

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

3 UM 1635

4 In the Matter of

5 NORTHWEST NATURAL GAS COMPANY,  
6 dba NW NATURAL  
7 Mechanism for Recovery of Environmental  
Remediation Costs.

STAFF'S POST-HEARING BRIEF

8 **I. INTRODUCTION**

9 On July 2, 2014, the parties filed prehearing briefs in this proceeding. On July 15, 2014,  
10 the Public Utility Commission of Oregon (Commission) issued a notice that the hearing in this  
11 matter scheduled for July 23-24<sup>th</sup> was cancelled. Therefore, the facts and arguments have not  
12 changed since the filing of prehearing briefs. Instead of repeating the same arguments made in  
13 its prehearing brief, the Public Utility Commission of Oregon Staff (Staff) takes this opportunity  
14 to briefly summarize its previous recommendations.

15 **II. DISCUSSION**

16 1. Intergenerational Equity.

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- 18 • Staff begins with the principle that the total of environmental remediation  
19 insurance proceeds should be allocated fairly across the period and costs of  
expected environmental remediation requirements.
  - 20 • In order to implement this principle, Staff's primary recommendation is to  
21 allocate insurance proceeds roughly proportional to the time periods when  
they occur, which results in \$50.167 million allocated to the past period and  
22 \$100.333 million allocated to the future period.
  - 23 • Staff offers an alternative recommendation on the allocation of insurance  
24 proceeds based upon the amount of expenses incurred in the past period and  
a NW Natural-estimated high-end total of expected expenses for a future  
25 period, which results in \$30.1 million allocated to the past period and  
\$120.4 million allocated to a future period.
  - 26 • Staff's proposed allocation of insurance proceeds "within" the past and  
future periods is appropriate based upon the information currently known.

1 Apportioning the allocation of insurance proceeds equally to the past period  
2 did not result in a fair apportionment of insurance proceeds and it had no  
3 relationship to when costs were incurred. Therefore, Staff recommends that  
4 the allocated insurance proceeds be apportioned in the past period by year  
5 based upon the amount of expenses incurred each year.

- 6 • Staff’s recommendations on insurance allocations provide a reasonable  
7 range for the allocation of insurance proceeds that are fair and reasonable  
8 based upon intergenerational equity.

9 2. The earnings test for the deferred costs.

- 10 • Staff begins with the principle that the purpose of an earnings test when  
11 there is a deferred account balance is to determine whether the utility could  
12 absorb the deferred expenses during the representative period in which they  
13 were incurred.
- 14 • Staff’s principle is based upon the fact that deferred accounting is a  
15 statutorily-created limited exception to the prohibition of retroactive  
16 ratemaking for exceptional costs or revenues. However, the deferred  
17 accounting statute includes a requirement that deferred accounts are subject  
18 to an earnings review, which Staff understands is for the purpose of  
19 retaining the concept that ratemaking is holistic and based upon a  
20 reasonable “end result.” As a result, the use of deferred accounting for  
21 exceptional costs should not be used to guarantee a utility’s authorized rate  
22 or return, or allow it to retain over-earnings.
- 23 • Staff’s primary recommendation is that the earnings test in this proceeding  
24 be established at 50 basis points below authorized return on equity (ROE).  
25 To provide the Commission with more information, Staff also provided the  
26 results for earnings test at 100 basis points below ROE, at authorized ROE,  
and 50 and 100 basis points above authorized ROE:

1  
2 **Table 1. Excluding WACOG and Optimization<sup>1</sup>**

3 4	<b>BPs from AROE</b>	<b>Years over Threshold</b>		<b>Final Cost</b>	<b>Sharing %</b>	<b>Avg. of Annual ROEs</b>
5	<b>100</b>	2009	Company	\$115	0.26%	10.12%
6			Customers	\$44,037	99.74%	
7	<b>50</b>	2009, 2010, 2011	Company	\$11,271	25.53%	9.89%
8			Customers	\$32,881	74.47%	
9	<b>0</b>	2006, 2009, 2010, 2011	Company	\$19,116	43.30%	9.72%
10			Customers	\$25,036	56.70%	
11	<b>-50</b>	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$31,335	70.97%	9.48%
12			Customers	\$12,817	29.03%	
13	<b>-100</b>	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$41,002	92.87%	9.28%
14			Customers	\$3,150	7.13%	

- Staff also provided the same results after inclusion of NW Natural's share of net Weighted Adjusted Cost of Gas (WACOG) revenues:

15 **Table 2. Including WACOG and Excluding Optimization<sup>2</sup>**

16 17	<b>BPs from AROE</b>	<b>Years over Threshold</b>		<b>Final Cost</b>	<b>Sharing %</b>	<b>Avg. of Annual ROEs</b>
18	<b>100</b>	2006, 2007, 2009, 2010, 2011	Company	\$12,114	27.44%	10.40%
19			Customers	\$32,039	72.56%	
20	<b>50</b>	2006, 2007, 2009, 2010, 2011	Company	\$22,215	50.31%	10.18%
21			Customers	\$21,938	49.69%	
22	<b>0</b>	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$28,124	63.70%	10.06%
23			Customers	\$16,028	36.30%	
24	<b>-50</b>	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$35,841	81.18%	9.90%
25			Customers	\$8,311	18.82%	
26	<b>-100</b>	2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$39,846	90.25%	9.82%
27			Customers	\$4,306	9.75%	

- Staff also provided the same results after the inclusion of WACOG and 90 percent of AMA Optimization revenues:

<sup>1</sup> See Exhibit Staff/201, Bahr/1.

<sup>2</sup> See Id.

Table 3. Including WACOG and Optimization<sup>3</sup>

BPs from AROE	Years over Threshold		Final Cost	Sharing %	Avg. of Annual ROEs
100	2006, 2007, 2009, 2010, 2011	Company	\$21,489	48.67%	10.51%
		Customers	\$22,664	51.33%	
50	2006, 2007, 2009, 2010, 2011, 2012	Company	\$26,218	59.38%	10.41%
		Customers	\$17,935	40.62%	
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$32,306	73.17%	10.29%
		Customers	\$11,846	26.83%	
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$38,662	87.56%	10.16%
		Customers	\$5,491	12.44%	
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$42,128	95.41%	10.09%
		Customers	\$2,024	4.59%	

- Staff also provided an alternative recommendation for the application of an earnings test and apportionment of insurance proceeds to the past period. Under this approach, the insurance proceeds allocated to the past period are apportioned after, not before, the earnings test is performed. After the earnings test is performed, without first applying the apportioned insurance proceeds, the apportioned insurance proceeds would then be allocated between customers and NW Natural based upon the cumulative sharing percentage determined by the earnings test. The results of this approach are as follows:

Table 4. Excluding WACOG and Optimization<sup>4</sup>

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2009	Company	\$115	0.12%	\$61	\$54
		Customers	\$94,204	99.88%	\$50,106	\$44,099
50	2009, 2010, 2011	Company	\$11,271	11.95%	\$5,995	\$5,276
		Customers	\$83,048	88.05%	\$44,172	\$38,876
0	2006, 2009, 2010, 2011	Company	\$24,180	25.64%	\$12,861	\$11,319
		Customers	\$70,139	74.36%	\$37,306	\$32,833
-50	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$47,314	50.16%	\$25,165	\$22,148
		Customers	\$47,006	49.84%	\$25,002	\$22,004
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$74,527	79.02%	\$39,640	\$34,887
		Customers	\$19,793	20.98%	\$10,527	\$9,265

<sup>3</sup> See Id.

<sup>4</sup> See Exhibit Staff/201, Bahr/2.

- Staff also provides the same results after inclusion of NW Natural’s share of net WACOG revenues:

**Table 5. Including WACOG and Excluding Optimization<sup>5</sup>**

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2006, 2007, 2009, 2010, 2011	Company	\$18,670	19.79%	\$9,930	\$8,740
		Customers	\$75,650	80.21%	\$40,237	\$35,413
50	2006, 2007, 2009, 2010, 2011	Company	\$33,935	35.98%	\$18,050	\$15,886
		Customers	\$60,384	64.02%	\$32,117	\$28,267
0	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$46,108	48.88%	\$24,524	\$21,584
		Customers	\$48,212	51.12%	\$25,643	\$22,569
-50	2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$61,974	65.71%	\$32,963	\$29,011
		Customers	\$32,345	34.29%	\$17,204	\$15,141
-100	2004, 2005, 2006, 2007, 2009, 2010, 2011, 2012	Company	\$75,476	80.02%	\$40,144	\$35,331
		Customers	\$18,844	19.98%	\$10,023	\$8,821

- Staff also provides the same results after inclusion of WACOG and 90 percent of AMA Optimization revenues:

**Table 6. Excluding WACOG and Optimization<sup>6</sup>**

BPs from AROE	Years over Threshold		Cost before Insurance	Sharing %	Insurance Proceeds	Final Cost
100	2009	Company	\$115	0.12%	\$61	\$54
		Customers	\$94,204	99.88%	\$50,106	\$44,099
50	2009, 2010, 2011	Company	\$11,271	11.95%	\$5,995	\$5,276
		Customers	\$83,048	88.05%	\$44,172	\$38,876
0	2006, 2009, 2010, 2011	Company	\$24,180	25.64%	\$12,861	\$11,319
		Customers	\$70,139	74.36%	\$37,306	\$32,833
-50	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$47,314	50.16%	\$25,165	\$22,148
		Customers	\$47,006	49.84%	\$25,002	\$22,004
-100	2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012	Company	\$74,527	79.02%	\$39,640	\$34,887
		Customers	\$19,793	20.98%	\$10,527	\$9,265

<sup>5</sup> See Id.

<sup>6</sup> See Id.

