

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

STAFF PREHEARING BRIEF

9 I. INTRODUCTION

10 In the last Northwest Natural Gas Company (NW Natural) general rate proceeding,  
11 Docket UG 221, the Public Utility Commission of Oregon (Commission) approved a stipulation  
12 that reserved these issues and moved them from the rate case to this new proceeding, Docket No.  
13 UM 1654. The purpose of this proceeding is to consider NW Natural's Interstate Storage and  
14 Optimization Revenue sharing mechanisms, which are located in NW Natural's schedule 185  
15 and 186.

16 NW Natural argues that the current sharing percentages should remain unchanged and  
17 that the income derived from optimization activities should be exempt from income reported on  
18 its regulated results of operation report (ROO report). The Citizen's Utility Board (CUB) argues  
19 that the time is ripe to change the sharing percentages and that the income derived from  
20 optimization income should be reported on the ROO report. The Public Utility Commission of  
21 Oregon Staff (Staff) proposes that the sharing percentages for Interstate Storage and  
22 Optimization Revenue in Schedules 185 and 186 remain the same, but that NW Natural be  
23 required to report income derived from these activities on its ROO report.

24 NW Natural's argument would maintain the existing sharing percentages and exempt the  
25 income derived from these activities from reporting on its ROO report. Staff's recommendation  
26 would result in a change to the ultimate sharing of revenues that would be more beneficial to

1 customers and less generous to shareholders because the requirement that NW Natural report the  
2 income on its ROO report could impact the amount of income that NW Natural shareholders are  
3 allowed to retain depending on the company's overall earnings. If the Commission were to  
4 adopt CUB's arguments, the change in the ultimate sharing of revenues for these services would  
5 be more beneficial to customers and less generous to shareholders than Staff's recommendation.  
6 CUB's argument is that the current sharing percentages should be changed to be more beneficial  
7 to ratepayers and that NW Natural should be required to report the income derived from these  
8 activities on its ROO report, which also could operate to decrease the amount of income retained  
9 by NW Natural shareholders.

10 Staff's recommendation should be adopted because it appropriately balances the interests  
11 of the customers and shareholders and strikes an appropriate balance between the utility and  
12 consumer advocate positions. Staff's recommendation recognizes that NW Natural is going  
13 beyond the requirements of a typical gas local distribution company in optimizing these activities  
14 and should be given an incentive to do so, but also recognizes that the income derived from  
15 activities that are only made possible by customer-funded assets should be considered regulated  
16 income. The combination of Staff's recommendations would result in an ultimate sharing of  
17 revenues that is more beneficial to customers than the status quo, but that also provides an  
18 incentive to NW Natural to continue its optimization activities.

## 19 II. DISCUSSION

- 20 1. Income derived from use of customer-funded assets should be reported as regulated  
21 income on NW Natural's regulated ROO report.

22 When income is derived or made possible by the use of customer-funded assets (what  
23 Staff refers to in its testimony as AMA Optimization), Staff contends it should be included in  
24 NW Natural's ROO report. CUB also argues that it is important to include AMA Optimization  
25 income in the ROO report and agrees with Staff's position.

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1 NW Natural opposes reporting income derived from AMA Optimization activities on its  
2 ROO report because it argues it will dilute or take away the incentive for it to participate in these  
3 types of optimization activities that have benefited both customers and shareholders. Staff  
4 agrees that reporting this income could impact the amount of income that shareholders are able  
5 to retain from the optimization of customer-funded assets, but that is dependent on overall  
6 earnings. Under Staff's proposals, NW Natural is still entitled to retain 55% of net income  
7 earned from AMA Mist Optimization and 33% of AMA Non-Mist Optimization. If NW Natural  
8 was over earning to the extent that all retained AMA Optimization income was subject to sharing  
9 via the Spring Earnings review, the lowest those percentages could be is 37%<sup>1</sup> and 22%<sup>2</sup>  
10 respectively. However, the level of income that shareholders will be able to retain when AMA  
11 Optimization income is reported on its ROO report still provides an incentive for continuation of  
12 the optimization activities.

13 2. NW Natural's System Optimization activities go beyond the requirements of a typical  
14 regulated gas local distribution company and benefit both customers and shareholders.  
15 Because of these facts, regulatory policy should provide an incentive for NW Natural to  
participate in these activities.

16 While Staff and CUB agree that income derived from AMA Optimization should be  
17 reported in NW Natural's ROO report, even though NW Natural would prefer to isolate its  
18 shareholder portion of the income, Staff and NW Natural agree that the sharing percentages  
19 currently in effect should remain the same. Even though the activities employ customer-funded  
20 assets, Staff demonstrates that the optimization activities go beyond the requirements of a typical  
21 regulated local distribution company. In going above the requirements of a typical local  
22 distribution company, NW Natural is earning income that benefits both customers and

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24 <sup>1</sup> See NWN/502, White 1, Staff agrees that the overall percent income from AMA Mist  
25 Optimization retained if all of the income was subject to the Spring Earnings Review should be  
26 37% rather than 39%, as shown in Case I of the exhibit.

<sup>2</sup> Id. Staff recommends that the Commission disregard the results shown in Case III and Case IV,  
as the final percentages vary depending on the relationship between the total retained income  
related to AMA Mist and Non-Mist Optimization, whereas the total percentages of each type of  
Optimization remain the same regardless of the dollar amounts involved.

1 shareholders. Because of the risk and type of atypical activities that NW Natural is optimizing,  
2 Staff recommends that the current sharing percentages in Schedules 185 and 186 remain the  
3 same.

4 In relation to what CUB calls interstate/intrastate storage (Schedule 185 less the third  
5 party optimization of Mist core storage included in Schedule 186, as shown in the figure on  
6 Staff/200 page 7), NW Natural and Staff agree that the sharing should remain 20 percent to  
7 customers and 80 percent to shareholders. CUB agrees to maintaining the sharing percentage for  
8 storage services, but only until such time as a cost study can be completed and it can be  
9 determined if the cost study supports the 20/80 sharing. In relation to what CUB calls storage  
10 optimization (Schedule 186 plus third party optimization of Mist core storage included in  
11 Schedule 185 as shown in the figure on Staff/200 page 9), NW Natural and Staff agree that the  
12 sharing should remain 67 percent to customers and 33 percent to shareholders for optimization of  
13 resources in customer rates and 20 percent customers and 80 percent shareholders for  
14 optimization of resources not in customer rates. CUB argues that the sharing structure should be  
15 changed to 90 percent to customers and 10 percent to NW Natural.

16 Staff's recommendation to include AMA Optimization income in NW Natural's ROO  
17 report could operate to increase the optimization income credited to customers and decrease the  
18 optimization income to NW Natural shareholders. Because Staff also recommends that the  
19 current sharing percentages in Schedule 185 and 186 remain the same, Staff's position lands  
20 between the position of NW Natural and CUB. Staff contends that its recommendation is  
21 appropriate because it meets its two primary objectives, which are that income derived from the  
22 use of customer-funded assets should be included as regulated income and that NW Natural  
23 should be provided a financial incentive to continue its current optimization activities.

#### 24 CONCLUSION

25 This docket was created out of a Commission-approved stipulation that removed this  
26 issue from the most recent NW Natural rate case and established a separate docket to consider

1 these issues. NW Natural asserts that the sharing percentages should continue to remain the  
2 same and that NW Natural should continue to isolate the income earned from optimization  
3 activities by not including the income on its ROO report.

4 Staff's recommendation is that NW Natural should be ordered to include AMA  
5 Optimization revenue in its ROO report because income earned using customer-funded assets is  
6 utility income and should be included in its ROO report. Staff, however, also recommends  
7 continuation of the current sharing percentages. The combination of these two recommendations  
8 will result in income earned from customer-funded assets to be correctly reported as income in  
9 NW Natural's ROO report, while also providing an incentive to NW Natural to conduct these  
10 activities.

11 Staff's recommendation is appropriate because it balances the interests of the customers  
12 and shareholders and strikes a balance between the utility and consumer advocate positions.  
13 Staff recognizes that NW Natural is going beyond the requirements of a typical gas local  
14 distribution company in these optimizing activities and should be given an incentive to do so, but  
15 also recognizes that the income derived from activities that are only made possible by customer-  
16 funded assets should be considered regulated income. Staff's recommendations would result in  
17 an ultimate sharing of revenues that is more beneficial to customers than the status quo, but that  
18 also provides an incentive to NW Natural to continue its optimization activities. Staff's  
19 recommendations strike a reasonable balance and should be adopted.

20 DATED this 27<sup>th</sup> day of January 2014.

21 Respectfully submitted,  
22 ELLEN F. ROSENBLUM  
23 Attorney General  
24 /s/ Jason W. Jones  
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26 Assistant Attorney General  
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