/100, Jenks-McGovern/7 lines 16-20.

1 In response to CUB's proposal, NW Natural asserts that reliance on a cost of
2 service model should be rejected because: it is a "radical departure" from the original
3 framework of the sharing mechanism; it "would distort the economic incentives" for
4 future investments in Mist; it would not be useful for allocating revenues from
5 investments at Mist; and it is insufficient to quantify embedded costs.⁸ Those arguments
6 are not persuasive.

7 First, whether NWIGU's recommendation is a departure from the original
8 framework or would change economic incentives is a determination that should be made
9 on updated information rather than continuing with the *status quo* initiated decades ago.
10 The analysis NWIGU supports will allow the Commission to take into account the fact
11 that business conditions have changed since NW Natural began offering Interstate
12 Storage Services. NW Natural's testimony, for example, describes the fact that FERC
13 regulations have changed over the past several years and parties are subject to different
14 regulations than they used to be.⁹ NW Natural's testimony indicates that the level of risk
15 in its activities is different than it used to be, even if that risk has not been eliminated.¹⁰
16 Also, the mere fact that there is now a well-established interstate storage option in the
17 region (Mist) where there used to be no such option when NW Natural began this service
18 is a major change in the business conditions that existed at that time. The Commission
19 need only take notice of NW Natural's recent filing for new tariffs regulating no-notice
20 firm storage service to see that the Company is able to keep leveraging the Mist facility
21 for new economic opportunities that it feels are promising.¹¹

22 Second, the Company's response mischaracterizes what NWIGU believes is
23 CUB's actual proposal. NWIGU understands CUB's proposal to serve more like an audit
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25 ⁸ NWN/300, White/4 line 11 to White/5 line 3.

⁹ NWN/300, White/19 lines 12-20.

26 ¹⁰ NWN/300, White/19 lines 12-20.

¹¹ See NWN OPUC Advice No. 14-7, Schedule 90 and Schedule 90, filed July 14, 2014.

1 to identify the various components of NW Natural’s system that drive the costs and
2 revenues associated with Interstate Storage Services, and do definitively identify all
3 shared facilities and resources that make Interstate Storage Services possible. That
4 information would in turn inform whether the split in revenue between ratepayers and
5 shareholders is equitable.

6 In summary, the Commission should not approve the indefinite continuation of
7 the current 20/80 sharing mechanism without first establishing clear facts that support
8 such a sharing split. Instead, the Commission should approve continuation of the current
9 split temporarily and require a more robust evaluation of the risks, costs, and benefits
10 associated with NW Natural’s Interstate Storage Services. Only then will the
11 Commission be able to have confidence that it has approved an equitable split in revenue
12 sharing.

13 B. Ratepayer Assets Used in Optimization Activities

14 NWIGU urges the Commission to revise Schedule 186 to reflect the fact that
15 some of the Company’s “Mist Optimization” activities rely on the use of ratepayer-
16 owned gas that is currently allocated to Interstate Storage Services.

17 Because “the majority” of NW Natural’s optimization activities use resources that
18 are included in customer rates,¹² NW Natural shares revenue from those activities with
19 ratepayers at different rates depending on which assets are being leveraged. Revenue
20 from the portion of Mist capacity that is “non-utility” is shared 20/80, whereas revenue
21 from the portion of Mist capacity that is included in rates (i.e. that relies on “ratepayer
22 assets”) is shared 67/33.

23 NW Natural’s optimization activities include, but are not limited to, the sale and
24 trading of excess gas and “portfolio” optimization in the form of exchanges of gas
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¹² NWN/100, White/8 lines 15-16.

1 commodity contract purchases at different trading locations.¹³ The only gas that NW
2 Natural has a right to use for such activities is the gas owned by its utility retail
3 ratepayers.¹⁴ However, the optimization activities that rely on use of that ratepayer asset
4 are treated as if the gas is largely a non-utility asset. Specifically, NW Natural allocates
5 47% of net revenues from Mist Optimization activities to Interstate Storage Services.¹⁵
6 As a result, revenue from that portion of optimization activities is shared with ratepayers
7 using the lower 20/80 sharing split rather than the higher 67/33 sharing split.

8 During the second hearing in this matter, NW Natural demonstrated that the 47%
9 of revenues NW Natural deems should be allocated to Interstate Storage Services is not a
10 fixed number that rationally applies to the Company's optimization activities and in fact
11 is based on total Mist capacity rather than the amount of gas in the storage facility. For
12 example, that ratio between customer gas and non-customer gas changes whenever the
13 Company recalls capacity.¹⁶ In fact, the actual ratio changes on a daily basis depending
14 on what Interstate Storage Service customers are doing with their own gas.¹⁷ At times,
15 the amount of gas at Mist that belongs to core customers is 62% compared to 38% for
16 interstate storage customers,¹⁸ which is much higher than the 53% and 47% NW Natural
17 allocates to customers and shareholder, respectively.

18 Evidence at the hearing also made it even clearer that Mist Optimization activities
19 rely on the physical presence of customer-owned gas. In response to questions from the
20 Commission, the Company acknowledged that, whether a paper transaction or a physical
21 transaction, the optimization activities are based on an amount of physical gas.¹⁹ The
22 testimony in this case had already established that, at some point, there is the possibility

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¹³ NWN/100, White/6 lines 5-9.

24 ¹⁴ CUB/100, Jenks-McGovern/16 lines 7-11.

25 ¹⁵ CUB/100, Jenks-McGovern/13 lines 4-6.

26 ¹⁶ July 10, 2014 Hearing Transcript at 24:22-24.

¹⁷ July 10, 2014 Hearing Transcript at 25:23 through 26:5.

¹⁸ July 10, 2014 Hearing Transcript at 25:13.

¹⁹ July 10, 2014 Hearing Transcript at 23:4-12.

1 that NW Natural's optimizer has to allow the physical settlement of a transaction.²⁰
2 Thus, while it may be true that the same amount of physical gas can be used as the basis
3 for multiple financial transactions, it is also true that without the physical gas there would
4 be no transactions.

5 Because NW Natural's Mist Optimization activities rely heavily on a ratepayer
6 asset (the physical gas), Schedule 186 should be revised as CUB suggests to acknowledge
7 the value ratepayers have provided to those activities and revenue from those activities
8 should therefore be shared with ratepayers at a higher percentage than Schedule 186
9 currently provides.

10 C. Appropriate Treatment of Revenue in Results of Operations Filings

11 The record in this docket demonstrates that NW Natural fails to report all utility
12 income in its ROO filed annually with the Commission. For the reasons stated in its
13 Prehearing Brief, NWIGU urges the Commission to adopt the positions of Staff and CUB
14 that all income earned using ratepayer-owned assets is "utility income" for purposes of
15 the Company's ROO.

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²⁰ NWN 200, Friedman/12 lines 4-7.

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III. CONCLUSION

For the reasons stated, the Commission should: (1) adopt CUB's proposal to temporarily continue the current 20/80 sharing mechanism for revenue from NW Natural's Interstate Storage Services, until such time as a more-detailed cost analysis can be performed; (2) acknowledge that ratepayer assets are necessary to NW Natural's Optimization activities, and adjust the sharing of revenue from those activities accordingly; (3) require all income earned from the optimization of ratepayer-owned assets to be included in NW Natural's ROO filed annually with the Commission.

Dated this 25th day of July 2014.

Respectfully submitted,



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Northwest Industrial Gas Users

CERTIFICATE OF SERVICE

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I CERTIFY that I have on this day served the foregoing document upon all parties of record in this proceeding via electronic mail and/or by mailing a copy properly addressed with first class postage prepaid.

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