

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1651

In the Matter of

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Recovery of Carrying Costs on Working  
Gas Inventory.

ORDER

DISPOSITION: STIPULATION ADOPTED

**I. SUMMARY**

In this order, we adopt the stipulation of the parties regarding Northwest Natural Gas Company's, dba NW Natural, recovery of carrying costs on working gas inventory, including a \$4.5 million inventory level for the 2013 Purchased Gas Adjustment (PGA) year.

**II. BACKGROUND**

On December 30, 2011, NW Natural filed Advice No. 11-19, an application for a general rate revision. We docketed the filing as UG 221 and suspended it for investigation. One issue in that proceeding was the inclusion in rate base of NW Natural's gas inventory. The parties agreed to a partial stipulation that provided, in relevant part, that cushion gas, which is permanent gas required to maintain operational pressure and prevent water deterioration in an underground storage reservoir, would be included in rate base. The parties further agreed that working gas, which is gas that flows in and out of the storage reservoir (or LNG tank) to serve customer loads, would be removed from rate base and subject to a separate proceeding. We adopted this stipulation in Order No. 12-408.

On May 1, 2013, NW Natural initiated this docket, UM 1651, by filing testimony that proposed a level of working gas to be included in rate base, and a rate of return.<sup>1</sup> The Northwest Industrial Gas Users (NWIGU) was granted party status in this docket. The Citizens' Utility Board (CUB) intervened as a matter of right under ORS 774.180.

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<sup>1</sup> In a separate filing, docketed as UM 1496(2), NW Natural sought and obtained authorization to defer expenses related to working gas inventory for the period November 1, 2012 through October 31, 2013. See Order No. 12-412.

Following settlement discussions, and before any Staff or intervenor testimony was filed, NW Natural, CUB, NWIGU, and Staff submitted a stipulation on July 11, 2013, to resolve all issues in this docket. On August 6, 2013, the stipulating parties filed joint testimony supporting the stipulation.<sup>2</sup>

### III. THE STIPULATION

The stipulation between NW Natural, CUB, NWIGU, and Staff resolves all issues related to NW Natural's rate recovery for working gas for the period November 2012 to October 2013. It also addresses how carrying costs will be treated on a going forward basis.

We divide our discussion into three parts. Because the stipulation refers to arguments that were originally raised in testimony filed in docket UG 221, we begin with a summary of the parties' arguments from that rate case proceeding. Next, we address NW Natural's proposed treatment of recovery of carrying costs on its working gas inventory as originally filed in this docket. Finally, we summarize the terms of the proposed stipulation.

#### A. UG 221 Arguments

##### 1. *Appropriateness of Working Gas Inventory in Rate Base*

Staff and CUB opposed NW Natural's request to include its average working gas inventory in rate base. Both parties argued it was bad regulatory policy, and Staff argued that it was uncommon for local distribution companies like NW Natural to include gas storage inventory in rate base. Instead, Staff asserted that the Commission should examine carrying costs of working gas inventory as part of NW Natural's PGA mechanism. Staff explained that:

Embedding an average working gas inventory into rate base and allowing the Commission-approved authorized rate of return on equity on that inventory is less accurate than updating working gas inventory in NWN's annual PGA, with an allowance for the carrying costs of what then becomes a short term asset, i.e. because working gas inventory is reviewed annually the carrying costs of such an asset would never be more than one year.<sup>3</sup>

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<sup>2</sup> Consistent with the Administrative Law Judge's memorandum in this proceeding, the Commission reiterates that parties must file written testimony or a brief in support of a proposed stipulation, in accordance with OAR 860-001-0350, and should do so contemporaneously with the filing of the stipulation.

<sup>3</sup> UG 221, Staff/1900; Zimmerman/2 (July 20, 2012).

NW Natural responded that this Commission has historically allowed it and other Oregon local distribution companies to place its working gas in rate base. NW Natural compared working gas inventory to the fuel stock of electric utilities that is included in rate base. NW Natural added that, in the PGA, it includes the cost of working gas estimated to serve load in the coming year in the commodity cost of gas making up the weighted average cost of gas (WACOG). NW Natural states that recovery in WACOG is the return of ratemaking component of storage gas, while the storage gas in rate base is the return on component, also referred to as carrying costs.<sup>4</sup>

NW Natural added that recovery of carrying costs for working gas inventory through the PGA would be inconsistent with the Commission's industry-wide PGA guidelines, and that annual PGA review has no bearing on whether an inventory asset is short-term.<sup>5</sup> Further, NW Natural asserted that including the carrying costs of storage gas in the WACOG would introduce many complexities to the PGA process, including questions of allocation, recovery lag, and questions on how to calculate the carrying costs and include in the WACOG.

## 2. *Gas Inventory Balances*

Staff also opposed NW Natural's proposed level of working gas inventory. Staff argued that the volume of stored gas should closely match the actual gas withdrawn to serve peak load and that there should be little inventory from year to year that could be labeled as gas inventory and included in rate base.

NW Natural explained that its storage inventories increase due to mild weather and winter purchases of cheaper gas. NW Natural added that it strives to fill its storage at the beginning of the heating season, and mild weather results in less cycling of storage gas. Further, although NW Natural typically purchases storage gas in the off-peak months, the company will also purchase winter supplies when they are cheaper. NW Natural believes this is a prudent practice because over 90 percent of the gas cost savings flow back to customers.<sup>6</sup>

NW Natural further explained that its storage balance for working gas has never reached zero. From December 2003 through December 2011, the average system balance of working gas inventory was \$60.9 million. The lowest balance during this time was \$14.7 million in April 2005, representing 30.3 million therms, and the highest balance was \$106.7 million, representing 156.3 million therms.

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<sup>4</sup> UG 221, NWN/1900; Siores/16-22 (June 15, 2012).

<sup>5</sup> UG 221, NWN/3000; Siores/9-10 (August 9, 2012).

<sup>6</sup> UG 221, NWN/1900; Siores/19-20 (June 15, 2012).

**B. NW Natural's UM 1651 Proposal**

In this proceeding, NW Natural recommended the Commission follow traditional regulatory practice and allow the company to recover its carrying costs by placing its working gas inventory in rate base and earning a return on those amounts at its authorized rate of return. Specifically, NW Natural proposed recovery of \$5.9 million based on a 13-month average working gas inventory of \$52.3 million. NW Natural stated that it determined its working gas inventory using actual balances from October 2012 through March 2013, and forecasted balances from April 2013 through October 2013. NW Natural explains that it calculated the carrying costs, or revenue requirement, on this inventory by applying its 7.78 percent approved weighted cost of capital (rate of return)—the rate traditionally applied to all utility property that is used and useful in providing utility service.

NW Natural recognized that its proposed level of working gas inventory had increased from amounts stated in docket UG 221. The company explained that the impact of truing up its rate forecast assumptions from docket UG 221 with actual data resulted in an increase of \$17 million, or an increase in working gas inventory from \$35.3 million to \$52.3 million. NW Natural added that the larger balance of storage inventory is due to milder than normal weather and opportunities to purchase cheaper winter supplies, as discussed above.<sup>7</sup>

NW Natural also provided information to respond to concerns raised in docket UG 221 about its gas inventory. The company explained that even if there is peak weather and NW Natural withdraws all of its working gas by the end of a heating season, it would still have had an average balance of working gas inventory that it would have needed to finance during that year. NW Natural stated that this is the average balance of working gas inventory that must be carried in order to ensure the company can meet its customer demand.<sup>8</sup>

NW Natural added that working gas inventory benefits customers by enabling NW Natural to meet its customer demand. Working gas inventory also provides significant cost savings compared to capacity costs on the Northwest Pipeline. NW Natural estimated this savings at \$41 million annually, by using the current Northwest Pipeline rate of 41 cents times 275,000 dekatherms/day of year-round capacity (if it were available).<sup>9</sup> Finally, NW Natural listed additional benefits from working gas inventory including: (1) allowing supply and demand to be balanced daily, and thus avoiding upstream pipeline balancing penalties; (2) providing pressure support to the distribution system; and (3) allowing for off-peak purchases at lower prices.

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<sup>7</sup> NWN/100; Siores/8.

<sup>8</sup> NWN/100; Siores/5-6.

<sup>9</sup> NWN/100; Siores/7.

Finally, NW Natural proposed to modify the stipulation adopted in docket UG 221 to address recovery of its carrying costs during the next PGA period (November 2013 – October 2014). Rather than repeat the process used in this proceeding, NW Natural proposed to place \$4.5 million of revenue requirement in permanent base rates in the 2013-14 PGA. NW Natural states that this \$4.5 million represents the revenue requirement of NW Natural's forecasted working gas inventory balances for the November 2013–October 2014 time period of \$39.9 million. NW Natural explained that a deferral would be unnecessary under this proposal, and would represent a return to past practice of including working gas inventory in rate base.

### **C. Stipulated Agreement**

The stipulation provides that NW Natural should be allowed to amortize \$4.5 million, before interest, to represent the carrying costs on working gas inventory for the PGA year November 1, 2012 through October 31, 2013. After settlement discussions, NW Natural, CUB, Staff, and NWIGU agreed upon \$4.5 million for the revenue requirement amount. The parties state that they considered all the points raised and determined that including \$4.5 million on an ongoing basis represented a reasonable resolution. The \$4.5 million will be allocated on an equal percentage of margin basis to all sales customers. Subject to Commission approval, NW Natural will implement a rate adjustment on November 1, 2013.

The stipulation also provides that, with regard to PGA years beginning on and after November 1, 2013, carrying costs on NW Natural's working gas inventory equal to \$4.5 million will be included in permanent base rates, until adjusted in a future rate proceeding. The stipulation states that this amount represents carrying costs on approximately \$39.5 million in working gas inventory at the company's authorized rate of return. The parties agree that this treatment eliminates the need for further filings on carrying costs on working gas inventory, and that this amount will remain in permanent base rates until NW Natural's next general rate case. The stipulation states that rate allocation will be on an equal percentage of margin basis to all sales customers.

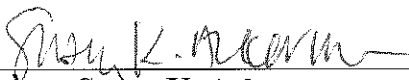
## **IV. RESOLUTION**

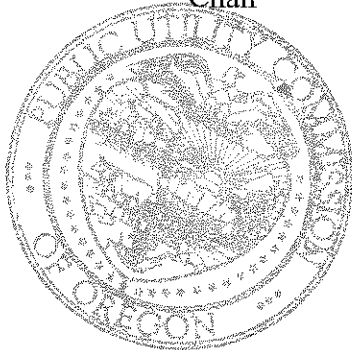
Based on our review of the testimony and supporting exhibits in this case, as well as the stipulation and joint testimony in support of the stipulation, we find the settlement reached by the parties to be appropriate and reasonable resolutions of the issues raised in this proceeding. Rates reflecting these adjustments will be fair, just and reasonable and provide NW Natural with adequate revenues, consistent with the standard in ORS 756.040. The stipulation should be adopted in its entirety.


V. ORDER

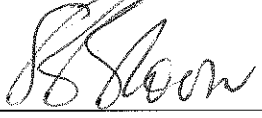
IT IS ORDERED that the stipulation by and between Northwest Natural Gas Company, dba NW Natural, Staff of the Public Utility Commission of Oregon, the Citizens' Utility Board of Oregon, and the Northwest Industrial Gas Users, attached as Appendix A, is adopted.

Made, entered, and effective SEP 30 2013.

  
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**Susan K. Ackerman**  
Chair



  
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**John Savage**  
Commissioner

  
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**Stephen M. Bloom**  
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UM 1651

In the Matter of

NORTHWEST NATURAL GAS COMPANY

Recovery of Carrying Costs on Working Gas  
Inventory.

STIPULATION

This Stipulation is entered into for the purpose of resolving all issues in this docket ("Stipulation").

**PARTIES**

1. The parties to this Stipulation are Northwest Natural Gas Company ("NW Natural" or the "Company"), Commission Staff ("Staff"), the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU) (collectively, "Parties").<sup>1</sup>

**BACKGROUND**

2. On October 26, 2012, the Public Utility Commission of Oregon ("Commission") adopted the Second Partial Stipulation in the Company's most recent general rate case, Docket UG 221 ("Rate Case Stipulation").<sup>2</sup> The Parties to this Stipulation were also parties to the Rate Case Stipulation.

3. In Paragraph 27 of the Rate Case Stipulation, the Parties addressed certain issues related to working gas inventory. The Parties agreed that (a) cushion gas would continue to be *included* in rate base; (2) working gas inventory would be *excluded* from rate base; and that the Company would request recovery of carrying costs on working gas inventory through the following process:

<sup>1</sup> There are no other parties to this docket.

<sup>2</sup> See *NW Natural Gas Co. Request for a General Rate Revision*, Docket UG 221, Order No. 12-408 (Oct. 26, 2012).

- a. On or before November 1, 2012, NW Natural will file a deferred accounting application to allow for the adjustment of future rates to account for the appropriate recovery of working gas inventory and associated carrying costs for the period November 1, 2012 through October 31, 2013, as will be determined by the Commission through the process outlined below. The Parties agree to support the Company's application for deferred accounting.
- b. On May 1, 2013, NW Natural will file testimony with the Commission supporting: (a) its proposed level of working gas to be included in rate base for the period November 1, 2012 through October 31, 2013, and (b) its proposed rate of return for working gas. Staff, CUB, and NWIGU, after conducting any necessary discovery, may file reply testimony supporting alternative levels of working gas to be included in rate base and alternative rates of return for working gas.
- c. The rate making treatment for working gas inventory approved by the Commission for the period November 1, 2012 through October 31, 2013, including the appropriate rate of return ordered by the Commission, with interest, will be implemented through rate adjustment effective November 1, 2013.

4. Consistent with Paragraph 27(a) of the Rate Case Stipulation, on October 8, 2012, NW Natural filed an application for deferral of the carrying costs associated with NW Natural's working gas inventory for the period November 1, 2012 through October 31, 2013 in Docket UM 1496.<sup>3</sup> The Commission adopted Staff's recommendation to approve the Company's deferral request.<sup>4</sup>

5. Consistent with Paragraph 27(b) of the Rate Case Stipulation, on May 1, 2013, NW Natural filed testimony in this docket addressing: (a) its proposed level of working gas to be included in rate base for the period November, 2012 through October, 2013, and (b) its proposed rate of return for working gas.<sup>5</sup> In its testimony, the Company proposed a total

<sup>3</sup> *Re NW Natural Request to Reauthorize Deferral of Costs Related to Demand, Commodity and Capacity Costs for Purchased Gas Cost Mechanism*, Docket UM 1496, Application for Authorization and Reauthorization to Defer Certain Expenses or Revenues (Oct. 8, 2012).

<sup>4</sup> *Re NW Natural Request to Reauthorize Deferral of Costs Related to Demand, Commodity and Capacity Costs for Purchased Gas Cost Mechanism*, Docket UM 1496, Order No. 12-412 (Oct. 31, 2012).

<sup>5</sup> *Re NW Natural Recovery of Carrying Costs on Working Gas Inventory*, Docket UM 1651, Direct Testimony of Natasha Soares (May 1, 2013).

deferral amount for the November 1, 2012 – October, 2013 period of \$5.9 million, before interest. This amount was calculated by applying the Company's currently authorized rate of return to the 13-month average of actual and forecasted working gas inventory balances from October 2012 - October 2013.

6. Pursuant to Administrative Law Judge Shari Pines' Prehearing Conference Memorandum of May 29, 2013, the Parties held a settlement conference on May 31, 2013. The settlement conference resulted in a resolution of all the issues in this docket.

#### AGREEMENT

7. The Parties agree that the Company should be allowed to amortize \$4.5 million, before interest, to represent the carrying costs on working gas inventory for the Purchased Gas Adjustment (PGA) year November 1, 2012 through October 31, 2013.

8. With regard to PGA years beginning on and after November 1, 2013, the Parties agree that carrying costs on the Company's working gas inventory equal to \$4.5 million be included in permanent base rates, until adjusted in a future rate proceeding. This amount represents carrying costs on approximately \$39.5 million in working gas inventory at the Company's authorized rate of return.

9. The Parties agree that the working gas inventory carrying cost treatment described in Paragraph 8 eliminates the need for further filings on carrying costs on working gas inventory and that the amount described in Paragraph 8 will remain in permanent base rates until the Company's next general rate case. Rate allocation will be on an equal percentage of margin basis to all Sales customers.

10. The Parties agree that this Stipulation does not limit any arguments the Parties might wish to make in support of any customer/Company sharing level for the Company's interstate storage and optimization revenues in Docket UM 1654, including any argument regarding the Company's rate of return on storage assets.

11. This Stipulation will be offered into the record as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation at hearing, if needed, and recommend that the Commission issue an order adopting the Stipulation.

12. If this Stipulation is challenged by any other party to this proceeding, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Parties reserve the right to cross-examine witnesses and put in such evidence as they deem appropriate to respond fully to such issues presented including the right to raise issues that are incorporated in the settlements embodied in this Stipulation.

13. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any Party shall have the right to withdraw from the Stipulation, along with any other rights provided in OAR 860-001-0350(9), including the right to present evidence and argument on the record in support of the Stipulation, and shall be entitled to seek reconsideration pursuant to OAR 860-001-0720.

14. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than as specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

15. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Party on the date entered below such Party's signature:

SIGNATURE PAGE TO FOLLOW

ORDER NO. 13 349

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ORDER NO. 13 349

NW NATURAL

By: *CA Miller*  
Printed Name: C. Alex Miller  
Date: 7/11/13

STAFF

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Date: \_\_\_\_\_

NWIGU

By: \_\_\_\_\_  
Printed Name: \_\_\_\_\_  
Date: \_\_\_\_\_

ORDER NO. 13 349

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By: OK J

Printed Name: Jason Jones

Date: 7/3/13

NWIGU

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

ORDER NO. 13 349

NW NATURAL

STAFF

By: \_\_\_\_\_

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

NWIGU

By: 

By: \_\_\_\_\_

Printed Name: G.C. McLoachen

Printed Name: \_\_\_\_\_

Date: July 3-2013

Date: \_\_\_\_\_

ORDER NO. 13 349

NW NATURAL

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

STAFF

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

CUB

By: \_\_\_\_\_

Printed Name: \_\_\_\_\_

Date: \_\_\_\_\_

NWIGU

By: *TAB*

Printed Name: TOMMY A. BROOKS

Date: 7/3/2013