CASE: UG 344
WITNESS: DEBORAH GLOSSER

PUBLIC UTILITY COMMISSION

OF

OREGON

STAFF EXHIBIT 1600

Rebuttal and Cross-Answering Testimony

June 22, 2018

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

A. My name is Deborah Glosser. I am a Senior Analyst employed in the Energy Rates Finance & Audits Division of the Public Utility Commission of Oregon (Commission or OPUC). My business address is 201 High Street SE, Suite 100, Salem, Oregon 97301.

Q. Please describe your educational background and work experience.

A. My witness qualification statement is found in Exhibit Staff/1301.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to Northwest Natural's ("NWN" or "the Company") reply testimony filed on June 4, 2018, regarding revenue sharing for optimization activities using ratepayer-funded and shareholder-funded assets; to provide my expert feedback on the issues raised by the Company in that testimony; and to make a recommendation for future sharing and reporting for these revenues going forward.

Q. How is your testimony organized?

A. My testimony is organized as follows:

ISSUE 1. BACKGROUND AND PROCEDURAL HISTORY

Q. Please describe the background and procedural history of this docket

A. My initial testimony contains the procedural history, background, and summary of NW Natural's storage operations at its Mist storage facility, its system optimization activities, and the report issued by the independent third-party consultant ("the Liberty Report"). I will only restate the pertinent points here for brevity.

The Company's revenue sharing arrangements for storage services and optimization activities were investigated as part of its 2011 general rate case, Docket No. UG 221. The Commission determined that this investigation was more appropriate for a separate proceeding and opened Docket No. UM 1654. At the conclusion of Docket No. UM 1654, the Commission directed parties to form a steering committee to hire a third-party to conduct a study that would examine the risks, costs, and benefits for NW Natural's optimization activities, the assets being utilized for these activities, the allocation between regulated and non-regulated services, and the components of the Company's system that drive the costs and revenues associated with interstate storage.

Q. What schedules are currently used?

A. These sharing arrangements are reflected in NWN Schedules 185 and 186.

Q. What is Schedule 185?

A. Schedule 185, titled "Special Annual Interstate and Intrastate Storage and Transportation Credit," applies to core customers receiving firm sales service whose rates include costs related to the Mist storage facility. Schedule 185 credits core customers for the Oregon share of net margins received by the company for (1) interstate storage and related transportation services provided under FERC jurisdiction, (2) intrastate storage activities and related transportation services under Schedule 80, and (3) optimization of total Mist storage capacity. Eligible customers receive a 20 percent share of the net margin received from non-utility interstate and intrastate storage services, and the net margin attributable to optimization of non-utility Mist capacity not included in rates.

Q. What is schedule 186?

A. Under Schedule 186, titled "Special Annual Core Pipeline Capacity Optimization Credit," eligible customers are credited with the Oregon share of net margins received by NW Natural for the optimization of core customer pipeline, gas processing, commodity supply, and non-Mist storage capacity. Schedule 186 provides that NW Natural will share with eligible customers the net margin attributable to third-party optimization. The Company shares revenues with its firms and interruptible sales customers on a two-thirds basis, with 67 percent credited to customers. This sharing methodology has been used since 2002, although the specific percentages applied have been updated in those years where the relative proportions of deliverability capacity between core customers and interstate storage have changed due to Mist capacity recall.

Q. What are the current cost sharing percentages?

A. NWN currently records the costs and revenues system optimization related to its optimization activities to a separate non-utility Gas Storage business segment. For the expanded interstate and intrastate storage service at Mist, which is provided using primarily shareholder-funded assets, NWN shares 20 percent of net margins with customers. For optimization activities that primarily use resources that are included in customer rates, NWN shares with customers 67 percent of net margins.

Q. What was the conclusion of the Liberty Report regarding sharing arrangements?

A. With respect to non-utility interstate and intrastate storage services, Liberty determined that the current sharing arrangement for the Company's non-utility interstate and intrastate storage services is consistent with industry standards and is balanced and appropriate. Liberty found that no adjustments to the current sharing arrangement were necessary.

With respect to NWN's optimization activities using shareholder-funded assets, Liberty concluded that the 20/80 sharing allocation is appropriate. *With respect to NWN's optimization activities using ratepayer-funded assets*, Liberty concluded that NWN's share of optimization margins (33 percent) is higher than industry standards and could be reduced to bring it in line with other similarly situated utilities.

ISSUE 2. PARTIES' POSITIONS

Q. Please describe Staff's position regarding revenue sharing.

A. Staff agrees with the conclusions of the Liberty report with respect to non-utility interstate and intrastate arrangements and optimization activities using shareholder-funded assets. With respect to optimization earnings for ratepayer-funded assets, Staff continues to recommend a 90/10 split (ratepayer/shareholder) rather than 67/33 on the basis that prudent optimization is a core utility responsibility and NWN's asset optimization activities do not rise to a level exceeding industry standard.

Q. Please describe the positions of the other parties?

A. CUB recommends that system optimization revenues be split 90/10 on the basis that prudent optimization activities are a core responsibility of a utility. AWEC recommended an 85/15 split be adopted for resources that are in customer rates based on AWEC's assertion that the Liberty Report has concluded that NW Natural's optimization activities do not create a "risky enterprise" for the Company and that these activities are not especially complex or out of line with normal utility practices. AWEC also recommended that the Company flip its split with respect to resources not in customer rates.

Q. Please describe the position articulated in NWN's response testimony.

A. The Company believes that it (the Company) goes beyond the efforts typically expended by LDCs in the optimization of customer assets.[1] The Company has actively engaged with its third-party asset manager to assist the Company in

[1] NWN/2400, Friedman/9.

developing and revising long-term plans to meet their objectives. The Company asserts that this level of involvement is unusual. The Company further points out that over the past decade, it has attained very significant value for its utility customers flowing from these optimization activities. Specifically, customers have received a cumulative $133.5 million in credits since 2000.[2]

Q. Were any additional issues or matters addressed in NWN's reply testimony?

A. Yes. The Company raised the concern that the companies in Liberty Report's study cohort may not play as significant a role in optimization activities as NW Natural, and therefore do not provide a reasonable benchmark for how revenues from optimization activities are shared.[3] The Company also notes that the Liberty Report does not describe the amount of revenues shared by other utilities, and that without this information, comparison of other utilities' sharing percentages is not necessarily persuasive because it may be that NW Natural customers still get significantly more benefit than customers of the cohort utilities.[4]

Q. Do you agree?

A. No. The Liberty Report contains data points for its benchmarking studies for utilities in 17 states plus the District of Columbia, which was available to the steering committee. The Liberty methodology comparisons sought to

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[2] NWN/1300, Friedman/32-33.
[3] NWN/1300, Friedman/32-33.
[4] NWN/1300, Friedman/32-33.

recognize factors complicating direct comparisons between cohort utilities. First, they removed any company with PGA-only mechanisms from the data. The local distribution companies reflected in the data points include those with optimization-only mechanisms, like NW Natural's. Liberty also included joint PGA savings and optimization margins that peg sharing percentages at the same level for both benefits. Second, the data presented shows the customer/company split of optimization revenues net of any asset-manager share. Thus, the comparisons come as close to comparing the same things as the available data allows.

Furthermore, the topic of the benchmarking study methods and selection and analysis of the cohort peer utilities (and data) were a feature of the weekly meetings of the steering committee, and NWN had ample time to request more detailed information, or raise any issues they had with the study, at all points during the Liberty investigation. They did not do so.

Q. What is the Company's opinion on AWEC's recommendation that the Company flip the split with respect to revenue sharing related to optimization of resources not in customer rates?

A. NWN states that AWEC has no support for its recommendation to change the sharing from 80 percent for shareholders and 20 percent for customers to 20 percent for shareholders and 80 percent for customers.

Q. What is Staff's opinion on AWEC's recommendation that the Company flip the split with respect to optimization revenues for resources not in customer rates?

A. Staff does not agree with AWEC's recommendation. There is no evidence in the Liberty Report to support a change of that magnitude for these revenues.

Q. What are AWEC's and CUB's recommendations regarding including optimization revenues in NWN's Results of Operation Report (ROO)?

A. CUB argues that the currently used format for the ROO (i.e., the version routinely filed by the Company) does not allow a reader to determine all of the earnings from NW Natural's regulated system. CUB argues that this makes the ROO less accurate and transparent.[5] CUB argues that providing this additional information would be particularly helpful if Oregon transitions to incentive regulation because incentive regulation will require the Commission to evaluate the effectiveness of such regulation and evaluation of the revenues earned by the Company related to optimization activities revenue will be part of this analysis.[6] AWEC makes the point that the optimization income should be included in ROO because it is made possible by the use of customer-funded assets.[7]

Q. What is the Company's response to AWEC's and CUB's recommendation that NWN include optimization revenues in its ROO?

A. NWN states that CUB's recommendation is premature because NWN is not subject to incentive regulation.[8] The Company also asserts including optimization revenues in the ROO incorrectly implies that the revenues should

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5 CUB/200, Jenks/21.
6 CUB/200, Jenks/22.
7 AWEC/400, Finklea/8.
8 NW Natural/2400, Friedman/14.

be considered in the application of earnings reviews.[9] The Company points out that the Commission already determined in Docket No. UM1654 that half of the optimization earnings should be included in the Company's earnings sharing test only for purposes of the Company's Site Remediation Recovery Mechanism (SRRM).[10]

To meet the goal of transparency, the Company proposes that in addition to providing information on its revenues in its annual Optimization Report, it could provide the associated impact on its earnings of its own sharing proportions. The Company states that this would meet the goal of transparency while eliminating any suggestion that the revenue is part of the Company's earnings for other purposes.[11]

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[9] NW Natural/2400, Friedman/14.
[10] NW Natural/2400, Friedman/14.
[11] NW Natural/2400, Friedman/14.

ISSUE 3. STAFF RECOMMENDATION

Q. What is Staff's recommendation regarding including optimization revenues in the Company's Results of Operations report (ROO)?

A. Staff agrees with CUB that transparency of earnings is the ultimate goal. To that end, it agrees with CUB and AWEC that NWN should provide information on its optimization activities and the associated impact on its earnings based on its own sharing proportions in its annual ROO.

Q. Does this conclude your testimony?

A. Yes.