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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
Office Manager

Enclosure

cc: Service List

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UM 1654**

4
5 In the Matter of
6 NORTHWEST NATURAL GAS
7 COMPANY, dba NW NATURAL,
8 Investigation of Interstate Storage and
9 Optimization Sharing.

**NORTHWEST NATURAL GAS
COMPANY'S CLOSING BRIEF**

10 **I. INTRODUCTION**

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

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

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

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

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

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

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

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

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

16 II. ARGUMENT

17 A. The Sharing Percentages Applied to Mist Optimization Activity Revenues Must 18 Account for the Discretionary Shareholder Investments to Expand Mist.

19 Unlike the Company's other Optimization Activities, Mist optimization relies on
20 shareholder-funded assets that are not included in core customer rates. In consideration
21 of this fact, Mist Optimization Activity revenue is treated differently than the Company's
22 other Optimization Activity revenue; a portion of the Mist Optimization Activity revenues is
23 shared at the same 20/80 percentage as the Storage Services revenue. Currently, 53
24 percent of Mist Optimization Activity revenues are shared at 67/33 and 47 percent are
25 shared at 20/80. The current 53/47 ratio is based on the deliverability provided by
26

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

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

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

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

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

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

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

10 **2. 20/80 Sharing is Reasonable for Mist Optimization Activities that Rely**
11 **on Shareholder-Funded Assets.**

12 Due to the reliance on Mist expansion that was funded by shareholders, the Storage
13 Services net revenue is shared 20/80.⁴ It is reasonable to apply the same 20/80 sharing
14 percentage to Mist Optimization Activity revenues resulting from the optimization of those
15 same shareholder-funded assets. In both cases, the basis for the sharing percentages is
16 the undisputed fact that shareholders have invested to expand Mist's capacity and
17 deliverability, and therefore should be allowed to retain reasonable compensation for their
18 investment.

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

20 As the Company has explained, deliverability is a significant factor in determining the
21 extent of the Company's Mist Optimization Activities and deliverability is also the basis for
22 making capacity recall decisions in the Company's Integrated Resource Plan.⁵ In addition,
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24 ³ Staff Opening Post Hearing Brief at 7.

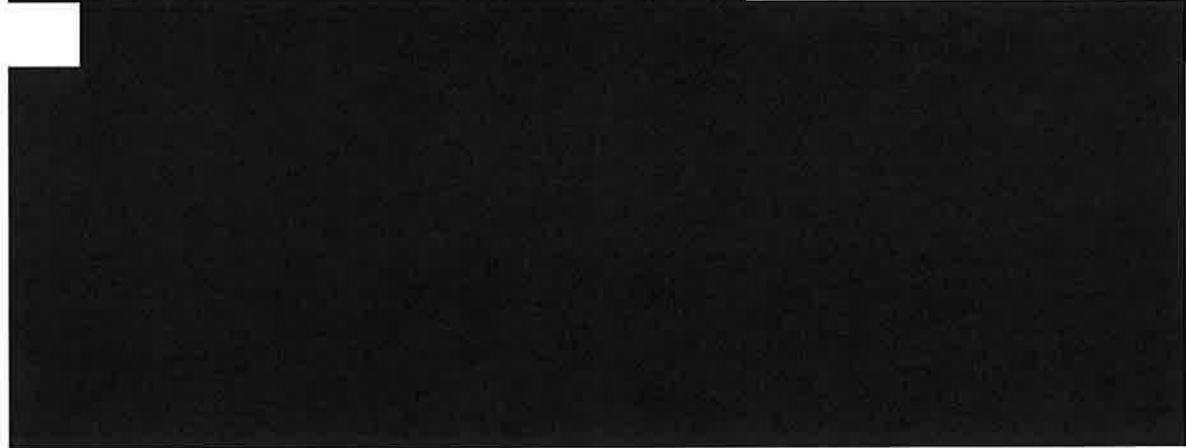
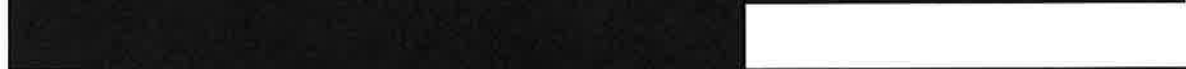
25 ⁴ NWN/100, White/10.

26 ⁵ Tr. 35-36 (White).

1 Staff points out that using deliverability to establish the 53/47 sharing ratio is reasonable
2 because the “primary purpose of Mist Storage is as a peaking resource” and the “primary
3 attribute of a peaking resource is deliverability.”⁶

4 Based on the Company’s response to Bench Request 2, CUB argues that “using
5 deliverability as the basis of assigning the revenue between core and non-core customers
6 shortchanges core customers.”⁷

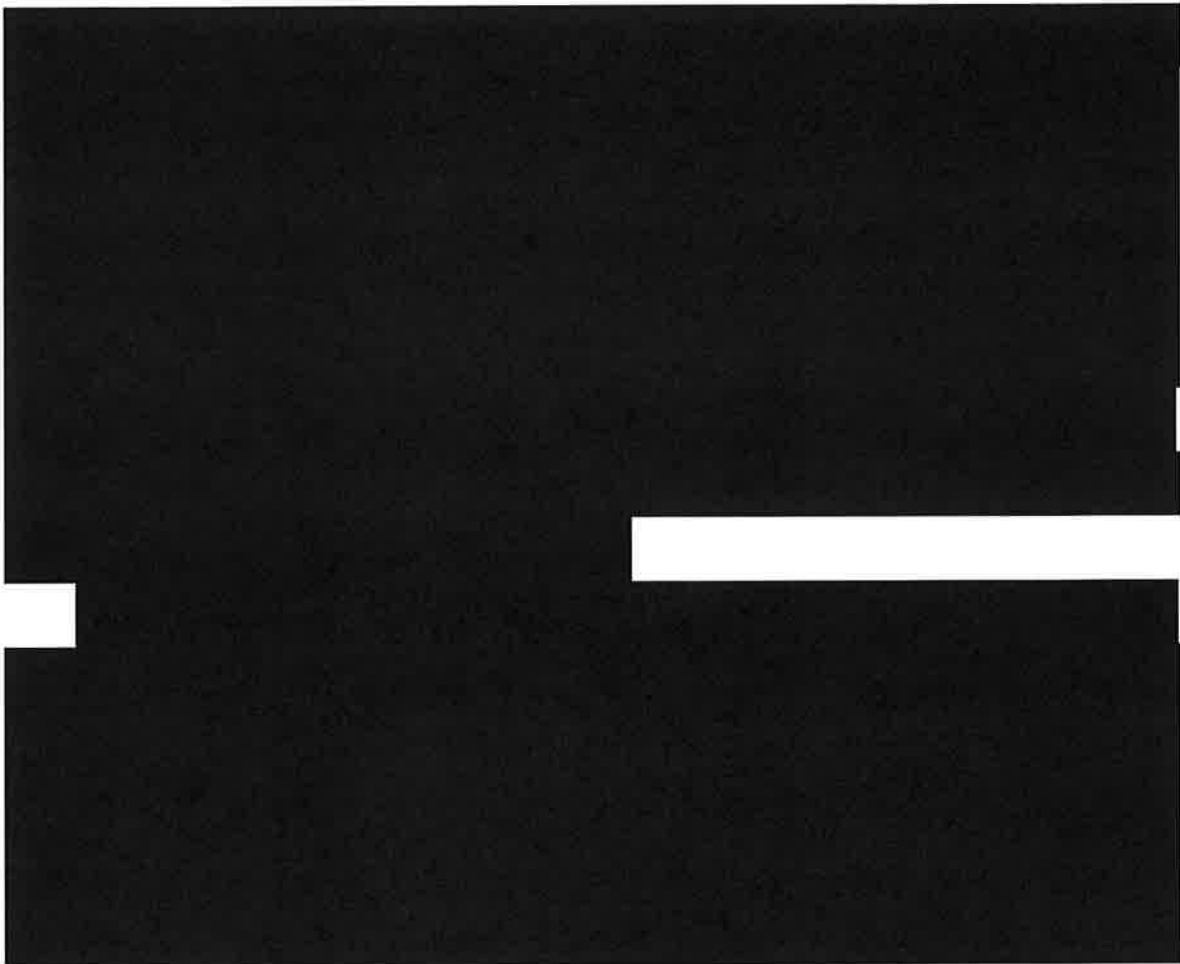
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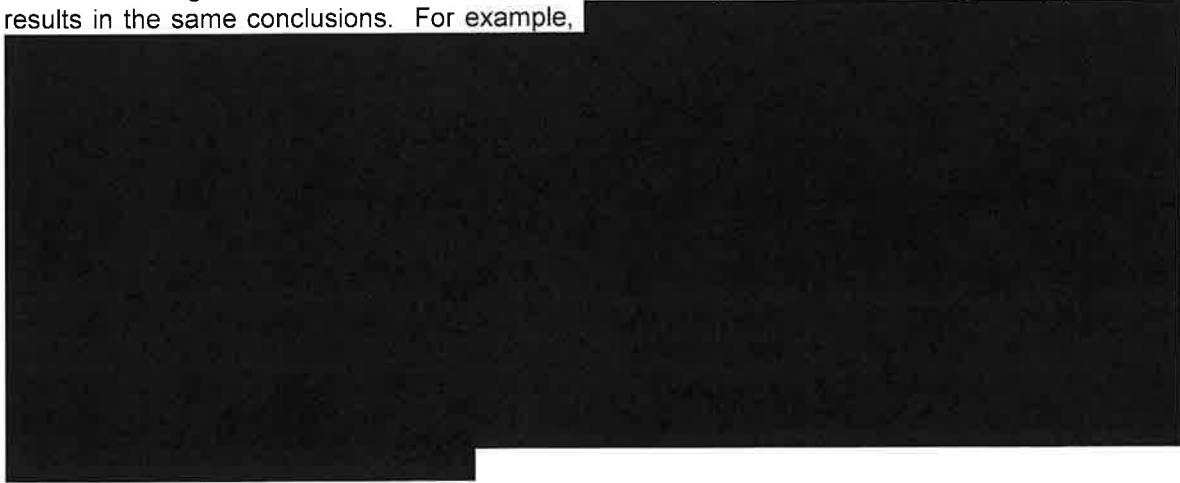
25 ⁶ Staff Opening Post Hearing Brief at 8.

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

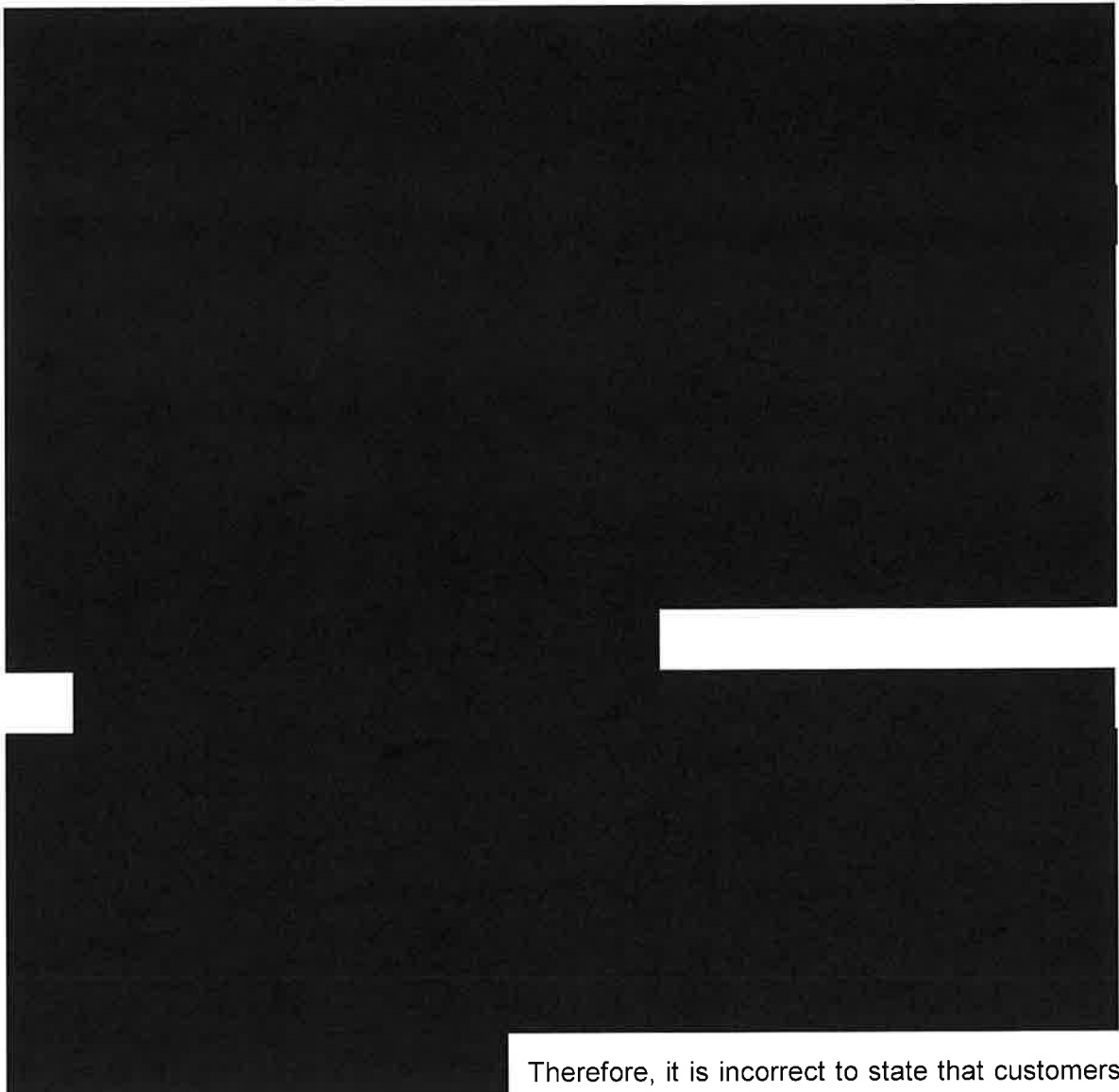
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⁸ CUB's reliance on the total revenues over this time period is also problematic because the ratio of total deliverability to the deliverability included in customer rates changed as Mist storage was recalled for core customers. In other words, as 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,



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19 Therefore, it is incorrect to state that customers
20 are “shortchanged” when deliverability is used to determine the 53/47 ratio.

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

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⁹ NWN/301, White/3.

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

2 CUB argues that NW Natural does not require a “large incentive” to continue to
3 engage in Optimization Activities.¹⁰ CUB claims that NW Natural’s long experience
4 optimizing its resources, coupled with Tenaska’s assumption of much of the risk, supports
5 its proposed reduction in Optimization Activity revenue sharing from 67/33 to 90/10.¹¹
6 CUB’s argument ignores several important aspects of the Optimization Activities that
7 support the current sharing arrangement.

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

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

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

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

24 ¹¹ Citizens’ Utility Board of Oregon’s First Post-hearing Brief at 27-30.

25 ¹² NWN/100, White/14.

26 ¹³ NWN/300, White/19.

¹⁴ Northwest Natural Gas Company’s Post-Hearing Brief at 10-11.

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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”

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.

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

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

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

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

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25 ¹⁹ Staff Opening Post Hearing Brief at 5.

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

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

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

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

21 ²¹ For example, CUB claims that the when the Company described how revenues are shared
22 between NW Natural, Tenaska, and customers, it misled the Commission by describing how only
23 Optimization Activity revenues are shared, not Mist Optimization Activity revenues, which are
24 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.

25 ²² The Company's efforts actually go back more than a year, prior to formal initiation of this docket,
26 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.

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

3 **III. CONCLUSION**

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

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15 Respectfully submitted this 7th day of August, 2014.

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MCDOWELL RACKNER & GIBSON PC

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25 ²³ It is true that the Company has objected to CUB’s request that the Company perform a marginal
26 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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