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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' CLOSING 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' CLOSING 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 Closing Brief.

13 NWIGU's Pre-Hearing Brief and Post Hearing Brief urged the Public Utility
14 Commission of Oregon ("Commission") to take the following actions in this proceeding:
15 (1) adopt the proposal set forth by the Citizens' Utility Board of Oregon ("CUB") to
16 temporarily continue the current 20/80 sharing mechanism for revenue from NW Natural
17 Gas's ("NW Natural" or "Company") Interstate Storage Services, until such time as a
18 more-detailed cost analysis can be performed; (2) acknowledge that ratepayer assets are
19 necessary to NW Natural's Optimization activities, and increase the sharing of revenue
20 from those activities accordingly; and (3) adopt the position set forth by Commission
21 Staff ("Staff") and CUB to require all income earned from the optimization of ratepayer-
22 owned assets to be included in NW Natural's Results of Operations ("ROO") filed
23 annually with the Commission.

24 The arguments presented by NW Natural and Staff in their post-hearing briefs
25 essentially assert that the Commission should maintain the status quo with respect to the
26 two sharing mechanisms at issue in this proceeding. Those assertions, however, are

1 only a limited amount of time and conduct a cost-based analysis to identify all shared
2 facilities and resources that make the Interstate Storage Services possible. An important
3 distinction between the parties' positions is that the Company and Staff present positions
4 that rely on unquantified factors, whereas CUB and NWIGU seek a fact-based, analytical
5 approach for guiding the equitable sharing of revenue in the future.

6 The Company argues that the 80% shareholders retain is reasonable because
7 shareholders bear development and price risks associated with providing Interstate
8 Storage Service.³ Staff similarly argues that it is the risk involved that justifies keeping
9 the sharing percentages unchanged.⁴ NWIGU does not disagree that the Company's
10 shareholders bear risk from providing Interstate Storage Services. However, the presence
11 of *some* risk does not compel a conclusion that a *precise* 80% of the revenue is necessary
12 to compensate for that risk. Nor does continuing with the status quo address the very real
13 fact that shareholder risk has likely dissipated to some degree over time. What no party
14 disputes is the fact that the current 20/80 sharing mechanism exists as the result of an
15 informal agreement by the Company, Staff, and stakeholders – an agreement made before
16 NW Natural started actually providing Interstate Storage Services and before the full
17 value of those services, or the costs and risks incurred to provide those services, could be
18 known. That informal agreement no longer exists and CUB and NWIGU rightly question
19 how the Commission can quantify the various risks and benefits that are associated with
20 providing Interstate Storage Services. Until such quantification takes place, the current
21 20/80 sharing is nothing more than a guess and, NWIGU believes, insufficient for
22 ensuring that the Company's resulting rates are fair, just and reasonable.

23 Finally, NWIGU notes an inconsistency in the Company's opposition to
24 conducting any sort of cost analysis for informing how revenue ought to be shared. On

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26 ³ NW Natural's Post-Hearing Brief, 21:9.

⁴ Staff Opening Post Hearing Brief, 5:5.

1 the one hand, the Company has argued that such an analysis would actually justify the
2 Company sharing no revenue with customers. On the other hand, the Company expresses
3 concern that a cost of service model would be a “radical departure” from the original
4 framework of the sharing mechanism and would “distort the economic incentives” for
5 future investments in Mist. It is difficult to square these two points of view, because if
6 the analysis actually justified no sharing to customers, the economic incentive for
7 shareholders to invest in Mist would actually increase.

8 In summary, the analysis NWIGU supports will allow the Commission to take
9 into account the fact that business conditions have changed since NW Natural began
10 offering Interstate Storage Services. Further, the Commission needs an opportunity to
11 identify the various components of NW Natural’s system that drive the costs and
12 revenues associated with Interstate Storage Services, and to definitively identify all
13 shared facilities and resources that make Interstate Storage Services possible. These
14 analyses are the only way the Commission can be informed and determine whether the
15 split in revenue between ratepayers and shareholders is equitable.

16 B. Ratepayer Assets Used in Optimization Activities

17 NWIGU urges the Commission to revise Schedule 186 to reflect the fact that the
18 Company’s Mist Optimization activities rely primarily on the use of ratepayer-owned gas
19 that is currently allocated to Interstate Storage Services.

20 NW Natural’s Optimization activities include, but are not limited to, the sale and
21 trading of excess gas and portfolio optimization in the form of exchanges of gas
22 commodity contract purchases at different trading locations.⁵ With the apparent
23 exception of a small amount of cushion gas owned by interstate storage customers,⁶ the

24 _____
⁵ NWN/100, White/6 lines 5-9.

25 ⁶ NWIGU recognizes that the arguments in its earlier Post Hearing Brief could be read in a way to imply
26 that all gas, including the cushion gas, used in the Optimization activities is customer-owned. NWIGU
accepts the fact that some of the cushion gas required for Optimization may be owned by interstate storage
customers as described by NW Natural.

1 only gas that NW Natural has a right to use for such activities is the gas owned by its
2 utility retail ratepayers.⁷ However, the Optimization activities that rely on use of that
3 ratepayer asset are treated as if the gas is largely a non-utility asset. This allocation,
4 which is based on deliverability, results in revenue from that portion of Optimization
5 activities being shared with ratepayers using the lower 20/80 sharing split rather than the
6 higher 67/33 sharing split.

7 A dispute remains in this proceeding whether NW Natural's allocation based on
8 deliverability is a reasonable method for determining how much of the revenue from the
9 Company's Optimization activities should be shared with customers at the higher 67/33
10 split. Regardless of the allocation the Commission thinks is reasonable, the parties other
11 than the Company all agree that more sharing with customers is warranted. CUB, for
12 example, disagrees with the Company's reliance on deliverability and argues that the role
13 of deliverability is unclear⁸ and merely the allocation that is most favorable to
14 shareholders.⁹ CUB, too, points out that only core customer gas can be used for
15 optimization¹⁰ and, therefore, that customers should receive much greater sharing in the
16 revenue from those activities. Even Staff, which argues that the actual sharing
17 percentages should remain unchanged, does so in part because of its other
18 recommendation that adding Optimization revenue to the Company's ROO will likely
19 result in increased sharing with customers¹¹ and is therefore a middle ground between the
20 positions of NW Natural and CUB.¹²

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

25 ⁸ CUB's First Post-Hearing Brief, 8:13.

26 ⁹ CUB's First Post-Hearing Brief, 10:10.

¹⁰ CUB's First Post-Hearing Brief, 15:12

¹¹ Staff Opening Post Hearing Brief, 5:20.

¹² Staff Opening Post Hearing Brief, 5:22.

1 The primary consideration for the Commission regarding the sharing of
2 Optimization revenue should be the fact that without the physical gas that belongs to
3 customers, there would be no optimization activities. Because NW Natural’s Mist
4 Optimization activities rely so heavily on a ratepayer asset (the physical gas), Schedule
5 186 should be revised to acknowledge the value ratepayers have provided to those
6 activities and revenue from those activities should therefore be shared with ratepayers at
7 a higher percentage than Schedule 186 currently provides.

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

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

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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 increase the sharing of revenue from those activities to customers accordingly; and (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 7th day of August 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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