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VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97302-1088

Re: Docket UM 1654 – In the Matter of Northwest Natural Gas Company - Investigation of Interstate Storage and Optimization Sharing

Attention Filing Center:

Enclosed for filing in the above-referenced docket is an original and five copies of Northwest Natural Gas Company's **Redacted** Closing Brief. The Confidential pages will be mailed via U.S. Mail.

A copy of this filing has been served on all parties to this proceeding as indicated on the enclosed Certificate of Service.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo

Wendy McIndoo
Office Manager

Enclosure

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1654

In the Matter of NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL, Investigation of Interstate Storage and Optimization Sharing.	**NORTHWEST NATURAL GAS COMPANY'S CLOSING BRIEF**

I. INTRODUCTION

The Commission should affirm the reasonableness of the current sharing arrangements applicable to Northwest Natural Gas Company's ("NW Natural" or "Company") Mist storage services ("Storage Services") and resource optimization activities ("Optimization Activities"). No party has presented persuasive evidence that the current framework is unreasonable or produces rates that are unjust or unfair. On the contrary, the Company and Staff have developed a robust evidentiary record supporting the current arrangement.

In the course of this docket, the Company has provided detailed information—through written testimony, responses to numerous data and bench requests, and oral testimony at hearing—of the nature of its Storage Services as well as its Optimization Activities. This evidence has demonstrated that:

(1) Optimization Activities are above and beyond what is normally expected of a local distribution company ("LDC") and that the Company's efforts have resulted in significant customer benefits;

(2) The sharing percentages currently in place for Optimization Activities are consistent with the approach taken by other regulators for similar LDC activities

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and have produced results that exceed those that could reasonably be expected with a significantly smaller incentive;

(3) The Company's revenues from Optimization Activities should not be included in regulated utility earnings reports; and

(4) The sharing percentages for Storage Services are rational and appropriate, and further that a marginal cost study such as that proposed by the Citizens' Utility Board of Oregon ("CUB") would not assist the Public Utility Commission of Oregon ("Commission") in further evaluating the present arrangement.

Taken as a whole, the record in this docket provides substantial evidence supporting the current sharing arrangement, making clear that the framework has worked well in the past and will continue to work well into the future.

NW Natural believes that the record in this case is complete and should allow the Commission to resolve all issues raised. This brief will not repeat the arguments made in the Company's opening Post-Hearing Brief and will focus only on those few issues raised in the other parties' opening briefs that require additional response.

II. ARGUMENT

A. The Sharing Percentages Applied to Mist Optimization Activity Revenues Must Account for the Discretionary Shareholder Investments to Expand Mist.

Unlike the Company's other Optimization Activities, Mist optimization relies on shareholder-funded assets that are not included in core customer rates. In consideration of this fact, Mist Optimization Activity revenue is treated differently than the Company's other Optimization Activity revenue; a portion of the Mist Optimization Activity revenues is shared at the same 20/80 percentage as the Storage Services revenue. Currently, 53 percent of Mist Optimization Activity revenues are shared at 67/33 and 47 percent are shared at 20/80. The current 53/47 ratio is based on the deliverability provided by

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all of the assets at Mist. Shareholders pay for 47 percent of Mist's deliverability and therefore 47 percent of Mist's Optimization Activity revenues is shared 20/80.

A fundamental dispute in this case is whether the Company's share of Mist Optimization Activity revenues should account for the fact that these activities rely on assets and facilities that shareholders have funded to provide Storage Services. The Company and Staff believe that they should, while CUB believes they should not. CUB's view is that the only asset being optimized is core customer gas and therefore the shareholders' expansion of Mist is irrelevant. Accordingly, CUB recommends that Mist Optimization Activity revenue be shared based on the same percentages that CUB recommends should apply to all other Optimization Activity revenue, or 90/10. In other words, rather than a 53/47 ratio, CUB recommends a 100/0 ratio. CUB's argument is undercut by the clear evidence demonstrating that the level of revenues from Mist Optimization Activity is driven by capacity *and* deliverability. The level of authorized optimization transactions are defined by the [redacted] of capacity and deliverability. Therefore, shareholder funds to expand capacity and deliverability must be taken into account when establishing the sharing percentages.

1. CUB's Claim that Mist Optimization Activity Relies on Only Core Customer Gas is Incorrect.

In support of its proposed 100/0 split, CUB argues that, "[r]egardless of NWN's assertions, it is not deliverability that is essential to the functioning of the optimization program, and it is not capacity that is essential to the functioning of the optimization program."[1] According to CUB, "it is core customer owned working gas used for actual optimization that is essential to the functioning of the optimization program . . ."[2] On its

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[1] Citizens' Utility Board of Oregon's First Post-hearing Brief at 14.

[2] Citizens' Utility Board of Oregon's First Post-hearing Brief at 14.

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face, this argument makes little sense. If there is no capacity to store gas at Mist, or no ability to deliver gas stored at Mist, then gas at Mist cannot be used to backstop the Company's Optimization Activities. Thus, gas, capacity, and deliverability are all essential to the provision of Mist Optimization Activities. Indeed, Staff analyzed the Company's evidence and agreed that "shareholder investment in Mist is a key driver to the ability to create revenue for customers and shareholders from underutilized or unutilized assets."[3] Therefore, CUB's recommendation to ignore capacity and deliverability—and the shareholder-funded assets that expanded capacity and deliverability—is entirely unreasonable.

2. 20/80 Sharing is Reasonable for Mist Optimization Activities that Rely on Shareholder-Funded Assets.

Due to the reliance on Mist expansion that was funded by shareholders, the Storage Services net revenue is shared 20/80.[4] It is reasonable to apply the same 20/80 sharing percentage to Mist Optimization Activity revenues resulting from the optimization of those same shareholder-funded assets. In both cases, the basis for the sharing percentages is the undisputed fact that shareholders have invested to expand Mist's capacity and deliverability, and therefore should be allowed to retain reasonable compensation for their investment.

3. Deliverability is a Reasonable Basis for Establishing the 53/47 Ratio.

As the Company has explained, deliverability is a significant factor in determining the extent of the Company's Mist Optimization Activities and deliverability is also the basis for making capacity recall decisions in the Company's Integrated Resource Plan.[5] In addition,

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[3] Staff Opening Post Hearing Brief at 7.

[4] NWN/100, White/10.

[5] Tr. 35-36 (White).

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Staff points out that using deliverability to establish the 53/47 sharing ratio is reasonable because the "primary purpose of Mist Storage is as a peaking resource" and the "primary attribute of a peaking resource is deliverability."[6]

Based on the Company's response to Bench Request 2, CUB argues that "using deliverability as the basis of assigning the revenue between core and non-core customers shortchanges core customers."[7] [redacted]

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[6] Staff Opening Post Hearing Brief at 8.

[7] Citizens' Utility Board of Oregon's First Post-hearing Brief at 15.

[redacted]

[8] CUB's reliance on the total revenues over this time period is also problematic because the ratio of total deliverability to the deliverability included in customer rates changed as Mist storage was recalled for core customers. In other words, as the Company has described, the 53/47 ratio is not static and changes as Mist is recalled. However, examining the revenues on a year-by-year basis results in the same conclusions. For example, [redacted]

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[redacted] Therefore, it is incorrect to state that customers are "shortchanged" when deliverability is used to determine the 53/47 ratio.

As the Company argued in its Post-Hearing Brief, deliverability is one of several reasonable bases for determining the appropriate allocation of Mist Optimization Revenues between the 67/33 and 20/80 sharing. However, what is clear is that it is entirely unreasonable to simply ignore the increased Mist Optimization Activity resulting from shareholder's Storage Services investment, as CUB recommends.

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[9] NWN/301, White/3.

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B. The Current 67/33 Optimization Activity Net Revenue Sharing is Reasonable.

CUB argues that NW Natural does not require a "large incentive" to continue to engage in Optimization Activities.[10] CUB claims that NW Natural's long experience optimizing its resources, coupled with Tenaska's assumption of much of the risk, supports its proposed reduction in Optimization Activity revenue sharing from 67/33 to 90/10.[11] CUB's argument ignores several important aspects of the Optimization Activities that support the current sharing arrangement.

First, CUB discounts the risks that the Company assumes to engage in Optimization Activities. CUB is correct that the Company has successfully insulated *customers* from nearly all risk and has largely mitigated shareholders trading risk through its agreement with Tenaska.[12] However, shareholders continue to assume risk associated with FERC compliance, which is not insignificant.[13]

Second, the current incentive is in-line with most of the relevant sharing arrangements approved by other regulators for similar optimization programs.[14]

Third, and most importantly, the current sharing arrangement provides sufficient incentive to the Company to assume risk and devote the necessary resources to maximizing the Optimization Activity revenues. [redacted]

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[10] Citizens' Utility Board of Oregon's First Post-hearing Brief at 27. It is unclear whether CUB's argument applies to only the Mist Optimization Activity or all of the Optimization Activities. In either case, the same rebuttal arguments apply.

[11] Citizens' Utility Board of Oregon's First Post-hearing Brief at 27-30.

[12] NWN/100, White/14.

[13] NWN/300, White/19.

[14] Northwest Natural Gas Company's Post-Hearing Brief at 10-11.

[redacted][15]

C. **The Optimization Activity Revenue should not be Subject to Additional Sharing through the Spring Earnings Review.**

Staff, CUB, and NWIGU all recommend that Optimization Activity revenue be subject to the Company's Spring Earnings Review.[16] The Commission should reject this recommendation and affirm that the Spring Earnings Review should examine earnings only from the provision of utility service.

Staff and CUB claim that the earnings from Optimization Activities rely on utility assets and therefore must be included in utility earnings for the purposes of performing an earnings review. This argument, however, misses the point. The annual results of operations (ROO) produced each year by the utilities is intended as a report of the Company's earnings from utility services.[17] As Staff recognizes, the Optimization Activities are above and beyond the normal expectations for an LDC.[18] Therefore, the revenues from these activities are appropriately excluded from an earnings review that is intended to examine the utility's earnings resulting from the provision of utility service.

More importantly, including revenues from Optimization Activities in utility earnings for the purposes of earnings review will significantly mute the incentives provided by the sharing percentages. Staff has recognized that the current Optimization Activities sharing arrangement provides the Company with a powerful incentive to go "above and beyond"

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[15] NW Natural Hearing Exhibit 10 at 2-6.

[16] Staff Opening Post Hearing Brief at 3; CUB/100 Jenks-McGovern/29; NWIGU's Post-Hearing Brief at 7.

[17] Order No. 99-272 at 20 (for purposes of PGA earnings review, the Commission "concluded that there are certain items relating to non-utility operations and prior reporting periods that should be excluded from the utility's results of operations.").

[18] Staff Opening Post Hearing Brief at 5.

the level of optimization performed by other LDCs.[19] On the other hand, Staff recommends that to the extent these sharing revenues be included in the Spring Earnings Review, which will require the Company to forfeit a portion of the revenues that exceed the earnings review threshold. Staff has not supported why there need be a double-sharing to customers, which would effectively reduce the Company's actual retained incentive below the "posted" 33 percent. This recommendation will serve only to undermine the very incentive that Staff has conceded is so important.

Including total Optimization Activities income in ROO as proposed by Staff would create an inconsistent treatment of non-utility activities. The income from Mist Optimization allocated to Interstate capacity (47 percent currently) would be included in the numerator, but the associated shareholder investment would be excluded from the denominator.

D. A Traditional Cost of Service Study will Provide No Insight into Appropriate Storage Services Sharing Percentages.

NW Natural demonstrated that a traditional cost study, such as the one recommended by CUB, is the wrong tool to determine the appropriate sharing percentages for the Storage Services.[20] The Company believes that through this docket it has produced all information needed to determine that the current Storage Services sharing is, if anything, generous to its customers, and that further study will not yield any additional relevant information. However, if the Commission believes that additional study is necessary, the Company will work with the parties to develop an approach suited to the unique circumstances of the Storage Services.

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[19] Staff Opening Post Hearing Brief at 5.

[20] NWN/300, White/4-13; Tr. 99-119 (White).

E. The Company has Attempted to be as Forthcoming as Possible Throughout this Process.

CUB's Post-Hearing Brief asserts that NW Natural has been misleading, has not fully disclosed the relevant facts, and has shifted positions throughout this docket. These are serious allegations, and are unfair and incorrect.[21] The issues presented in this case are complicated and the Company has, at times, struggled with how best to explain the optimization transactions that have evolved and grown in complexity over a period of more than a decade and how best to respond to requests for various analyses and modeling. To the extent that the evidence presented has been less than clear, it is due to the complexity of the materials and not an underlying desire by the Company to obfuscate the facts.

On the contrary, throughout this case the Company has attempted to be as forthcoming as possible. To that end, the Company filed three rounds of testimony, including supplemental testimony specifically requested by the Commission to more fully develop the record. In addition, the Company has now participated in two hearings and responded to over 100 data requests. Indeed, since the first hearing the Company responded to 74 data requests from CUB. Accounting for those that were multi-part, NW Natural responded to a total of 145 questions. Including exhibits, NW Natural's responses to CUB's data requests constituted 310 pages. The Company has also responded to several bench requests from the Commission.[22] In total, the Company's contribution to

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[21] For example, CUB claims that the when the Company described how revenues are shared between NW Natural, Tenaska, and customers, it misled the Commission by describing how only Optimization Activity revenues are shared, not Mist Optimization Activity revenues, which are subject to the additional 53/47 allocation. But the quotation CUB claims is misleading was describing NW Natural Hearing Exhibit 7, which clearly and unequivocally illustrates the sharing percentages for Storage Services, Optimization Activities, and Mist Optimization Activities. There was simply nothing misleading about the Company's description.

[22] The Company's efforts actually go back more than a year, prior to formal initiation of this docket, when the Company described its Storage Services and Optimization Activities at length during a May 2013 workshop arranged by Staff that also included CUB and NWIGU.

the record in this case has been substantial and the Company has always endeavored to be as clear and transparent as possible.[23]

III. CONCLUSION

The current sharing percentages applied to Optimization Activities and Storage Services provide the Company with a meaningful incentive to focus its efforts on creating the greatest value from existing resources. In this fashion, the Commission has aligned customer and shareholder interests, driving the Company to "make the pie bigger" to the benefit of all. Now, in an attempt to increase the customer "slice," CUB's sharing proposal—and the earnings review proposal of both CUB and Staff—threatens to undermine the framework that has worked so well for the last 14 years. The Commission should resist these proposals and should affirm the continued use of the Company's current sharing percentages and the exclusion of Optimization Activity net revenues from the Company's future earnings reviews.

Respectfully submitted this 7th day of August, 2014.

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[23] It is true that the Company has objected to CUB's request that the Company perform a marginal cost study regarding its storage assets—but this is only because it believes that the results would not be helpful.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in UM 1654 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

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