Before the Public Utilities Commission of the State of California

Joint Application of Gill Ranch Storage, LLC, Northwest Natural Gas Company, NW Natural Energy, LLC, and NW Natural Gas Storage, LLC for Change of Legal Ownership and Control of Gill Ranch Storage, LLC Through a Corporate Reorganization.

Application No. 17-02-003 (Filed February 10, 2017)

Second Rebuttal Testimony of Shawn M. Filippi and David A. Weber on Behalf of the Joint Applicants

September 22, 2017
SUBJECT MATTER INDEX

CHAPTER 1 ................................................................................................................................... 1
  INTRODUCTION....................................................................................................................... 1

CHAPTER 2 ................................................................................................................................... 3
  THE REORGANIZATION WILL HAVE NO EFFECT ON GRS OR THE FACILITY AND
  THE SAFE OPERATION THEREOF ........................................................................................ 3
    A. The Change of Legal Ownership Does not Create Safety Risks at the Facility That Require
       Significant Investments to Mitigate. (D. Weber).............................................................. 3
    B. It Would be Inconsistent With Commission Precedent to Impose Conditions on HoldCo to
       Prioritize GRS Over Other HoldCo Subsidiaries in Other States (S. Filippi) ...................... 5
       1. The Evidence Shows That the Interests of HoldCo and GRS in the Safe Operation of the
          Facility are Aligned............................................................................................................. 5
       2. OSA’s Erroneous Interpretation of Prior Commission Decisions Imposing a “First
          Priority” Condition on the Large California Utilities’ Holding Companies Does not Support
          Imposition of Such a Condition on HoldCo. ........................................................................ 6
    C. There is no Factual Basis for Applying a Surety Bond Requirement to GRS. (D. Weber)... 9
       (D. Weber) ............................................................................................................................ 13

CHAPTER 3 ................................................................................................................................... 15
  OSA HAS PROVIDED NO EVIDENCE TO SUPPORT IMPOSING CONDITIONS ON
  “SENIOR AFFILIATES” OF GRS AND “FUTURE OWNERS AND ASSIGNEES ............ 15

CHAPTER 4 ................................................................................................................................... 18
  OSA HAS PROVIDED NO EVIDENCE TO SUPPORT THE POSTPONEMENT OF
  HEARINGS (S. Filippi) ............................................................................................................. 18

CHAPTER 5 ................................................................................................................................... 19
  CONCLUSION ......................................................................................................................... 19
CHAPTER 1

INTRODUCTION

OSA proposes in its Second Testimony that the Commission implement “substantial conditions upon any potential scenario,” namely a first priority condition and a bonding requirement, based on four reasons, none of which is supported by evidence in the record, and/or which are based on flawed interpretations of prior Commission decisions. While OSA has offered speculation and other unsupported assumptions in this proceeding, it has failed to provide any evidence linking the facts of the upstream change of legal ownership of GRS to the conditions OSA proposes. The Commission should not adopt OSA’s unsubstantiated positions and should not impose the unwarranted conditions on the Joint Applicants, HoldCo, and future owners and assignees that OSA seeks because OSA has not established a nexus between the upstream change of ownership and OSA’s safety concerns.

The Reorganization is a “paper” transaction that will use a merger process common in utility holding company reorganizations, including other transactions the Commission has recently approved (see, e.g., D.16-01-037). The Reorganization will effect a routine internal restructuring which will result in a holding company structure, including an upstream change in legal ownership (three levels up), but no change in actual control, of GRS. There will be no change with respect to GRS or its ownership interest in or operation of the Gill Ranch Gas Storage Facility as a result of the Reorganization. GRS will continue to operate as an independent storage provider subject to California Public Utilities Commission jurisdiction. GRS will remain bound by the terms and conditions set forth in its CPCN. Corporate governance of GRS will remain unchanged after the Reorganization, with all current Board members and officers continuing in their positions. Operating personnel will remain in place, and day-to-day operations will continue unchanged. The Reorganization will not adversely affect or change the financial condition of GRS and the level of service GRS provides to California customers.

GRS has demonstrated that the Reorganization will have no effect on GRS or the Facility and the safe operation thereof, and that the change of legal ownership is in the public interest. As noted, OSA has provided speculation and various erroneous assumptions, but no facts or other evidence to demonstrate a nexus between the upstream change of legal ownership (but not actual control) of GRS, on the one hand, and the conditions OSA seeks to impose on GRS, the other
Joint Applicants, HoldCo, and future owners and assignees, on the other hand. The Joint Applicants respectfully request that the Commission decline to adopt the conditions proposed by OSA.
CHAPTER 2

THE REORGANIZATION WILL HAVE NO EFFECT ON
GRS OR THE FACILITY AND THE SAFE OPERATION THEREOF

A. The Change of Legal Ownership Does not Create Safety Risks at the Facility
   That Require Significant Investments to Mitigate. (D. Weber)

In its Second Testimony, the Office of the Safety Advocate (“OSA”) states that “[s]afety risks at Gill Ranch Storage will likely require significant investments to mitigate.”\(^1\) OSA further states that “[c]onditions are needed to assure approval of this application does not negatively impact the funding of safety improvement needed to comply with pending new safety regulations.”\(^2\) As was the case in OSA’s First Testimony, OSA here similarly points to speculation and erroneous assumptions, but fails to provide any facts to back up these statements. In fact, as demonstrated by the Joint Applicants, the upstream change in ownership (three levels up) of Gill Ranch Storage, LLC (“GRS”) – a routine “paper” transaction – that is before the California Public Utilities Commission (“CPUC” or “Commission”) will not create any safety risks, either in connection with GRS or the Gill Ranch Gas Storage Facility (“Facility”) and the safe operation thereof.

OSA persists in its reliance on the Aliso Canyon incident as the basis for the sweeping proposition that there are “considerable safety risks” associated with underground gas storage.\(^3\) As explained in the Joint Applicants’ First Rebuttal Testimony, all storage facilities are not alike, and the incident at Aliso Canyon does not mean that all underground storage facilities pose major or “considerable” safety risks.\(^4\) The Facility, as described in the Joint Application, Direct Testimony of the Joint Applicants, and the First Rebuttal Testimony of the Joint Applicants, is very different from Aliso Canyon.\(^5\) GRS has also demonstrated its strong safety record and commitment to safety, as well as the substantial efforts it has undertaken in connection with Legislative and regulatory proceedings relating to gas storage.\(^6\) OSA has not offered any facts to

---

1 Second OSA Testimony, p. 4-2, lines 4-5.
2 Id. at p. 4-5, lines 6-9.
3 Second OSA Testimony, p. 4-2, lines 6-12.
4 First Rebuttal Testimony of the Joint Applicants, p. 24, lines 4-27.
5 See, e.g., First Rebuttal Testimony of the Joint Applicants, p. 24, lines 13-22.
6 Id. at p. 6, line 3 to p. 18, line 3.
show that there are or will be “considerable safety risks” at the Facility, now or as a result of the upstream change of legal ownership.

Also as in its First Testimony, OSA refers to the Division of Oil, Gas, and Geothermal Resources’ (“DOGGR”) estimate of the industry-wide annual cost to comply with the proposed DOGGR regulations over the first five years of implementation to support its speculative conclusion that “GRS will require substantial resources to comply” with those regulations. OSA makes no attempt to parse the industry-wide estimate, which covers various types and vintages of facilities, as it might apply to specific utilities or facilities. OSA’s logical fallacy fails to connect the more general overarching estimate to the Facility, which has only 12 injection and withdrawal wells, constructed using current technology.

OSA goes on to say that “[a]n accurate assessment of the investment required at Gill Ranch is unknown until final regulations are adopted and the risk assessments that are likely to be required by these regulations have been completed.” It is not clear what point OSA is trying to make or action it is seeking with this testimony. GRS notes that in response to a data request from OSA, GRS stated that while the DOGGR regulations are not final, it presently appears that under the currently proposed regulations, the compliance requirements would be based on risk assessments (which in turn are based on project- and well-specific characteristics), and phased in over a number of years. GRS noted that these various uncertainties make it difficult to precisely estimate the costs of compliance with the proposed DOGGR regulations, however, GRS provided OSA with its confidential best and high case estimates of compliance costs for the next five years, based on the best currently available information. OSA has provided no facts to show that GRS’ preliminary estimates are unreasonable, or that GRS could not fund its estimated compliance costs.

GRS, on the other hand, has testified that it “has been actively involved in the development of the draft [DOGGR] regulations, and is engaged in planning to comply with final and effective applicable DOGGR requirements.” GRS further testified that it presently “sees no barrier to funding compliance with the new DOGGR regulations once they are adopted.”

---

7 Second OSA Testimony, p. 4-2, lines 21-22; Id. at p. 4-5, lines 10-11.
8 Second OSA Testimony, p. 4-2, lines 22-25.
9 First Rebuttal Testimony of the Joint Applicants, p. 18, lines 2-3.
10 Id. at p. 26, lines 14-15.
respect to the issue of compliance with new DOGGR regulations, OSA has not stated a valid basis for imposing the proposed conditions.

To the extent OSA suggests that any Risk Management Plan required by the proposed DOGGR regulations might substantially affect the confidential compliance cost estimates GRS provided, GRS reiterates the Direct Testimony of the Joint Applicants explaining that GRS submitted a Risk Management Plan to DOGGR on August 5, 2016, pursuant to Title 14, CCR, section 1724.9(g). \(^{11}\) There is substantial overlap between the information required to be included in the Risk Management Plan GRS submitted to DOGGR in 2016, and the Risk Management Plan requirements in the current draft of the proposed DOGGR regulations (see, e.g., draft 14 CCR section 1726.3). GRS anticipates that its existing Risk Management Plan may be used as a base for the Risk Management Plan called for in the proposed regulations, upon final adoption by DOGGR. OSA has not provided any evidence to the contrary.

Finally, and perhaps most importantly, OSA has failed to demonstrate that the change of legal ownership that is the subject of this proceeding – a simple, routine “paper” transaction relating to a corporate reorganization three layers up – would in any way affect GRS’ willingness or ability to comply with DOGGR regulations in whatever manner they are formulated. In fact, under the new corporate structure, GRS would have access to capital markets with fewer regulatory approval requirements than under the corporate structure as it exists today. \(^{12}\)

B. It Would be Inconsistent With Commission Precedent to Impose Conditions on HoldCo to Prioritize GRS Over Other HoldCo Subsidiaries in Other States.

(S. Filippi)

1. The Evidence Shows That the Interests of HoldCo and GRS in the Safe Operation of the Facility are Aligned.

OSA states that the “application provides no conditions on the holding company to ensure the specific safety needs of the California GRS utility will be adequately prioritized and funded in light of the competing economic incentives at the proposed holding company.” \(^{13}\) The

---

\(^{11}\) Direct Testimony of the Joint Applicants, p. 23, lines 18-19. OSA confirmed that GRS has previously submitted a Risk Management Plan to DOGGR and indicated that DOGGR explained that comments to operators are pending the adoption of new regulation. (First OSA Testimony, p. 2-11, lines 2-5.)

\(^{12}\) Direct Testimony of the Joint Applicants, p. 26, line 13 to p. 27, line11; First Rebuttal Testimony of the Joint Applicants, p. 27, lines 6-10.

\(^{13}\) Second OSA Testimony, p. 4-3, lines 5-8.
Joint Applicants demonstrated in their First Rebuttal Testimony that GRS and HoldCo both equally benefit from, and would be committed to, safe operation of the Facility. Because HoldCo will benefit from the continued safe and reliable operation of the Facility, it will have no motivation to act in a manner that would affect GRS’ commitment to safety, or the effectiveness of its safety, controls, programs, and processes. The “incurrence of fines, penalties, or other adverse findings would be disadvantageous to GRS and HoldCo…” The corporate structure for GRS after the Reorganization will be identical to the corporate structure that exists today from GRS’ perspective, except that the ultimate parent company will be a holding company and will not be a public utility regulated by another state, as is the case today. The Board of Directors of HoldCo is intended to be identical to the Board of Directors of Northwest Natural Gas Company (“NW Natural”) today, and HoldCo will initially be a mere holding company with no independent operations. OSA has not identified a single fact relating to the proposed change of upstream legal ownership of GRS that is contrary to the testimony of the Joint Applicants. Further, the Reorganization provides better access to capital markets for GRS.

2. OSA’s Erroneous Interpretation of Prior Commission Decisions Imposing a “First Priority” Condition on the Large California Utilities’ Holding Companies Does not Support Imposition of Such a Condition on HoldCo.

OSA states generally that “[t]he Commission has previously placed significant conditions on applications that involve transactions between jurisdictional California utilities and their regulated affiliates.” OSA would in this proceeding have the Commission to impose a “first priority” condition on HoldCo based solely on the fact that the Commission previously required “holding company senior affiliates of the large California utilities to give ‘first priority’ condition in capital funding for their regulated utility subsidiaries.”

While this issue is primarily a legal issue, and one that the Joint Applicants will address more fully in briefing, they note that OSA has not offered a single fact relating to the pending change of upstream legal ownership that would warrant even consideration of a first priority condition. GRS reiterates, as discussed in the Joint Applicants’ Direct Testimony, GRS will have

---

14 First Rebuttal Testimony of the Joint Applicants, p. 28, lines 26-28.
15 Id. at p. 41, lines 8-13.
16 Id. at p. 41, lines 13-15.
17 Direct Testimony of the Joint Applicants, p. 4, line 4 to p. 8, line 17.
18 Id.
19 Second OSA Testimony, p. 4-5, lines 12-15.
20 Id. at p. 4-5, lines 16-20.
assets available to sufficiently respond to sudden or unexpected safety concerns or considerations
during and after the Reorganization. Further, GRS has demonstrated that it will have greater
and more efficient access to capital markets after the Reorganization. Additionally, OSA has
failed to address the rationale the Commission relied on to impose a first priority on the large
California utilities (with captive ratepayers), and why that rationale does not apply to an
independent storage provider providing competitive service.

As explained in the Joint Applicants’ Direct Testimony, the Commission, in the decision
cited by OSA (D.02-01-039), explained that a “first priority condition is intended to ensure a
utility is able to discharge its obligation to serve California ratepayers.” Unlike the large
investor owned utilities, GRS is not rate regulated, and it does not serve captive ratepayers. GRS,
pursuant to its Certificate of Public Convenience and Necessity (“CPCN”) (D.09-10-035), and
consistent with Legislative and Commission policy seeking to promote competition in gas
storage services, provides competitive storage services at market based rates. In its decision
granting GRS’ application for a CPCN, the Commission acknowledged that GRS was entering
the California market with zero customers, and that it would be competing with other storage
providers for customers. The Commission further found that GRS’ interest in the Facility “does
not place core ratepayers at risk.” The Commission stated that GRS “will not be subsidized by
the core ratepayers of its parent, NW Natural, or by PG&E’s core ratepayers.” Accordingly, the
Commission authorized GRS to provide competitive storage services at market-based rates,
within a rate zone. OSA’s effort to alter the very foundation upon which GRS applied for and
obtained its CPCN should be rejected.

Consistent with its CPCN and Commission-approved tariff, GRS provides competitive
storage services at market-based rates. Customers have the flexibility to choose among
competitive storage providers, and no customer is required to take service from GRS. GRS is not
required to file a General Rate Case with the Commission, and GRS does not provide gas supply
services at Commission-regulated rates to ratepayers for consumption. GRS is not required to

21 Direct Testimony of the Joint Applicants, p. 26, line 8 to p. 27, line 18; see also, Reply of the
Joint Applicants to Protest of OSA, pp. 8-9.
22 Direct Testimony of the Joint Applicants, p. 28, line 3 to p. 30, line 4.
23 See also, the “Storage Decision,” D.93-02-013.
24 D.09-10-035, mimeo, p. 51.
25 Id. at p. 52.
26 Id. at p. 53.
continue providing service at the Facility. Incorporating a first priority provision here thus would not address the concerns the Commission has previously identified in connection with such a condition.

The Commission also observed that the IOUs’ creation of holding companies created a danger that “the holding companies would favor their new unregulated subsidiaries at the expense of their utility subsidiaries, knowing that the public would always be available to cover any financial needs of the utilities.” As discussed above, that concern is not applicable to GRS as a competitive provider of storage services at market-based rates because it does not have a ratepayer base to which to turn.

Finally, the Commission has not imposed a first priority condition on an out-of-state owner of a California utility where the owner also owns utilities and operates in other jurisdictions, as is the case with HoldCo.

Apart from the regulatory matters discussed above, the fact that nothing is changing with respect to GRS as a result of the Reorganization, combined with GRS’ service history, demonstrates that it is not necessary to adopt a first priority provision here. GRS provides reliable service, maintaining the storage facilities and related equipment sufficient to ensure that the volumes of gas contracted by its firm storage customers may be delivered to and received from PG&E’s system under a variety of scenarios. Since it began providing storage service in 2010, GRS has never failed to meet the terms of its storage agreements. The Reorganization will have no negative effect on GRS’ ability to continue to operate in accordance with its market-based service requirements.

GRS also notes that the Commission has not routinely adopted a first priority provision in connection with transactions involving holding companies. For example, the Commission did not adopt such a condition in connection with Southwest Gas Corporation’s recent application regarding the issuance of stock and implementation of a reorganization plan resulting in a holding company structure. A first priority condition was not included in the decision approving a change in the ownership of Central Valley Gas Storage, LLC resulting from a merger with The Southern Company, a public utility holding company.

---

27. D.02-01-039, p. 29.
28. See, e.g., D.10-10-017, mimeo, Conclusion of Law 11.
29. D.16-01-037.
30. D.16-03-007.
similarly did not adopt such a provision when it granted ConocoPhillips Pipeline Company’s application for an exemption in connection with the transfer of utility operations to a publicly traded holding company.\(^\text{31}\)

OSA has failed to state a rationale relating to the upstream change of ownership of GRS that would warrant a deviation from the rationale the Commission has applied in its decisions imposing a first priority condition on the large California utilities. Accordingly, the “reason” for imposing a first priority condition set forth by OSA should be rejected.

**C. There is no Factual Basis for Applying a Surety Bond Requirement to GRS. (D. Weber)**

OSA recommends that the Commission adopt a bonding requirement here.\(^\text{32}\) Once again, OSA merely points to an action taken by the Commission in another proceeding, and proposes that the Commission take the same action in this proceeding, without demonstrating any facts relevant to this proceeding that would justify similar action.

In this instance, OSA states that “[t]he Commission has previously used surety or performance bond requirements on gas storage facilities to meet CPCN requirements, including to help restore the area in the event of bankruptcy.”\(^\text{33}\) The only example OSA provides is Lodi Gas Storage, L.L.C. (“LGS”). OSA correctly notes that the Commission required LGS to provide a $20 million surety or performance bond as a condition of its CPCN and that the Commission subsequently approved a reduction of the amount of the bond to $10 million.\(^\text{34}\) While OSA gets the terms of the LGS bonding requirement correct, it has failed to state any facts specific to the proposed upstream change of legal ownership of GRS that would warrant a similar requirement for GRS.

OSA fails to explain the basis for the Commission’s determination to impose a bond requirement on LGS. As noted, the Commission determination to impose a bond requirement was made in LGS’ CPCN proceeding. GRS has received a CPCN, which issued after a review of safety considerations and includes conditions relating to safety.\(^\text{35}\) This proceeding is not an opportunity to conduct a de novo review of the Facility, or to modify GRS’ CPCN.\(^\text{36}\)

\(^\text{31}\) D.12-04-035.
\(^\text{32}\) Second OSA Testimony, p. 4-8, lines 1-3.
\(^\text{33}\) Second OSA Testimony, p. 4-5, lines 21-24.
\(^\text{34}\) Second OSA Testimony, p. 4-5, line 27 to p. 4-6, line 5.
\(^\text{35}\) D.09-10-035.
\(^\text{36}\) First Rebuttal Testimony of the Joint Applicants, p. 5, lines 3-7.
Further, in the decision granting LGS’ CPCN, the Commission summarized the substantial concerns voiced by the community regarding the proposed LGS project during the CPCN process regarding compatibility with the development of the local wine industry and potential other impacts to nearby agricultural operations. In considering those concerns, the Commission stated that “[a]lthough the EIR finds the safety risks of this project to be extremely small, we believe that the community concerns can be mitigated to some extent if it is clear that LGS will have adequate liability insurance as well as a bond to ensure that LGS meets its project obligations.” Unlike the LGS matter, neither the community nor the Commission identified facts during the GRS CPCN proceeding that warranted requiring GRS to obtain a bond. As noted above, this proceeding is not a forum to relitigate GRS’ CPCN. There has been no change in the operation of the Facility since GRS’ CPCN was issued. Additionally, also as noted by the Joint Applicants throughout this proceeding, the Reorganization will result in no change to GRS or the Facility and the safe operation thereof. OSA has not identified any facts relating to the upstream change of legal ownership of GRS resulting from the Reorganization that would justify imposition of a bonding requirement now.

OSA states that the LGS bond requirement was adopted prior to the “gas storage risks lessons learned from Aliso Canyon, and before the recent publication of the new risk management requirements in the new DOGGR proposed regulations.” It is not clear what point OSA is trying to make with this testimony. GRS notes that the Commission has approached bonding requirements on a case-by-case basis, looking at the specific facts of each circumstance. As noted above, the facts of the GRS CPCN proceeding are very different from those of the LGS proceeding. The Joint Applicants explained in their First Rebuttal Testimony that it is appropriate to evaluate safety risks at individual gas storage facilities on a case-by-case basis. Both the Final Report of the Interagency Task Force on Natural Gas Safety, *Ensuring Safe and Reliable Underground Natural Gas Storage* (“Final Report”), and the draft DOGGR regulations contemplate that it is appropriate to allow operators some flexibility to tailor implementation of any well design changes and risk assessments to the specific facts of their facilities. OSA has not offered any facts specific to the upstream change of ownership of GRS or to the Facility and

---

37 D.00-05-048, *mimeo*, pp. 31-35.
38 *Id.* at p. 35.
39 Second OSA Testimony, p. 4-6, lines 8-11.
40 First Rebuttal Testimony of the Joint Applicants, p. 25, lines 17-21.
the safe operation thereof, that justify a bond requirement, and it would be inappropriate to extend the findings of the LGS CPCN proceeding to GRS on a one-size-fits-all basis.

OSA also refers to the Venoco bankruptcy case and alleges that “current DOGGR bonding requirements are insufficient to protect the public interest, particularly in the event of bankruptcy.” While OSA is correct in stating that DOGGR issued Venoco orders to plug and abandon certain wells in Beverly Hills, California, OSA’s ultimate conclusion that “current DOGGR bonding requirements are insufficient” is not supported by available information relating to the Venoco case.

Venoco operated the wells that are the subject of the DOGGR orders until December 31, 2016, when, as required by the terms of its leases, Venoco ceased operation of the wells. Venoco had not plugged the wells or removed its equipment. Venoco filed a chapter 11 bankruptcy petition on April 17, 2017, and announced its intent to vacate the site by May 31, 2017.

In the bankruptcy court proceeding, the lessors sought a preliminary injunction directing Venoco to monitor and maintain the site until Venoco complied with the DOGGR orders, and to create a reserve of appropriate funds to enable it to comply with the DOGGR orders. The court did not grant the motion for preliminary injunction, finding that because Venoco was monitoring the site, there was no immediate and irreparable harm. Once the bankruptcy liquidation was complete, the harm to the lessors would be in having to find a replacement monitoring firm and a firm to decommission the site. Because the lessors’ harm was purely economic injury, it was compensable in money damages, which is not irreparable harm sufficient to warrant a preliminary injunction. The court found that Venoco and its estate would suffer irreparable harm if the Court granted injunctive relief and Venoco was held in suspension, unable to

---

41 First OSA Testimony, p. 4-3, lines 15-24 and p. 4-6, lines 15-18.
43 Id.
44 Id.
45 Id, pp, 1-2.
46 Id. at p. 19.
47 Id.
48 Id. at pp. 19 and 21.
liquidate its estate.\footnote{Id. at pp. 21-22.} In reaching its conclusion, the Court found that so long as the transition of the monitoring process from Venoco was maintained, “there will be no threat to the public’s health or safety” and “[i]njunctive relief will not serve the public interest.”\footnote{Id.}

The relevant DOGGR orders directing Venoco to plug and abandon the relevant wells similarly are not based on a finding that “current DOGGR bonding requirements are insufficient to protect the public interest, particularly in the event of bankruptcy.”\footnote{DOGGR Orders to Plug and Abandon Wells, Decommission Attendant Well Facilities, and Restore Well Sites, Nos. 1116 and 1117 (May 15, 2017). (The Orders are available at: \url{http://www.conservation.ca.gov/dog/Documents/Orders/Order_No._1116_Venoco_Plug.pdf#search=venoco} and \url{http://www.conservation.ca.gov/dog/Documents/Orders/Order_No._1117_Venoco_Plug.pdf#search=venoco}.)} Further, OSA does not consider all of the requirements presently applicable to operators when they cease operations, or the potential to offset the costs of decommissioning a storage facility through the sale of recoverable gas and the salvage value of certain surface equipment.\footnote{First Rebuttal Testimony of Joint Applicants, p. 34, line 26 to p. 35, line 17.} OSA further does not consider that GRS maintains general liability insurance as affirmed by the Commission in GRS’ CPCN (D.09-10-035).\footnote{Id. at p. 35, line 18 to p. 36, line 2.}

Additionally, there are substantial differences between the relevant Venoco well site and the Facility. The Venoco well site was developed between 1979 and the mid-1980s and is situated in an urban area on a portion of Beverly Hills High School property.\footnote{In re Venoco, p. 4.} It is directly adjacent on two sides to the Beverly Hills High School recreational facilities, which are used by students and the public at large.\footnote{Id.} The Venoco site is approximately 80 feet from the nearest residence, and less than 250 feet from a hospital.\footnote{Id.} The Facility, on the other hand, was developed in 2010, using current technology, and it is located in a flat, remote, agricultural area.\footnote{Direct Testimony of the Joint Applicants, p. 12, lines 14-17.} These differences highlight the importance of taking site-specific conditions into consideration when addressing safety matters, and the impropriety of making one-size-fits-all conclusions.
Finally, it is unclear if OSA is suggesting that the CPUC address any issues OSA may believe exists with current DOGGR bonding requirements applicable to wells and appurtenant facilities that DOGGR is charged with regulating. Any such suggestion raises important jurisdictional issues that are beyond the scope of this proceeding.

OSA has not identified any facts relating to the proposed change of upstream ownership of GRS that would support imposing a surety or performance bond requirement on GRS.

D. The Joint Applicants Have Satisfactorily Addressed Safety Impacts Under Rule 2.1. (D. Weber)

OSA continues to allege that the Joint Application failed to assess safety impacts as required by Rule 2.1 of the Commission’s Rules of Practice and Procedure. The Joint Applicants addressed OSA’s allegation in their Reply to OSA’s Protest and their Direct Testimony.

Rule 2.1(c) requires that applications state:

The proposed category for the proceeding, the need for hearing, the issues to be considered including relevant safety considerations, and a proposed schedule.

The Joint Applicants have demonstrated that GRS has a compelling safety record, and that the Reorganization will have no negative effect on GRS or the Facility and the safe operation thereof. GRS will continue to be wholly-owned by NW Natural Gas Storage, LLC (“NW Natural Gas Storage”), and NW Natural Gas Storage will continue to be wholly-owned by NW Natural Energy, LLC (“NW Natural Energy”) after the Reorganization. No outside entity will be injected into the GRS chain of ownership. The corporate governance of GRS will not change as a result of the Reorganization; all current officers will continue in their positions. Similarly, the Boards of Directors of GRS, NW Natural Gas Storage, and NW Natural Energy will remain the same after the Reorganization. (OSA has admitted these organizational and governance facts.) After

---

58 Second OSA Testimony, p. 4-4, lines 1-2.
59 Direct Testimony of the Joint Applicants, p. 20, line 4 to p. 24, line 12; First Rebuttal Testimony of the Joint Applicants, p. 6, line 3 to p.16, line 31.
60 Direct Testimony of the Joint Applicants, p. 4, lines 19-22.
61 Id. at pp. 5 and 7.
62 Id. at p. 8, lines 7-8.
63 Direct Testimony of the Joint Applicants, p. 8, lines 7-12 and p. 25, lines 1-4; First Rebuttal Testimony of the Joint Applicants, p. 32, lines 19-20.
the Reorganization, GRS will continue to operate as an independent storage provider subject to the Commission’s jurisdiction and all other regulatory oversight, including with respect to safety.65

In sum, the Joint Application does not raise safety considerations. Even so, the Joint Applicants recognize the importance of affirmatively addressing safety, even in cases where an application does not raise safety considerations. The Joint Applicants have stated that, going forward, they will affirmatively address whether an application does or does not raise issues relating to safety considerations.66

Accordingly, OSA’s erroneous claim regarding Rule 2.1(c) should be disregarded by the Commission. Moreover, OSA does not connect its additional testimony regarding Aliso Canyon to the facts underlying the upstream change of legal ownership of GRS that is under consideration in this proceeding. OSA’s testimony in that regard should also be disregarded.67

Finally, OSA does not identify any link between its testimony regarding positions it has taken in the Wild Goose Storage, LLC/Lodi Gas Storage, L.L.C. proceeding (A.17-01-024) to the facts of the upstream change of ownership before the Commission in this proceeding. That testimony should similarly be disregarded by the Commission.

---

64 First OSA Testimony, p. 3-11, line 21 to p. 3-12, line 5.
65 Direct Testimony of the Joint Applicants, p. 1, lines 26-29; First Rebuttal Testimony of the Joint Applicants, p. 4, lines 21-25.
66 Reply of the Joint Applicants to Protest of OSA (March 27, 2017), p.7; Direct Testimony of the Joint Applicants, p. 25, lines 9-11.
67 Second OSA Testimony, p. 4-4, lines 6-10.
CHAPTER 3

OSA HAS PROVIDED NO EVIDENCE TO SUPPORT
IMPOSING CONDITIONS ON “SENIOR AFFILIATES” OF GRS
AND “FUTURE OWNERS AND ASSIGNEES”
(S. Filippi)

In its Second Rebuttal Testimony, “OSA recommends that the Commission consider and adopt, unless ruled out, the conditions the Commission has used in the past...,” namely a bonding requirement and a “first priority” condition. The Joint Applicants demonstrate above why neither is appropriate in connection with the upstream change of legal ownership of GRS, including that OSA has failed to offer any facts relating to the transaction that is the subject of this proceeding – the upstream change of legal ownership of GRS – that would warrant such conditions.

OSA also suggests that the Commission review the 50 settlement agreement conditions filed via stipulation on August 31, 2017 in the Oregon Public Utilities Commission (“OPUC”) proceeding considering NW Natural’s Reorganization proposal “from two standpoints”:

1. Adoption of a similar stipulation to the California application to ensure funding to mitigate safety risks at the Gill Ranch facility in California.
2. Whether such a condition of approval by OPUC further negatively impacts the ability of Holding Company to fund safety mitigations at GRS.

Both of these proposals should be rejected. As OSA notes, the stipulation filed in the OPUC proceeding is focused on economic matters relevant to NW Natural, a public utility authorized to purchase, sell, store, transport, and distribute natural gas to over 700,000 customers in Oregon and southwest Washington. With respect to the recommendation to adopt a similar stipulation in this proceeding, OSA is mixing apples and oranges. While OSA acknowledges that the stipulation filed with the OPUC “appears to be mostly driven by economic considerations for the Oregon utility” and that “OSA’s concerns are primarily with safety impacts in California,” it appears to seek to apply a similar stipulation here to address funding to mitigate safety risks in California, although that is not clear. What is clear is that OSA has not taken into consideration...
the fact that NW Natural is a traditional public utility, providing authorized service to captive ratepayers, while GRS is an independent storage provider authorized, but not required, to provide competitive storage services at market-based rates. Further, OSA has not provided a single fact in this proceeding showing that GRS has not been, presently is not, or will not in the future be able to fund mitigation for safety risks. To the contrary, the Joint Applicants have demonstrated that GRS will have more flexible access to capital markets than is available today through HoldCo, should a need arise to seek funding through HoldCo.\textsuperscript{72} The Commission should reject OSA’s invitation to pick and choose from the conditions in the OPUC proceeding because the issues presented are different and because by OSA’s own admission the conditions in that proceeding are not designed to address the issues in this case. The Commission should require OSA to make an affirmative showing of the reasons for any condition it seeks – it should not allow OSA to piggyback off of the OPUC proceeding to impose conditions that have no support in the record before the Commission and relate to different aspects of the Reorganization.

The second question, whether approval of the stipulation by OPUC will “further negatively impact[] the ability of Holding Company to fund safety mitigations at GRS,” is based on false assumptions. As discussed in the Joint Applicants’ First Rebuttal Testimony, OSA has supplied no evidence to show that GRS will require additional capital from HoldCo.\textsuperscript{73} The Joint Applicants have also demonstrated that the Reorganization will result in no immediate ownership, corporate governance, or operational changes at GRS. It is a routine reorganization by NW Natural into a holding company structure that will be followed by GRS continuing decision-making and operations unchanged and as usual, and with its traditional and longstanding commitment to safety. Further, GRS has demonstrated that GRS will have faster and more efficient access to capital markets via HoldCo than it does today via its current ultimate parent.

Notably, the stipulation that has been filed in the OPUC proceeding does not include a first priority provision in favor of NW Natural. This means that the stipulation does not harm

\textsuperscript{72} Direct Testimony of the Joint Applicants, p. 26, line 8 to p. 27, line 11; First Rebuttal Testimony of the Joint Applicants, p. 32, line 24 to p. 33, line 20.

\textsuperscript{73} First Rebuttal Testimony of the Joint Applicants, p. 32, line 24 to p. 33, line 1. As GRS further testified, HoldCo would be a potential source of funding, rather than a hindrance to funding, if that is required. (\textit{Id.} at p. 33, lines 1-2.)
GRS. Additionally, the fact that a first priority condition has not been proposed by OPUC staff highlights the impropriety of the CPUC pursuing such a condition.

OSA further recommends that “Commission conditions of approval should apply to not only Joint Applicants, but also senior affiliates, and future owners and assignees.” This recommendation should be rejected. GRS is the public utility over which the Commission has jurisdiction; it does not regulate “senior affiliates”. The suggestion to impose conditions on future owners and assignees would have an adverse effect in the market – entities seeking to acquire interests in California businesses would likely look less favorably on entities that bring with them a host of conditions that impose operating or other requirements and obligations on all future owners and assignees. Finally, OSA has not offered any facts relating to the transaction before the Commission – the upstream change of legal ownership of GRS – that would support imposition of the conditions OSA proposes on GRS, much less on other entities. The proposal to apply any conditions of approval that may be adopted in this proceeding on “senior affiliates, and future owners and assignees” is arbitrary, unreasonable, and unduly burdensome, and should be rejected.

---

74 Second OSA Testimony, p. 4-8, lines 13-15.
OSA HAS PROVIDED NO EVIDENCE TO SUPPORT THE POSTPONEMENT OF HEARINGS
(S. Filippi)

OSA suggests that “[a]though premature at this point, OSA recommends that the Commission may wish to consider postponement of hearings in order to allow the CPUC to benefit from having clarity of the final Oregon conditions of approval, before reaching a decision on the California application.” 75 As discussed above, the conditions that are the subject of a settlement agreement that has been submitted to the OPUC in connection with NW Natural’s application seeking approval of a corporate restructuring that will result in a holding company structure are not relevant to the change of legal ownership of GRS that is before the Commission in this proceeding. OSA has not established any nexus between the conditions it seeks to impose on the Joint Applicants, and the proposed upstream change of legal ownership of GRS that is the subject of the Joint Application. OSA should not be allowed to look to the OPUC proceeding to impose conditions here that have no support in the record before the Commission and relate to different aspects of the Reorganization.

Additionally, this case, which involves a routine change of ownership of the type the Commission previously has approved without lengthy proceedings, has already extended for over seven months since the Joint Application was filed on February 10, 2017. Hearings are set for approximately the eight-and-a-half-month mark, and a final decision likely will not issue until the first quarter of 2017, a year or more after the Joint Application was filed. The Joint Applicants agree with OSA regarding the importance of safety, and have demonstrated GRS’ strong safety record and commitment to safety. OSA has offered no facts to contradict the record established by GRS. Accordingly, the Joint Applicants would be unduly prejudiced by further delay in this proceeding, and OSA’s suggestion to postpone hearings should be rejected.

---

75 Second OSA Testimony, p. 4-8, lines 17-20.
CHAPTER 5

CONCLUSION

GRS agrees with OSA that safety is vitally important, and GRS is committed to and implements a comprehensive safety culture at the Facility as a top priority. To date, GRS has not been issued a safety related fine, penalty, or citation by the CPUC or DOGGR. GRS implements a comprehensive safety program at the Facility, with appropriate focus on leading indicators and a goal of continuous improvement. Additionally, GRS has been actively involved in the development of well safety laws and implementing regulations by DOGGR.

This proceeding relates to a routine corporate reorganization that will result in an upstream (three levels up) change of legal ownership of GRS. The Joint Applicants have provided substantial evidence demonstrating that the Reorganization will have no negative effect on GRS or the Facility and the safe operation thereof, and that the change of legal ownership is in the public interest. OSA has provided speculation and various erroneous assumptions, but no facts or other evidence to demonstrate a nexus between the upstream change of legal ownership (but not actual control) of GRS, on the one hand, and the conditions OSA seeks to impose on GRS, the other Joint Applicants, HoldCo, and future owners and assignees, on the other hand. The Joint Applicants respectfully request that the Commission decline to adopt the conditions proposed by OSA.