

Exhibit No. ____ (CAM-2T)
Docket UG-111233
WITNESS: C. ALEX MILLER

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

NORTHWEST NATURAL GAS
COMPANY,

Respondent.

Docket UG-111233

NORTHWEST NATURAL GAS COMPANY

TESTIMONY OF

C. ALEX MILLER

SUPPORTING STIPUATION

April 24, 2012

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

2 A. My name is C. Alex Miller. My business address is 220 NW Second Avenue,
3 Portland, Oregon 97209. My current position is Vice President, Finance and
4 Regulation for Northwest Natural Gas Company, d/b/a NW Natural ("NW
5 Natural" or the "Company"). Please see Exhibit No. ____ (CAM-1T), filed on July
6 7, 2011, for testimony describing my education and relevant experience.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony supports the Settlement Stipulation ("Stipulation") filed in this case
9 on April 24, 2012. Specifically, my testimony will discuss the settlement process
10 and the terms of the Stipulation. In addition, I provide background related to NW
11 Natural's joint venture with Encana Oil & Gas (USA) Inc. (hereinafter, "Encana")
12 (the "Transaction"). My testimony will also describe the necessary regulatory
13 approvals required by the Transaction along with a description of the Company's
14 filing in this case. Company witness Randolph S. Friedman is also providing
15 testimony in support of the Stipulation that will describe in greater detail the
16 mechanics of the Stipulation and how it will be implemented.

17 **Q. Do all the parties to this docket support the Stipulation?**

18 A. Yes. The Stipulation was entered into by NW Natural, Staff of the Washington
19 Utilities and Transportation Commission ("Staff"), the Public Counsel Section of
20 the Office of the Attorney General ("Public Counsel"), and the Northwest
21 Industrial Gas Users ("NWIGU") (individually, "Party;" collectively, "Parties").

22

1 **Q. Please describe generally the terms of the Stipulation.**

2 A. The Stipulation has two basic parts. First, the Parties agree that NW Natural
3 should be granted leave to withdraw the tariff filing. Second, the Parties agree
4 that NW Natural will not include in its Washington rates any of the costs or
5 benefits associated with the Transaction. Rather, the Company will maintain a
6 gas supply portfolio specific to Washington customers. This Washington-specific
7 portfolio will be maintained consistent with the Company's past practice and will
8 consist of financial hedges, storage inventories, and market purchases. The rates
9 for the Company's Oregon customers will be allocated 100 percent of the costs
10 and benefits of the Transaction.

11 **Q. Please generally describe the Transaction.**

12 A. NW Natural has agreed to enter into a joint venture with Encana, under which
13 NW Natural will partially fund the drilling of wells in the Jonah Field in
14 Wyoming. In exchange for providing these funds, NW Natural will earn a
15 working interest in the reserves in the field. Over 5 years, NW Natural will invest
16 about \$251 million and expects that it will receive about 93.1 BCF of gas from the
17 Transaction over the life of the wells from which it will receive gas. NW Natural
18 expects to acquire about 26 percent of the volumes in the first five years, 63
19 percent in the first 10 years, 83 percent in the first 15 years, and 94 percent by the
20 end of year 20. The remaining volumes will be received until the wells are finally
21 capped at the end of their useful life—estimated to be approximately 30 years
22 from signing. The testimony of Barbara J. Cronise (Exhibit No. ____ (BJC-1T)),

1 filed on July 7, 2011, provides a thorough and detailed description of the
2 Transaction.

3 **Q. What percentage of NW Natural's gas requirements does the Transaction**
4 **represent?**

5 A. The Transaction will provide about 10 percent of NW Natural's total annual gas
6 requirements during the first ten years of the agreement, and will taper off over
7 the remaining expected life of the wells.

8 **Q. Has the Transaction been finalized?**

9 A. Yes. The Transaction became effective May 1, 2011. By its terms, the
10 Transaction became effective only upon the Company obtaining satisfactory
11 regulatory approval by the Public Utility Commission of Oregon ("OPUC"). The
12 OPUC issued Order No. 11-040 on April 28, 2011, which provided the necessary
13 regulatory approval for the Transaction to be finalized and become effective.¹

14 **Q. Why did the Company seek approval from the OPUC prior to closing?**

15 A. Approximately 90 percent of NW Natural's total gas sales are to Oregon
16 customers. For this reason, and because of the unique nature of the Transaction,
17 and because of the size of the investment required, NW Natural was not willing to
18 enter into the Transaction without an order by the OPUC (a) finding that its
19 investment was prudent; and (b) adopting NW Natural's rate recovery proposal.
20 It was only after receiving approval from the OPUC that the Company finalized
21 the Transaction.

¹ *Re Northwest Natural Gas Company*, Dockets UM 1520 and UG 204, Order No. 11-040 (Apr. 28, 2011). That order was subsequently corrected by Order No. 11-044 issued on May 2, 2011. On May 25, 2011, the OPUC issued Order No. 11-176 that set forth in greater detail the OPUC's analysis of the Transaction and its reasons for approval.

1 **Q. Did the Company request similar approval from this Commission?**

2 A. Yes, the Company requested (1) that the Washington Utilities and Transportation
3 Commission (“Commission”) issue a finding that the Company’s decision to enter
4 into the Transaction was a prudent one, and (2) that the Commission approve its
5 proposed ratemaking treatment of the costs and benefits of the Transaction.

6 **Q. Why did the Company not seek approval from this Commission at the same**
7 **time as it sought approval from Oregon?**

8 A. NW Natural chose to file the Transaction first in Oregon for two reasons. First,
9 given the structure of the Transaction, the Company required a decision from the
10 OPUC on an expedited basis. The Company understood that the expedited
11 proceedings would absorb significant Company resources rendering it close to
12 impossible to effectively present the Transaction in two separate states
13 simultaneously. Second, the Company recognized that the outcome of the Oregon
14 proceeding was by no means certain. Because the OPUC’s approval was a
15 predicate to going forward, the Company felt that it made little sense to ask the
16 Washington stakeholders to participate in an intensive review docket that could be
17 rendered moot by an adverse decision by the OPUC.

18 **Q. Why does the Company now wish to withdraw the filing?**

19 A. After the tariff filing was made, the Company began discussions with Staff. It
20 became clear early on in this process that Staff was unlikely to support the
21 proposed tariff revisions. As described in greater detail in Staff’s testimony in
22 support of the Stipulation, because of the type and nature of the Transaction, Staff
23 felt that it did not have the expertise to fully evaluate the Transaction. Staff also

1 had questions regarding the wisdom of entering into such a long term hedge for
2 Washington customers. Thus, Staff could not recommend that the Transaction be
3 approved by the Commission. Public Counsel also indicated that it would likely
4 oppose the Company's filing. Based on these reactions, the Company understood
5 that if the WUTC were to approve the Transaction, it would be only after a
6 lengthy proceeding. On this point, a complicating factor was that the Transaction,
7 by its nature, imposes the greatest costs in its early years and delivers the greatest
8 benefits in the later years. Therefore, even if this Commission were to approve
9 the Transaction, a late allocation of costs and benefits to Washington customers—
10 without some type of complicated true-up mechanism-- would result in an unfair
11 burden on Oregon customers.

12 For these reasons, on September 23, 2011, NW Natural and Staff filed a
13 Joint Motion to Allow Withdrawal of Tariff Filing ("Joint Motion"). The Joint
14 Motion stated that the Company wished to withdraw the tariff filing with the
15 understanding that the Commission would not require the Company at any time in
16 the future to include the costs or benefits of the Transaction in Washington rates.

17 **Q. Did the Commission grant the Joint Motion?**

18 A. Yes, in part.² Administrative Law Judge ("ALJ") Dennis J. Moss granted the
19 Joint Motion "to the extent of giving NW Natural leave to withdraw its tariff
20 filing, which will result in the docket being closed."³ However, ALJ Moss

² *Wash. Utilities and Transp. Comm'n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 (Oct. 12, 2011).

³ *Wash. Utilities and Transp. Comm'n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 at ¶ 12 (Oct. 12, 2011).

1 declined to provide “any commitment from the Commission concerning the
2 current or future treatment of costs associated with the Encana contract.”⁴ If the
3 Company chose not to withdraw the filing, the order provided the Parties with
4 several possible courses of action. First, the Parties could propose a settlement
5 supporting the inclusion of the costs and benefits of the Transaction in
6 Washington rates.⁵ Second, the Parties “might agree, as implied by the Joint
7 Motion, that the costs of this contract can be accounted for separately from other
8 gas costs and simply not allowed to impact rates to customers in Washington.”⁶
9 Third, the parties could litigate the matter before the Commission.⁷

10 **Q. What did NW Natural do in response to this order?**

11 A. NW Natural chose not to withdraw its tariff filing. However, the Company
12 continued to work with the Parties in an attempt to resolve the issues in a
13 mutually satisfactory manner.

14 As a result of these continued discussions, the Parties agreed to the terms
15 of the Stipulation. The Stipulation provides that the costs of the Transaction will
16 be accounted for separately from other gas costs and will not be allowed to impact
17 the rates of Washington customers.

⁴ *Wash. Utilities and Transp. Comm’n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 at ¶ 10 (Oct. 12, 2011). ALJ Moss characterized the Joint Motion as akin to a settlement lacking evidentiary support. *Wash. Utilities and Transp. Comm’n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 at ¶ 7 (Oct. 12, 2011).

⁵ *Wash. Utilities and Transp. Comm’n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 at ¶ 8 (Oct. 12, 2011).

⁶ *Wash. Utilities and Transp. Comm’n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 at ¶ 9 (Oct. 12, 2011).

⁷ *Wash. Utilities and Transp. Comm’n v. Northwest Natural Gas Co.*, Docket UG-111233, Order 02 at ¶ 11 (Oct. 12, 2011).

1 **Q. How will the Stipulation affect the rates for NW Natural's Washington**
2 **customers?**

3 A. As will be discussed in more detail in Mr. Friedman's testimony, the Company
4 will maintain a separate gas portfolio for its Washington customers, and the rates
5 for the Company's Washington customers will be determined as if the Company
6 had not entered into the Transaction at all.

7 **Q. Is there precedent for a utility to maintain separate portfolios of resources**
8 **for customers in different jurisdictions?**

9 A. Yes. As the Commission is well aware, different states have different policies
10 impacting the resources a utility maintains to serve customers. For instance, some
11 states have renewable portfolio standards while others do not. Some states
12 encourage more extensive hedging for gas utilities than others. For these reasons,
13 it is not unusual for a multi-jurisdictional utility, such as NW Natural, to serve its
14 customers in different states using different resources. So long as each portfolio
15 is prudently maintained, the costs are appropriate, even if they may ultimately
16 result in different costs when compared to other states.

17 **Q. Does this conclude your testimony?**

18 A. Yes