

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET NO. UG-060256

**DIRECT TESTIMONY
OF
DAVID H. HAWK
ON BEHALF OF
THE NORTHWEST INDUSTRIAL GAS USERS**

August 15, 2006

1 **INTRODUCTION AND SUMMARY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is David H. Hawk, and my business address is J.R. Simplot Company,
4 P.O. Box 27, One Capital Center, and 999 Main Street, Suite 1300, Boise, Idaho,
5 83707.

6 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

7 **A.** I am currently the Director, Energy Natural Resources, on the corporate staff of the
8 J.R. Simplot Company in Boise, Idaho. I am responsible for determining current
9 and future company energy needs, identifying and managing the methods by which
10 the needs are met, and the administration of the company's activity in
11 governmental, energy and utility matters. Coupled with this is the identification
12 and acquisition of natural gas reserves and initiation and management of electrical
13 generation projects. In addition, I manage a hydroelectric project and co-
14 generation contracts.

15 I previously held positions of Exploration Geologist with Atlantic Richfield
16 and Tenneco; Vice President of IGC Production Company (a non-regulated
17 resource subsidiary of Intermountain Gas Company) and a manager at
18 Intermountain Gas Company; Vice President with Sundance Oil Company; and,
19 Senior Vice President with Horn Resources Corporation. These positions included
20 responsibility for management of the exploration for and production of natural
21 resources throughout the United States, including prospect generation, leasing,
22 drilling, producing, product marketing and the preparation and administration of all
23 related contracts.

1 I received a BS in Geology from the University of Idaho in 1967, and a MS
2 in Geology from the University of Oklahoma in 1970. I am a licensed professional
3 geologist in the State of Idaho.

4 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY**
5 **COMMISSIONS?**

6 **A.** Yes. I have testified before the Idaho Public Utilities Commission, the Oregon
7 Public Utilities Commission, the North Dakota Public Service Commission, the
8 Canadian National Energy Board, the Province of Alberta Resources Conservation
9 Board, and the Manitoba Public Utilities Board. I have also participated in
10 discussions and settlement conferences regarding interstate pipeline ratemaking,
11 transportation and access issues at the Federal Energy Regulatory Commission and
12 I have testified before a U.S. Senate Energy Subcommittee.

13 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

14 **A.** I am testifying on behalf of the Northwest Industrial Gas Users (NWIGU) in
15 response to Cascade's proposed rate changes for the Company's transportation
16 customers.

17 **Q. IS YOUR COMPANY A MEMBER OF THE NORTHWEST INDUSTRIAL**
18 **GAS USERS?**

19 **A.** Yes, the J.R. Simplot Company is a member of NWIGU.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A.** The purpose of my testimony is to stress to the Washington Utilities and
22 Transportation Commission (WUTC or Commission) the importance of moving
23 Cascade's transportation rates in line with the results of a properly prepared
24 embedded cost of service study.

1 **Q. ARE YOU AN EXPERT IN UTILITY RATEMAKING?**

2 **A.** No. I am not an expert in utility ratemaking but I have been the J.R. Simplot
3 Company's Director, Energy Natural Resources for many years, and I closely
4 follow regulatory commission decisions. I am considered to be an expert in energy
5 pricing, i.e. price and supply risk mitigation.

6 **Q. DOES YOUR COMPANY HAVE FACILITIES IN CASCADE'S**
7 **WASHINGTON SERVICE TERRITORY?**

8 **A.** Yes. J.R. Simplot Company has food processing facilities at Othello, Pasco and
9 Moses Lake, Washington, all served by Cascade.

10 **Q. DOES YOUR COMPANY HAVE OTHER FOOD PROCESSING**
11 **FACILITIES THAT COMPETE WITH THOSE SERVED BY CASCADE?**

12 **A.** Yes. J.R. Simplot Company has food processing facilities throughout North
13 America, in both the United States and Canada, and many of these facilities make
14 the same products as are produced by our Moses Lake and Othello facilities in
15 Cascade's service territory.

16 **Q. DOES YOUR COMPANY ALSO FACE COMPETITION FROM OTHER**
17 **COMPANIES IN THE PRODUCT LINES THAT ARE PROCESSED BY**
18 **THE FACILITIES SERVED BY CASCADE?**

19 **A.** Yes. Food processing is a very competitive business, and all of the facilities served
20 by Cascade in Washington face competition from other companies.

21 **Q. HAVE YOU REVIEWED CASCADE'S COST STUDY AND**
22 **TRANSPORTATION RATE PROPOSAL?**

23 **A.** Yes, but not in detail. However, I have a basic understanding of the embedded cost
24 of service study prepared by the Company as well as the modifications to that study
25 that have been prepared by NWIGU witness Donald W. Schoenbeck. My basic
26 understanding is that Cascade's industrial transportation rates are currently priced

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1 above what they should be if they were based on the cost-of-service principles
2 proposed by NWIGU. It is my further understanding that Cascade has proposed
3 partial movement toward cost-of-service based transportation rates, but that the
4 Company has not proposed moving all the way to cost-of-service under a properly
5 conducted cost of service study.

6 **Q. ARE YOU AWARE THAT CASCADE IS PROPOSING TO DECREASE**
7 **SCHEDULE 663, ON AVERAGE, BUT TO INCREASE SCHEDULE 664 ON**
8 **AVERAGE?**

9 **A.** Yes. It is my further understanding that if Cascade treated its transportation
10 customers as a single class and designed rates that fully reflected the results of the
11 proposed cost-of-service study, transportation rates for all customers would
12 decrease. While some customers would realize a greater decrease than others, all
13 transporters would realize some decrease in their current rates.

14 **Q. DO YOU CONSIDER CASCADE'S PROPOSAL INADEQUATE?**

15 **A.** Yes. I believe that this Commission should move Cascade's rates in line with the
16 results of a properly performed and accepted cost-of-service study. It is my
17 understanding that Mr. Schoenbeck has revised Cascade's cost-of-service study to
18 correct methodological errors to make the cost-of service study consistent with
19 Commission precedent. It is also my understanding that even Mr. Schoenbeck's
20 recommendations do not move Cascade's rates completely in line with the results
21 of a proper cost-of-service study.

22 In an extremely tight economy, and where it is apparent that industrial gas
23 transportation rates are above what they should be, this Commission should order
24 Cascade to adjust rates to comport with the results of a proper cost-of-service study

1 as soon as possible. Cascade has not filed a general rate case in Washington for
2 nearly a decade, so I am very concerned that if rates aren't brought in line with the
3 results of a properly conducted cost-of-service study in this proceeding, the
4 problems associated with the existing cross-subsidies will linger for years if not
5 decades.

6 **Q. HOW DOES THE EXISTENCE OF CROSS-SUBSIDIES IN CASCADE'S**
7 **TRANSPORTATION RATES AFFECT THE J.R. SIMPLOT COMPANY'S**
8 **WASHINGTON PLANTS?**

9 **A.** As I mentioned before, our food processing facilities in Washington compete intra-
10 company and inter-company throughout North America.

11 If gas costs or any costs are higher than necessary, it makes it difficult for
12 our Washington facilities to compete. To have our Washington plants paying
13 significantly more than it actually costs to deliver the gas aggravates both the
14 external and internal competitive positions of those plants.

15 **Q. ISN'T IT TRUE, THOUGH, THAT NATURAL GAS DISTRIBUTION**
16 **COSTS ARE JUST A SMALL PERCENTAGE OF THE OVERALL**
17 **NATURAL GAS COSTS AND PRODUCTION COSTS AT J.R. SIMPLOT'S**
18 **WASHINGTON PLANTS?**

19 **A.** It is true that the natural gas distribution costs are a small percentage of the cost of
20 making our finished products. However, the additional cost does impact the
21 competitive position of our Washington facilities. With natural gas, commodity
22 prices have risen significantly over the past several years. Natural gas commodity
23 prices are not only high by historic standards, but are increasingly similar across
24 North America. If my Company is forced to pay a higher delivery cost in
25 Cascade's Washington service territory, that puts those plants at a competitive
26 disadvantage compared to other similar plants in other parts of North America.

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1 **Q. ARE YOU SEEKING SUBSIDIES FOR INDUSTRIAL USERS?**

2 **A.** No, just the opposite. I am advocating that the Commission eliminate recognized
3 rate disparities that have existed in Cascade's Washington rates for many years.
4 These rate disparities have forced industrial consumers to subsidize Cascade's
5 residential and commercial customers. These subsidies harm Washington
6 industries. Where profit margins are measured in tenths of a cent per pound, every
7 cent is important.

8 **Q. HOW DOES HAVING THESE SUBSIDIES BUILT INTO CASCADE'S**
9 **DISTRIBUTION RATES AFFECT YOUR COMPANY?**

10 **A.** The high cost of transportation delivery service from Cascade puts its industrial
11 customers, including my Company, at a competitive disadvantage compared to
12 companies in other parts of the United States that pay rates based solely on the cost
13 to serve. The negative impact of such a pricing policy by a monopoly energy
14 provider is significant. The economic well being of Cascade's industrial customers
15 has serious consequences to the employees of these companies and the
16 communities in which their employees live and work.

17 **Q. WHY SHOULD THIS BE AN IMPORTANT POLICY CONCERN FOR**
18 **THIS COMMISSION?**

19 **A.** If other state commissions continue requiring gas companies to move their rates in
20 line with cost of service results, but the Washington Commission allows cross-
21 subsidies to continue to exist, this will be a serious setback for the long-term
22 viability of manufacturing facilities in Cascade's Washington service territory.
23 Paying more than cost-of-service for natural gas delivery is not a fair or justifiable
24 policy. I respectfully request that the Commission adopt the rates recommended by

1 Mr. Schoenbeck and also include in any order in this case a directive that will
2 ensure that any remaining cross-subsidies are eliminated promptly.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes, at this time.