



1 used as the basis for rate design. Thus, a cost of service study is not appropriate as a means for  
2 justifying sharing percentages for revenue – cost of service is based on cost causation, not  
3 revenue sharing. Staff was unable to identify a study that would be useful in determining sharing  
4 percentages based upon risk.

5 Second, the perspective that Mist Optimization relies only on the use of core  
6 customer-owned gas is incorrect.<sup>2</sup> Mist Optimization is not an activity primarily involving the  
7 trading of physical gas.<sup>3</sup> Rather, physical gas (core customer-owned gas) is a backstop (*i.e.*  
8 collateral, margin, security) for many financial transactions (leverage).

9 In addition to these two primary arguments, Staff offers the following brief comments:

- 10 • CUB recommends conduct of the study Staff Zimmerman presented in UG  
11 221 as though it was intended to address the sharing percentage.<sup>4</sup> The  
12 study recommendation by Zimmerman was a study of operations and  
13 financing to confirm whether the correct amount for Mist is in rate base –  
14 not to address the sharing percentage.<sup>5</sup>
- 15 • There is an implication that NW Natural has just recently begun to justify  
16 its core customer/shareholder revenue split upon deliverability.<sup>6</sup> Staff has  
17 understood from the beginning of this docket that this is the basis. In  
18 addition, CUB has known this to be the case from the beginning of the  
19 docket as evidenced by its discussion at CUB/100 Jenks-McGovern/13.
- 20 • CUB argues the concept that core customer recall of Mist capacity results  
21 in receipt of a reduced life-expectancy asset.<sup>7</sup> This concept is justified by  
22 citing to Advice 14-7 page 2 Rate Schedule 90, last paragraph. Advice  
23 14-7 page 2 Rate Schedule 90, last paragraph, discusses the length of a  
24 proposed agreement between NW Natural and Portland General Electric  
25 for no-notice storage service. In this cite there is no reference to, or  
26 inference about, the expected life of the storage facility asset.
- CUB identified use of core customer gas to operate the Mist facility  
compressors for non-core customer gas activities.<sup>8</sup> Staff disagrees. Rate  
Schedule 80 Firm Storage Service includes a 2.5 percent fuel-in-kind

<sup>2</sup> See Staff/200; Colville/10-11.

<sup>3</sup> NW Natural's Supplemental Response to June 3 Bench Request 1, at 10, discusses that Mist Storage Optimization is primarily a financial transaction, while acknowledging the possibility that physical gas may need to be traded to cover a transaction. It is this recognition of a physical gas trade that drives the Staff/200; Colville/12 recommendation and Staff Post-Hearing Brief recommendation at 9, lines 9-18.

<sup>4</sup> See CUB Post-hearing Opening brief at 2, lines 14-18.

<sup>5</sup> See Staff/1000 Zimmerman/8 line 10-12 line 19.

<sup>6</sup> See CUB Post-Hearing Opening Brief at 11, line 13.

<sup>7</sup> See *Id.* at 16, lines 9-16.

<sup>8</sup> See *Id.* at 18, lines 5-7.

1 charge for these non-core customers' use of the Mist facility compressors.  
2 Thus non-core customer owned gas is used to operate the Mist facility  
3 compressors for those non-core customer gas activities.

- 4 • CUB offers a newer argument focused on accounting for use of shared  
5 core NW Natural staff for the optimization activities.<sup>9</sup> As noted in Staff's  
6 post-hearing brief on Page 9, lines 3-5, Staff also is concerned with NW  
7 Natural's staff cost allocations between basic local distribution company  
8 expectations and the optimization activities. However, core NW Natural  
9 staff cost accounting is not a significant driver in the matter of whether or  
10 not the sharing percentages are reasonable and shared core NW Natural staff  
11 cost allocation concerns are not justification for altering the program sharing  
12 percentages. Instead, core NW Natural staff cost accounting is a rate case  
13 matter to verify that costs are properly allocated.

14 Finally, NW Natural argues that it does not have the burden of proof in this proceeding.<sup>10</sup>

15 These issues were contested case issues in NW Natural's last rate case, Docket No. UG 221. The  
16 parties entered into a second partial stipulation that, amongst other things, carved out this issue  
17 for decision in a new docket. Staff does not view this docket as an investigation into NW  
18 Natural's Schedule 185 and 186. Rather, this docket was created by Commission order adopting  
19 the second partial stipulation. As a result, NW Natural retains the burden of proof to  
20 demonstrate the schedules at issue in the rate proceeding are just and reasonable. If the burden  
21 of proof were to switch from NW Natural to the other parties, it would be a disincentive in future  
22 settlements. Based upon the procedural history of these issues, NW Natural should bear the  
23 burden of proof in this proceeding.

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<sup>9</sup> See *Id.* at 22, line 11.

<sup>10</sup> See NW Natural Post-hearing Brief at 24.

1 **III. CONCLUSION**

2 For the foregoing reasons, Staff respectfully requests that the Commission adopt Staff's  
3 recommendation in this proceeding.

4 DATED this 17<sup>th</sup> day of August 2014.

5 Respectfully submitted,

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1 **CERTIFICATE OF SERVICE**

2 I certify that on August 7, 2014, I served the foregoing Staff Post-Hearing Closing Brief  
3 upon all parties of record in this proceeding by delivering a copy by electronic mail only as all  
4 parties waive paper service.

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