| 1 | BEFORE THE PUBLIC UTILITY COMMISSION | | | | | |
|---------------------------------|--|--|--|--|--|--|
| 2 | OF OREGON | | | | | |
| 3 | UM 1635 | | | | | |
| 4 | In the Matter of | | | | | |
| 5 | NORTHWEST NATURAL GAS COMPANY, STAFF'S POST-HEARING BRIEF | | | | | |
| 6 | dba NW NATURAL Mechanism for Recovery of Environmental | | | | | |
| 7 | Remediation Costs. | | | | | |
| 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 th 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. | | | | | |
| 17 | • Staff begins with the principle that the total of environmental remediation | | | | | |
| 18 | insurance proceeds should be allocated fairly across the period and costs of expected environmental remediation requirements. | | | | | |
| 19 | | | | | | |
| 20 | In order to implement this principle, Staff's primary recommendation is to allocate insurance proceeds roughly proportional to the time periods when | | | | | |
| 21 | they occur, which results in \$50.167 million allocated to the past period and \$100.333 million allocated to the future period. | | | | | |
| 22 | Staff offers an alternative recommendation on the allocation of insurance | | | | | |
| 23 | proceeds based upon the amount of expenses incurred in the past period and | | | | | |
| 2425 | a NW Natural-estimated high-end total of expected expenses for a future 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. | | | | | |

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| 1 | Apportioning the allocation of insurance proceeds equally to the past period did not result in a fair apportionment of insurance proceeds and it had no |
|----|--|
| 2 | relationship to when costs were incurred. Therefore, Staff recommends that the allocated insurance proceeds be apportioned in the past period by year |
| 3 | based upon the amount of expenses incurred each year. |
| 4 | Staff's recommendations on insurance allocations provide a reasonable |
| 5 | range for the allocation of insurance proceeds that are fair and reasonable based upon intergenerational equity. |
| 6 | |
| 7 | 2. The earnings test for the deferred costs. |
| 8 | • Staff begins with the principle that the purpose of an earnings test when there is a deferred account balance is to determine whether the utility could |
| 9 | absorb the deferred expenses during the representative period in which they |
| 10 | were incurred. |
| 11 | Staff's principle is based upon the fact that deferred accounting is a statutorily-created limited exception to the prohibition of retroactive |
| 12 | ratemaking for exceptional costs or revenues. However, the deferred |
| 13 | accounting statute includes a requirement that deferred accounts are subject to an earnings review, which Staff understands is for the purpose of |
| 14 | retaining the concept that ratemaking is holistic and based upon a reasonable "end result." As a result, the use of deferred accounting for |
| 15 | exceptional costs should not be used to guarantee a utility's authorized rate or return, or allow it to retain over-earnings. |
| 16 | |
| 17 | Staff's primary recommendation is that the earnings test in this proceeding be established at 50 basis points below authorized return on equity (ROE). |
| 18 | To provide the Commission with more information, Staff also provided the results for earnings test at 100 basis points below ROE, at authorized ROE, |
| 19 | and 50 and 100 basis points above authorized ROE: |
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Table 1. Excluding WACOG and Optimization¹

| BPs from AROE | Years over Threshold | | Final Cost | Sharing % | Avg. of Annual ROEs |
|---------------------|---|-----------|------------|-----------|---------------------------|
| | | Company | \$115 | 0.26% | 10.12% |
| 100 | 2009 | Customers | \$44,037 | 99.74% | |
| Γ0 | 2000 2010 2011 | Company | \$11,271 | 25.53% | 9.89% |
| 50 | 2009, 2010, 2011 | Customers | \$32,881 | 74.47% | |
| 0 | 2006, 2009, 2010, 2011 | Company | \$19,116 | 43.30% | 9.72% |
| U | | Customers | \$25,036 | 56.70% | |
| -50 | 2005, 2006, 2007, 2008, 2009, | Company | \$31,335 | 70.97% | 9.48% |
| -30 | 2010, 2011, 2012 | Customers | \$12,817 | 29.03% | |
| -100 | 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 | Company | \$41,002 | 92.87% | 9.28% |
| -100 | | 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:

Table 2. Including WACOG and Excluding Optimization²

| .4 | BPs from | | | | | Avg. of Annual |
|----|-------------|---|-----------|------------|-----------|-------------------|
| 15 | AROE | Years over Threshold | | Final Cost | Sharing % | ROEs |
| | 100 | 2006, 2007, 2009, 2010, 2011 | Company | \$12,114 | 27.44% | 10.40% |
| 6 | 100 | 2006, 2007, 2009, 2010, 2011 | Customers | \$32,039 | 72.56% | |
| 17 | 50 | 2006, 2007, 2009, 2010, 2011 | Company | \$22,215 | 50.31% | 10.18% |
| | 50 | | Customers | \$21,938 | 49.69% | |
| 18 | 0 | 2005, 2006, 2007, 2009, 2010, 2011, 2012 | Company | \$28,124 | 63.70% | 10.06% |
| 9 | U | | Customers | \$16,028 | 36.30% | |
| | -50 | 2005, 2006, 2007, 2009, 2010, | Company | \$35,841 | 81.18% | 9.90% |
| 0 | -50 | 2011, 2012 | Customers | \$8,311 | 18.82% | |
| 1 | -100 | 2004, 2005, 2006, 2007, 2009, | Company | \$39,846 | 90.25% | 9.82% |
| 1 | -100 | 2010, 2011, 2012 | Customers | \$4,306 | 9.75% | |
| 22 | | | | | | |

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

² See Id.

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¹ See Exhibit Staff/201, Bahr/1.

Table 3. Including WACOG and Optimization³

| BPs from AROE | Years over Threshold | | Final Cost | Sharing % | Avg. of Annual ROEs |
|------------------|-------------------------------|-----------|------------|-----------|---------------------------|
| 100 | 2006 2007 2000 2010 2011 | Company | \$21,489 | 48.67% | 10.51% |
| 100 | 2006, 2007, 2009, 2010, 2011 | Customers | | 51.33% | |
| FO | 2006, 2007, 2009, 2010, 2011, | Company | \$26,218 | 59.38% | 10.41% |
| 50 | 2012 | Customers | \$17,935 | 40.62% | |
| 0 | 2005, 2006, 2007, 2009, 2010, | Company | \$32,306 | 73.17% | 10.29% |
| U | 2011, 2012 | Customers | \$11,846 | 26.83% | |
| -50 | 2005, 2006, 2007, 2009, 2010, | Company | \$38,662 | 87.56% | 10.16% |
| -50 | 2011, 2012 | Customers | \$5,491 | 12.44% | |
| 100 | 2004, 2005, 2006, 2007, 2008, | Company | \$42,128 | 95.41% | 10.09% |
| -100 | 2009, 2010, 2011, 2012 | 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 Optimization⁴

| | BPs from | | | Cost before | | Insurance | Final |
|------|------------------------|---------------------------------|-----------|----------------|-----------|-----------|----------|
| | AROE | Years over Threshold | | Insurance | Sharing % | Proceeds | Cost |
| | 100 | 2000 | Company | \$115 | 0.12% | \$61 | \$54 |
| | 100 | 2009 | Customers | \$94,204 | 99.88% | \$50,106 | \$44,099 |
| F0 | 50 | 2009, 2010, 2011 | Company | \$11,271 | 11.95% | \$5,995 | \$5,276 |
| | 30 | | Customers | \$83,048 | 88.05% | \$44,172 | \$38,876 |
| 0 | 2006, 2009, 2010, 2011 | Company | \$24,180 | 25.64% | \$12,861 | \$11,319 | |
| | U | 2000, 2009, 2010, 2011 | Customers | \$70,139 | 74.36% | \$37,306 | \$32,833 |
| | -50 | 2005, 2006, 2007, 2008, | Company | \$47,314 | 50.16% | \$25,165 | \$22,148 |
| | -30 | 2009, 2010, 2011, 2012 | Customers | \$47,006 | 49.84% | \$25,002 | \$22,004 |
| | | 2004, 2005, 2006, 2007, | | \$74,527 | 79.02% | \$39,640 | \$34,887 |
| -100 | | 2008, 2009, 2010, 2011, 2012 | Customers | \$19,793 | 20.98% | \$10,527 | \$9,265 |
| | | | • | | | | |

 $\overline{^{3}}$ See Id.

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⁴ 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 Optimization⁵

| BPs from AROE | Years over Threshold | | Cost before Insurance | Sharing % | Insurance Proceeds | Final Cost |
|---------------|---------------------------------|-----------|--------------------------|-----------|-----------------------|------------|
| 100 | 2006, 2007, 2009, | Company | \$18,670 | 19.79% | \$9,930 | \$8,740 |
| 100 | 2010, 2011 | Customers | \$75,650 | 80.21% | \$40,237 | \$35,413 |
| 50 | 2006, 2007, 2009, | Company | \$33,935 | 35.98% | \$18,050 | \$15,886 |
| 50 | 2010, 2011 | Customers | \$60,384 | 64.02% | \$32,117 | \$28,267 |
| | 2005, 2006, 2007, | Company | \$46,108 | 48.88% | \$24,524 | \$21,584 |
| 0 | 2009, 2010, 2011, 2012 | Customers | \$48,212 | 51.12% | \$25,643 | \$22,569 |
| | 2005, 2006, 2007, | Company | \$61,974 | 65.71% | \$32,963 | \$29,011 |
| -50 | 2009, 2010, 2011, 2012 | Customers | \$32,345 | 34.29% | \$17,204 | \$15,141 |
| | 2004, 2005, 2006, | Company | \$75,476 | 80.02% | \$40,144 | \$35,331 |
| -100 | 2007, 2009, 2010, 2011, 2012 | 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 Optimization⁶

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

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⁶ See Id.

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⁵ See Id.

| 3. The treatment of future costs in the Site Remediation Recovery Mechanism (SRRM). |
|---|
| On a going-forward basis, Staff recommends that 10 percent of the costs⁷ be borne by shareholders to ensure NW Natural has incentive to control costs |
| and the other 90 percent would be subject to an earnings test. The earnings test would be conducted each year using revenues, including WACOG and 90 percent of AMA Optimization revues. ⁸ |
| • Staff further recommends that the threshold for the earnings test in future |
| years be established at authorized ROE. Staff recommends a higher |
| earnings threshold on a going-forward basis than it recommended on past costs because Staff's recommendation going forward includes 90/10 sharing |
| of costs prior to the application of the earnings test. |
| III. CONCLUSION |
| |
| For the foregoing reasons, Staff respectfully requests that the Commission issue an order |
| adopting its recommendations. |
| DATED this 8 th day of August 2014. |
| Respectfully submitted, |
| ELLEN F. ROSENBLUM |
| Attorney General |
| /s/Jason W. Jones |
| Jason W. Jones, #00059 |
| Assistant Attorney General |
| Of Attorneys for Staff of the Public Utility Commission of Oregon |
| Commission of Oregon |
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| ⁷ In Staff's recommendation, its recommends the inclusion of a conservative amount (i.e. \$3-5 million per year) of environmental remediation costs be included in base rates going forward. |
| ⁸ Staff notes that it testimony and prehearing brief stated the order of steps inaccurately. <i>See</i> Staff/200; Johnson-Bahr/20, lines 9 through Johnson-Bahr/21, line 2. The sharing should occur before the earnings test, not after the earnings test. |

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