BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 344

In the Matter of	)	
	)	LIBERTY REPORT REBUTTAL TESTIMONY OF THE OREGON CITIZENS' UTILITY BOARD
NORTHWEST NATURAL GAS COMPANY,	)	
	)	
dba NW NATURAL,	)	
	)	
Request for General Rate Revision.	)	

LIBERTY REPORT REBUTTAL TESTIMONY

OF THE

OREGON CITIZENS' UTILITY BOARD

June 22, 2018

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OF OREGON

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Q. Please state your name, occupation, and business address.

A. My name is Bob Jenks. I am the Executive Director of the Oregon Citizens' Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400 Portland, Oregon 97205.

Q. Have you previously filed testimony in this proceeding?

A. Yes. My qualifications were provided in Exhibit CUB/101.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the Reply Testimony of Randolph S. Friedman, in which he discusses NW Natural's recommendation for Storage Services and Optimization Activities.

Results of Operation Report

Q. What is CUB's position regarding including optimization earnings in the Company's results of operation (ROO) report?

A. NW Natural's ROO report is meant to indicate the Company's earnings for its regulated systems. Currently, the Company's ROO does not reflect earnings that shareholders receive from the Oregon regulated utility system. Due to the earnings collected from optimization, the earnings reflected in the ROO do not accurately quantify what the Company is receiving. Adding optimization earnings to the Company's ROO would enable the operations report to be more transparent and accurate.

Q. What is the Company's response to CUB's recommendation to include optimization earnings on the Company's ROO?

A. The Company believes that CUB's recommendation to include optimization earnings is premature because Oregon has not yet adopted incentive regulation.[1]

Q. Is the optimization sharing program a form of incentive regulation?

A. Yes. Therefore, it is not premature for CUB to present an argument related to evaluating the impacts of incentive regulation. When Company shareholders have a stake in the outcome of how primarily ratepayer-funded assets are optimized, the Company is incentivized to act more efficiently to fulfill its fiduciary obligation. This, in itself, is a form of incentive regulation.

Optimization Sharing

Q. What is CUB's position regarding the Liberty Report recommendation for revenue sharing associated with optimization activities?

A. Over the years, CUB has consistently recommended a 90/10 split on optimization activities.[2] According to the Liberty report, the median natural gas utilities

[1] UG 344 – NW Natural/ 2400/14.
[2] *See, e.g.,* UG 344/ CUB/ 200/ Jenks/ 18 and UM 1654/ CUB/ 200/ Jenks-McGovern/4.

nationwide share 90% or more of their net optimization revenues with customers. NW Natural is squarely within this median. Asset optimization is part of the Company's obligation to prudently operate its business. 90/10 sharing ratio is fair and reasonable because it provides an incentive to the Company to maximize the optimization ratio.

Q. What is the Company's position regarding revenue sharing associated with optimization activities?

A. The Company would like to maintain a 67/33 split on optimization activities. In support, it states a reduction of the sharing percentage would alter its incentive to manage optimization activities.[3] The Company asserts its level of involvement in optimization activities is unusual among LDCs. According to the Company, it "continues to believe that NW Natural works harder with asset manager to achieve superior results for our customers and shareholders than do other LDCs with AMA."[4]

Q. What is your response to NW Natural's conclusion that its level of involvement is unusual?

A. Unfortunately for the Company, "work[ing] harder . . . than do other LDCs" is subjective and unquantifiable. The Liberty report was unable to determine a reason for the company to retain such high levels of optimization revenues. According to Liberty, "we did not find any risk exposure that, in our judgement, would justify an unusually large share of optimization margins."[5] Utility shareholders are generally

[3] UG 344 – NW Natural/2400/ Friedman/10.
[4] UG 344 – NW Natural/1300/ Friedman/23.
[5] UG 344 – NW Natural/1301/Friedman/54.

compensated for the risk associated with cash outlaid for capital projects of which the utility may not receive recovery. That risk is absent in this situation, and the Company's share of optimization revenues should be reduced accordingly.

Q. Does NWN has additional concerns about reducing the sharing percentage?

A. The Company is concerned that the Liberty report did not examine the results of peer utilities. Since the Liberty report did not compare the results of peer utilities, the Company is suggesting a decrease in Customers sharing ratio has the potential to decrease customer revenue. Therefore, the Company is asking the Commission to maintain the program because it has provided proven value to customers.

Q. What is your response to the Company's concern about changing the incentive structure?

A. NW Natural does not manage the natural gas optimization program. Tenaska Marketing Ventures operates the system as the third-party asset manager. Changing the sharing margin from 67/33 to 90/10 has no impact on the incentive offered to Tenaska Marketing Ventures.

The Liberty Report concluded that if the Company received a lower share of revenue, it would still have an adequate incentive to maximize the program's performance. The Company is using rate-payer owned resources to operate this program. Regardless of the incentive offered to the company, NW Natural has an obligation to pursue gas optimization as a responsibility of prudent utility management.

Q. What is your recommendation regarding optimization revenue?

A. NW Natural has stated that its optimization activities are different than other LDC's activities. Interveners and Staff have disagreed with NW Natural regarding the nature of their optimization activities. The disagreement and uncertainty surrounding it was sufficient for the Commission to an independent analysis the optimization program. The Liberty Report indicated that NW Natural's optimization program is not special, and Oregon has room to provide more of the optimization revenue to customers. A 90/10 split would put Oregon in the midpoint for optimization sharing nationally, and would provide an adequate incentive for NW Natural to operate an efficient optimization program. CUB recommends the Commission adopt a 90/10 sharing ratio for optimization sharing revenue.

Q. Does this conclude your testimony?

A. Yes.