

00001

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION

2 COMMISSION

3 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,)

4)
Complainant,)

5)

vs.) DOCKET NO. UG-000073

6) Volume I

NORTHWEST NATURAL GAS COMPANY,) Pages 1 - 35

7)

Respondent.)

8 -----

9

10 A prehearing conference in the above matter
11 was held on March 8, 2000, at 9:34 a.m., at 1300 South
12 Evergreen Park Drive Southwest, Olympia, Washington,
13 before Administrative Law Judge KAREN M. CAILLE.

14

The parties were present as follows:

15

16 WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION, by ROBERT D. CEDARBAUM, Assistant Attorney
17 General, 1400 South Evergreen Park Drive Southwest,
Post Office Box 40128, Olympia, Washington 98504.

18

NORTHWEST NATURAL GAS COMPANY, by SUSAN K.
19 ACKERMAN, Manager of Regulatory Affairs and Associate
Counsel, and MARK S. DODSON, Senior Vice President
20 Public Affairs and General Counsel, 220 Northwest
Second Avenue, Portland, Oregon 97209.

21

NORTHWEST NATURAL GAS COMPANY, by SUSAN B.
22 BERGLES, Associate Counsel, 220 Northwest Second
Avenue, Portland, Oregon 97209.

23

PUBLIC COUNSEL, by ROBERT W. CROMWELL, JR.,
24 and SIMON J. FFITCH (via bridge), Assistant Attorneys
General, 900 Fourth Avenue, Suite 2000, Seattle,
Washington 98164.

25

00002

1 NORTHWEST INDUSTRIAL GAS USERS, by EDWARD A.
2 FINKLEA, Attorney at Law, Energy Advocates, 526
3 Northwest 18th Avenue, Portland, Oregon 97209-2220.

4 WASHINGTON FOOD INDUSTRIES, by MELINDA J.
5 DAVISON, Attorney at Law, Duncan, Weinberg, Genzer and
6 Pembroke, 1300 Southwest Fifth Avenue, Suite 2915,
7 Portland, Oregon 97201.

8 SEH AMERICA, INC., by BRIAN H. WOLFE,
9 Attorney at Law, Blair, Schaefer, Hutchison and Wolfe,
10 105 West Evergreen Boulevard, Post Office Box 1148,
11 Vancouver, Washington 98666-1148.

12

13

14

15

16

17

18

19

20

21

22

23

24

25

Kathryn T. Wilson, CCR
Court Reporter

00003

1 P R O C E E D I N G S

2 JUDGE CAILLE: We are here today for the
3 first prehearing conference in the proceeding captioned
4 WUTC versus Northwest Natural Gas Company, Docket No.
5 UG-000073, and this is a general rate case filing by
6 Northwest Natural requesting an annual increase in
7 revenues of \$6,204,367, or about an increase of 18.8
8 percent. My name is Karen Caille and I'm the presiding
9 Administrative Law Judge. The Commissioners will be
10 sitting in this proceeding, but they will not be
11 joining us today. Today is March 8, 2000, and we are
12 convened in a hearing room at the Commission's offices
13 in Olympia, Washington.

14 This proceeding is being held to determine
15 whether the rate increase that Northwest Natural is
16 requesting is fair, just, and reasonable. Our basic
17 agenda today will be to ask for appearances, and then I
18 will address preliminary motions, including motions to
19 intervene; other motions, including the Company's
20 request for a waiver of the requirement to file a class
21 cost of service study; the need for a protective order
22 and for invoking the discovery rule; discussions of the
23 rules; a procedural schedule, and any other business.

24 At this point, does anyone else have anything
25 to add to the agenda? All right. Then I'd like to

00004

1 start this morning with appearances. I will ask you to
2 state your name, spelling your last name, who you
3 represent, your street address and mailing address,
4 telephone number, facsimile number, e-mail address, if
5 you have one, and for purposes of the appearance, would
6 you designate one person, if there is more than one of
7 you from your organization here, and that person will
8 be the one who will receive all the documents that are
9 filed, so let's begin with the Company.

10 MS. ACKERMAN: Appearance by Susan Ackerman,
11 spelled A-c-k-e-r-m-a-n. My title is manager of
12 regulatory affairs and associate counsel. The address
13 is 220 Northwest Second Avenue, Portland, Oregon,
14 97229. Telephone number is area code (503) 721-2452.
15 Fax number is area code (503) 721-2532, and my e-mail
16 address is ska@nwnatural.com.

17 JUDGE CAILLE: For Commission staff?

18 MR. CEDARBAUM: Thank you. My name is Robert
19 Cedarbaum. I'm an assistant attorney general. My
20 business address is the Heritage Plaza Building, 1400
21 South Evergreen Park Drive Southwest in Olympia,
22 Washington, 98504. My telephone number is area code
23 (360) 664-1188. Fax is area code (360) 586-5522, and
24 e-mail address is bcedarbau@wutc.wa.gov.

25 I should also indicate for the record that

00005

1 also appearing for Commission staff but not present
2 today is Shannon Smith. She is also an assistant
3 attorney general with the same business address. I'm
4 actually not sure what her phone number is today, but I
5 can find that out. Her fax number is the same as mine,
6 and I believe her e-mail address -- although, I can't
7 swear to it -- would be ssmith@wutc.wa.gov.

8 JUDGE CAILLE: Thank you. For Public
9 Counsel?

10 MR. CROMWELL: Robert W. Cromwell, Jr.,
11 C-r-o-m-w-e-l-l, for Public Counsel. Our address is
12 900 Fourth Avenue, Suite 2000, Seattle, Washington,
13 98164-1012. My direct line is area code (206)
14 464-6595. My fax number is area code (206) 389-2058.
15 My e-mail address is robertc1@atg.wa.gov. Also
16 appearing by telephone is Simon ffitch, f-f-i-t-c-h;
17 however, please designate me for purposes of mailing.

18 JUDGE CAILLE: Thank you. Let's begin with
19 intervenors. How about Ms. Davison.

20 MS. DAVISON: Thank you, Your Honor. My name
21 is Melinda Davison, and I'm appearing here today on the
22 behalf of the Washington Food Industry. My firm name
23 is Duncan, Weinberg, Genzer and Pembroke. I'm at 1300
24 Southwest Fifth Avenue, Suite 2915, Portland, Oregon,
25 97201. My phone number is area code (503) 241-7242.

00006

1 My fax number is area code (503) 241-8160, and my
2 e-mail address is dunwei@ibm.net.

3 JUDGE CAILLE: Thank you. Mr. Finklea?

4 MR. FINKLEA: I'm Edward Finklea representing
5 the Northwest Industrial Gas Users. My firm is Energy
6 Advocates, LLP. My business address is 526 Northwest
7 18th Avenue, Portland, Oregon, 97209. My phone number
8 is (503) 721-9118; fax, (503) 721-9121, and e-mail
9 address is efinklea@energyadvocates.com.

10 JUDGE CAILLE: Thank you. You'll have to
11 identify yourself for me because I don't know the rest
12 of you.

13 MR. WOLFE: My name is Brian Wolfe,
14 W-o-l-f-e. I represent SEH America, the primary
15 industrial user in Clark County aside from the direct
16 users. In my firm is Robert M. Schaefer,
17 S-c-h-a-e-f-e-r, and he should be shown as the primary
18 attorney for SEH. He's on vacation this week.

19 Our address is 105 West Evergreen Boulevard
20 in Vancouver Washington, 98666-1148. Our mailing
21 address is P.O. Box 1148, the same zip. Our phone
22 number is (360) 693-5883. Our fax number is (360)
23 693-1777. My e-mail address is bwolfe@bshw-law.com,
24 and Mr. Schaefer never looks at his e-mail.

25 JUDGE CAILLE: I'll make a note of that.

00007

1 Anyone else entering an appearance today?

2 MR. CEDARBAUM: I failed to mention before
3 that Shannon Smith will be the primary attorney for the
4 remainder of this case, so for purposes of the
5 Commission's routing of internal mail, I'd like to stay
6 on the routing list, but she should be added for
7 purposes of mailing. The parties can just mail things
8 to her and not duplicate it to me.

9 JUDGE CAILLE: Thank you.

10 MS. ACKERMAN: Your Honor, will there be a
11 memo with these names and addresses coming out?

12 JUDGE CAILLE: Yes. When I do the prehearing
13 conference order, we attach a sheet with all of the
14 information everybody has given today. The next order
15 of business will be petitions to intervene, and I have
16 one from the Washington Food Industry. Ms. Davison, do
17 you have anything further to add to your petition?

18 MS. DAVISON: No, Your Honor. Thank you.

19 JUDGE CAILLE: Does anyone have any comment
20 on this petition or any objection to this petition?
21 All right. Then the petition of the Washington Food
22 Industry to intervene in this matter is granted.
23 Mr. Finklea, I believe --

24 MR. FINKLEA: I filed this morning. I just
25 wanted to hand out -- I filed this morning a petition

00008

1 to intervene of the Northwest Industrial Gas Users.

2 JUDGE CAILLE: Mr. Wolfe, do you have any
3 petition, or are we going to orally?

4 MR. WOLFE: I do not have a written petition
5 to intervene, but I would like to verbally petition. I
6 note that the rules allow.

7 JUDGE CAILLE: That will be fine. Let's just
8 take about five minutes for all of us to read this.

9 (Pause in the proceedings.)

10 JUDGE CAILLE: Has everyone had an
11 opportunity to read the petition for intervention by
12 Northwest Industrial Gas Users? Is there any objection
13 to my granting this motion?

14 MS. ACKERMAN: There is no objection. I have
15 a question. I notice that Mr. Finklea identified who
16 the customers were in the service territory who are
17 members of the association. I was just wondering if we
18 could get the same courtesy from Ms. Davison's group,
19 if we could just have the customers identified.

20 MS. DAVISON: I tried to do that. That's
21 normally my practice is to attach a list of members,
22 but when I asked for that information, I was quite
23 surprised to learn that the Washington Food Industry
24 has over 1,200 members, and I wasn't sure how useful
25 that could be, but I think if for a rule of thumb for

00009

1 the most part, the interests that we are concerned
2 about in this rate case -- although, I don't want to
3 limit it specifically to that -- are the interests of
4 the grocery stores.

5 MS. ACKERMAN: Perhaps I could just submit a
6 data request for identification of the customers that
7 are the members of the association.

8 JUDGE CAILLE: I think that would be an
9 appropriate thing to do.

10 MR. FFITCH: I have a question, and that is
11 whether Mr. Wolfe's client is a member of the Gas Users
12 Association.

13 MR. FINKLEA: No, they are not.

14 MR. WOLFE: No, they are not, Mr. ffitich.

15 MR. FFITCH: Thank you. Also, I did not
16 catch the name, but was it SEH America?

17 MR. WOLFE: Yes.

18 MR. FFITCH: What's the nature of that
19 business, Mr. Wolfe?

20 MR. WOLFE: It's a fabrication of silicon
21 wafers.

22 MR. FFITCH: Thank you.

23 JUDGE CAILLE: All right. Then hearing no
24 objection regarding the petition of Northwest
25 Industrial Gas Users, that petition is granted, and Mr.

00010

1 Wolfe, may we hear from you?

2 MR. WOLFE: Yes. Brian Wolfe on behalf of
3 SEH America. SEH America is the largest silicon wafer
4 plant in Clark County currently; although,
5 Mr. Finklea's client, Wafer Tech, may soon surpass it,
6 but we too received the application from Northwest
7 Natural. In preparing for that filing, we've learned
8 that SEH is the single largest user of Northwest
9 Natural Gas except for about three special contracts
10 that deal directly, so we believe that they are going
11 to be directly affected by this proposed gas rate,
12 perhaps more than anyone else in Clark County, and we
13 would like to be able to intervene.

14 JUDGE CAILLE: Any comments from anyone? Any
15 objection? Then the petition to intervene that
16 Mr. Wolfe presented his for SEH is hereby granted.

17 MR. WOLFE: Your Honor, I have a question on
18 intervention. I note that there are some 25 to 30 high
19 users of Natural Gas in Clark County, and only three of
20 us are here today representing them, and I'm wondering
21 if any of the others who are not in the associations
22 could intervene at a future date.

23 JUDGE CAILLE: They can file a petition to
24 intervene, and the commissioners will entertain that
25 petition, but there is no guarantee that they will be

00011

1 allowed in. The prehearing conference notice that went
2 out asked that parties who intended to intervene to
3 file petitions to be intervene ahead of time or to
4 present a petition orally, so just with that caveat, so
5 you know. Anybody else? Any questions before we move
6 on?

7 In this proceeding, the Company is requesting
8 a waiver of the requirement to file a cost-of-service
9 sudden study, and I have received from Southwest
10 Washington Medical Center a letter in opposition and
11 from Northwest Industrial Gas Users as well.
12 Ms. Ackerman, would you like to present your request
13 for the record?

14 MS. ACKERMAN: I'd be happy to. In 1986
15 case, Your Honor, the Washington Commission stated that
16 in gas utility cases, cost-of-service issues were
17 important and directed that all general rate increases
18 for gas utilities be accompanied by a cost-of-service
19 study, and we are aware of that requirement; although,
20 the Commission has also said in many other dockets
21 since then that cost-of-service studies are tools, and
22 one element of considering cost allocation between
23 customer groups that they had a legal duty under the
24 requirements that they find rates to be just and
25 reasonable and lawful to deviate from strict

00012

1 application of cost-of-service studies.

2 We didn't file a stand-alone cost-of-service
3 study in this docket because we had done something a
4 little different, which is we had analyzed our rates
5 and how the rate spreads in our corporate tariff
6 compared against the rate spreads of utilities in
7 Washington were recently undergone cost-of-service
8 studies and have implemented rates according to very
9 recent Commission policies on gas rate spreads, and
10 what we learned in that study, and you will find it in
11 Northwest Natural Exhibits 9 and 10, is that Northwest
12 Natural's rate spreads look very much like the rate
13 spreads of Puget Sound Energy's gas rates. They are a
14 utility that is very similar to us.

15 Consequently, I believe we've complied with
16 the Commission's requirements because the Commission
17 does have in this docket a tool to help it make
18 decisions about rate spread; and that an individual
19 stand-alone fully allocated cost study would not
20 produce information that would be any more useful than
21 the information already in the docket, so we would
22 argue that we have met the requirement providing a
23 tool, or the alternative, that the stand-up
24 cost-of-service study would not provide much more
25 information that would be additional and useful to the

00013

1 parties in this docket, and for that reason, we request
2 a waiver, if one is required, of the requirements of
3 U-86-100. Thank you.

4 JUDGE CAILLE: Thank you. Mr. Finklea?

5 MR. FINKLEA: Thank you, Your Honor. We did
6 file yesterday a written opposition to the request.
7 First of all, Ms. Ackerman's is correct that U-86-100
8 is a similar case where the Washington Commission
9 adopted cost-of-service as a standard for determining
10 rate spread among various customer classes. Since that
11 order, every local distributor in the state of
12 Washington has performed cost-of-service studies that
13 have accompanied their rate filings with the exception
14 of Northwest Natural.

15 I agree with Ms. Ackerman that the precedent
16 from the Commission orders is that they use the
17 cost-of-service studies as a tool, as a way to judge
18 whether rate spread results in rates that are just,
19 reasonable, and nondiscriminatory. What Ms. Ackerman
20 is arguing is that for her company, the Commission
21 shouldn't have that tool, and we think that that tool
22 is essential to making those judgments.

23 What the Commission has done in the orders
24 has said that we may or may not apply strictly the
25 results of the cost study, but they've had the cost

00014

1 studies from the various companies in order to make the
2 judgement as to whether rates among the various
3 customer classes, are, in essence, fair, and the other
4 LDC's have performed cost-of-service studies. We've
5 had debates in this day on how to perform
6 cost-of-service studies, and we've had debates on how
7 to adjust rates as a result of cost-of-service studies,
8 but the essential of all of that is that there has been
9 a cost-of-service study, and if a company doesn't have
10 a cost-of-service study, you don't have any benchmark
11 with which to measure.

12 The unique circumstance here is that we not
13 only have a company that doesn't have a cost-of-service
14 study with this case, we have a company that doesn't
15 have any cost-of-service study. It's not like we have
16 one from two years ago we could look at. We don't even
17 have one from ten years ago we can look at. We have no
18 cost-of-service study from Northwest Natural. We
19 understand that Northwest Natural is a small
20 distributor in the State of Washington, but for the
21 customers of Northwest Natural, the fact that they are
22 served by a small distributor in the State of
23 Washington instead of the largest distributor in the
24 state is no consolation for them as to whether or not
25 the rates they pay bear any relationship to the cost

00015

1 that this company incurs to serve them, and the notion
2 that a study that just compares their rates to other
3 company's rates is quote, close enough, if they were to
4 file a general rate case, say, Well our rates are a
5 little lower than Puget Sound Energy's rates so we
6 should get a rate increase, the question is, what are
7 your costs? Are your costs the same as Puget Sound
8 Energy's, or are they different. We don't, in a
9 general rate case, just move everybody's rates to about
10 the same level as some other company's. We look at the
11 specifics of that company; what costs are they
12 incurring to serve their customers, not what cost has
13 Puget Sound incurred to serve customers in Seattle, so
14 on that basis, we think that some cost-of-service study
15 is necessary and would urge that one be filed by this
16 company.

17 We think that there may be some way to make
18 it a less costly and cumbersome process than the
19 traditional fully imbedded cost-of-service study for
20 each rate schedule. There may be a way to work out
21 something in between the kind of studies that the other
22 companies have filed and no study, but some study is
23 necessary.

24 JUDGE CAILLE: Thank you, Mr. Finklea. I
25 would just note, there is no one representing Southwest

00016

1 Washington Medical Center today; is that correct?
2 Would anyone else like to be heard on this matter?
3 Ms. Davison?

4 MS. DAVISON: Thank you, Your Honor. We also
5 believe that a cost-of-service study is necessary in
6 this case. I think it is essential in order for this
7 Commission to fully evaluate whether or not the
8 proposal contained in Northwest Natural's filing is
9 just and reasonable and will produce just and
10 reasonable rates for the various customer classes.

11 In reviewing Commission precedent on this
12 issue, there are a couple of key cases that I think are
13 instructive on this point. The first case that I would
14 point you to, Your Honor, is a Washington Water Power
15 case from 1992. In that particular case, the
16 Commission states, point blank, quote, Therefore, any
17 request for rate changes should be accompanied by an
18 imbedded cost-of-service study.

19 JUDGE CAILLE: Could you give me the docket
20 number on that?

21 MS. DAVISON: It is UG-901459.

22 JUDGE CAILLE: Thank you.

23 MS. DAVISON: In addition, in 1993 -- this is
24 a Washington Natural Gas Company case. The docket
25 number is UG-920840, the Commission states that as part

00017

1 of a general rate case, the Commission has found that
2 it is aided in its rate setting function by a
3 cost-of-service study. There are many other cases that
4 I could cite to you. These are two relatively recent
5 examples that I think clearly state the Commission's
6 position on the issue of cost-of-service study. I
7 believe that in order to adequately evaluate and
8 establish a proper record in this case, it is essential
9 that a cost-of-service study be performed.

10 JUDGE CAILLE: Mr. Wolfe?

11 MR. WOLFE: Thank you, Your Honor. First of
12 all, I'm hand-carrying on behalf of Clark College a
13 letter in opposition to the waiver of request. I do
14 not represent the college, nor do I represent
15 Mr. Cedarbaum's. The public entities feel a little bit
16 awkward about intervening in a matter like this, but
17 they do believe a cost-of-service study should take
18 place. In addition to the citations by counsel, which
19 I echo, it just seems to me like a plain reading of the
20 rule, 480-09-333, requires a cost-of-service study. In
21 Subsection 3, The revenue must be supplied by major
22 customer classes and charged to each class, and
23 Subsection 6 requires costs to be filed, and if you
24 can't do your cost-of-service-studies, if you don't
25 have one of those, how are you going to know exactly

00018

1 who is affected and how much.

2 The other thing I would point out is that the
3 major competitor of Northwest Natural in Clark County
4 is Clark Public Utilities. It's a power utility, and
5 it's not regulated by the WUTC, but they do a
6 cost-of-service study every time they have any rate
7 adjustment. They don't have a lot of rate adjustments,
8 but it's their policy to do so. So I think it would be
9 inappropriate for its competitor to obtain a rate
10 increase or rate adjustment without similar requirement
11 of a cost-of-service study.

12 JUDGE CAILLE: Thank you. Anyone else, Mr.
13 Cedarbaum?

14 MR. CEDARBAUM: Before I get to the exact
15 issue presented, I just have two or three preliminary
16 comments. One is we discussed the cost-of-service
17 issue as a requirement that Northwest Natural file a
18 cost-of-service study. I'm not so sure that's really
19 the case, and maybe this is just an academic issue
20 because it has been teed up, and the Commission
21 certainly has the authority to order one, but none of
22 the orders that were cited, either the Cascade order or
23 the Water Power order were rule-makings by the
24 Commission in which they set out a standard requirement
25 for all companies to file cost-of-service studies.

00019

1 Those were adjudications, and admittedly, Northwest
2 Natural was a party to the Cascade case, but it may be
3 a stretch to say that those orders established a fast
4 and set requirement for Northwest Natural to file a
5 case here, as opposed to saying -- file a
6 cost-of-service study, as opposed to saying, it's
7 failure to file one just doesn't matter. This is an
8 issue of burden of proof as to whether or not its rates
9 are just, fair, reasonable, and sufficient.

10 I should point out that the Company's last
11 rate case occurred in 1997, and although it was a
12 settled case, the Commission did establish rates in
13 that case without a class cost-of-service study, so
14 there is precedent both ways. The second preliminary
15 point is that the letters that have come in from Clark
16 County, and I think you have another one in front of
17 you -- I can't recall exactly what that was.

18 JUDGE CAILLE: Southwest Washington Medical
19 Center.

20 MR. CEDARBAUM: They are not, as I understand
21 it, parties to the case, and although I'm not
22 suggesting we ignore their letters, they deserve
23 somewhat less weight than the statements of counsel
24 today that are representing parties who have actually
25 intervened or are statutory parties. So those are sort

00020

1 of the preliminary comments.

2 Getting to the heart of the issue though,
3 Staff is agreeable to the proposal that the Company has
4 made to not require a cost-of-service study in this
5 case but to use the rate structures of other companies
6 as kind of a proxy, as a substitute tool to a class
7 cost-of-service study. That's not to say we agree with
8 what they've proposed, rate spread, rate design, but
9 just the general methodology is acceptable to Staff.
10 We see that as an acceptable substitute tool to a class
11 cost-of-service study for establishing just, fair,
12 reasonable, and sufficient rates in this case. That's
13 not to say that if the Commission desires that tool in
14 this case, the cost-of-service study, that we oppose
15 that. We just think we can get by without one, and we
16 also, I think, agree with Mr. Finklea though that there
17 may be some middle ground here, and maybe we can
18 discuss this off the record, as to whether some kind of
19 a cost-of-service study that is not a fully imbedded
20 cost-of-service study that would be burdensome to the
21 Company or that it might delay the schedule that we
22 might come up with in this case, but that would be
23 acceptable for the parties who feel the need for a
24 cost-of-service study. We're willing to explore that
25 avenue. We haven't had any specific discussions on

00021

1 that yet, but we would like the opportunity to do that.
2 So in summary, we think that we can establish
3 rates that are just, fair, reasonable, and sufficient
4 without a class cost-of-service study. We are not
5 opposed to one being required. We are not opposed to
6 some alternative cost-of-service study being agreed
7 upon by the parties as a replacement to a full-blown
8 study.

9 JUDGE CAILLE: Thank you, Mr. Cedarbaum.
10 Anyone else?

11 MR. CROMWELL: On behalf of Public Counsel,
12 we have no objection to the Commission's waiver at this
13 time; however, I think as Mr. Cedarbaum has pointed
14 out, perhaps at the point where we've exchanged some
15 discovery if some elements of a cost-of-service study
16 are necessary to properly analyze the case, there might
17 be the opportunity to reach an agreement in that
18 regard, or at a minimum would request the right to
19 reserve objection to the waiver and raise the issue
20 again at a later time, if as a result of discovery it
21 becomes apparent that it is necessary to reach that
22 end.

23 JUDGE CAILLE: Ms. Ackerman, do you have
24 anything you would like to add in response?

25 MS. ACKERMAN: I would just reply to one

00022

1 thing Mr. Finklea said, which is the Company has never
2 done a cost study. You are certainly correct that
3 we've never done an imbedded cost-of-service study, but
4 it's not correct that we've never done cost studies.
5 90 percent of our operations are in Oregon. Oregon and
6 Washington have very different philosophies about cost
7 of service, but we have very recently undertaken
8 long-run incremental cost study in Washington that we
9 would be willing to use in this docket. It reflects
10 our corporate view of where our costs should be, and
11 like Washington, Oregon does not believe that cost
12 studies should be the be-all and end-all for purposes
13 of making decisions about rate spread, but it would be
14 a useful tool, and it's already out there, and many
15 parties in this case have already seen that tool.

16 The second thing I would like to address is
17 Mr. Finklea's comment that it's like revenue
18 requirement. You can't just assume that rates ought to
19 equal what someone else's rates ought to be. I
20 certainly agree with that. On the other hand, a
21 revenue requirement determination has a lot more
22 science behind it than rate spread has, and that rate
23 spread issues which are trying to determine at a macro
24 level what's fair for various customer classes to bear
25 of a predetermined amount of revenue requirement, so

00023

1 I'm not sure it's a good analogy to point to revenue
2 requirement or the terminations of revenue requirement
3 as an equal reason for why you couldn't do rate spread
4 on a different basis through judgement and comparisons.
5 My final thought is that I agree with Mr. Cedarbaum
6 that perhaps we could talk about this a bit off the
7 record and come back.

8 JUDGE CAILLE: I'm thinking. Have the
9 parties had a chance to discuss schedule?

10 MR. CEDARBAUM: Probably in the most
11 inefficient way. We've had a lot of one-on-one
12 discussions, but we haven't all talked. We are just on
13 an approach and have some specific dates in mind, but
14 we don't actually have a final agreed-upon schedule to
15 present to you.

16 JUDGE CAILLE: How about if you discuss the
17 cost-of-service study issue and the scheduling issue,
18 and we'll take a break so that you can do that. How
19 much time do you think you will need?

20 MR. CEDARBAUM: I would think that perhaps
21 you could check back in a half an hour and see where we
22 are.

23 JUDGE CAILLE: Just so you have something to
24 work with, before I came in today, I did get a week in
25 September and a week in October that the Commissioners

00024

1 are available. The week of September the 18th is
2 available and the week of October the 9th.

3 MR. FFITCH: Just an additional item to be
4 discussed as part of the scheduling discussion would be
5 the need for a public hearing in the Southwest
6 Washington area, probably Vancouver, and we have not
7 discussed that with the parties previously, but I think
8 that the most efficient approach would likely be to
9 also try to coincide that with the commissioner's
10 schedules. We have had some discussions recently with
11 the public affairs office of the Commission, and they
12 have suggested that we try to -- rather than postpone
13 the scheduling of the public hearings until some time
14 after the prehearing conferences that we try to do that
15 at the prehearing conference because the ALJ has
16 availability dates at that time, so the suggestion was
17 made to us that we try to nail down that public hearing
18 date at the prehearing as well as the other dates.

19 JUDGE CAILLE: Perhaps you could give me
20 several dates, and I can check on those. Do you have
21 any dates now, Mr. ffitch, that you were going to
22 propose? During the break, I could check the
23 commissioner's calendars.

24 MR. FFITCH: I'm sorry. I did not have
25 specific dates in mind yet.

00025

1 MR. CROMWELL: Ms. Hansen and I have been
2 discussing it.

3 MR. CEDARBAUM: Could I also ask a scheduling
4 issue? One of the hearing weeks that I had talked
5 about with other parties was the week of September
6 25th, and I didn't know if that was not available at
7 all or just not considered.

8 MR. CROMWELL: And the only other comment I
9 would have on scheduling is I believe October 9th is
10 Yom Kippur.

11 JUDGE CAILLE: Let's go off the record, and
12 I'll come in about a quarter to 11:00.

13 (Discussion off the record.)

14 JUDGE CAILLE: The parties have worked out a
15 schedule, and Mr. Cedarbaum will be giving that
16 schedule in just a minute, but first I'd like to ask
17 Ms. Bergles to entering her appearance in this
18 proceeding.

19 MS. BERGLES: Northwest Natural has one
20 additional appearance to enter. It would be Susan
21 Bergles, B-e-r-g-l-es. My address is 220 Northwest
22 Second Avenue, Portland, Oregon, 97209. My phone is
23 (503) 220-2404; fax 503) 721-2516; e-mail,
24 sbb@nwnatural.com.

25 JUDGE CAILLE: Thank you. Mr. Cedarbaum,

00026

1 would you mind summarizing for us what the schedule is
2 and what the result is on the class cost-of-service
3 study?

4 MR. CEDARBAUM: Yes, Your Honor. Before I do
5 that I wonder whether it makes sense to first move the
6 discovery rule be triggered since part of our schedule
7 involves discovery issues.

8 JUDGE CAILLE: I think that's appropriate,
9 and the discovery rule 480-09-480 will be available to
10 you, and if there are any discovery problems in the
11 proceeding if you would just bring that to my
12 attention, I will be available by phone to work things
13 out. That's with the caveat that you try Friday to
14 work them out amongst yourselves first.

15 MR. CEDARBAUM: With respect to the
16 cost-of-service issue that we argued before the break
17 this morning, during the break, we had some discussion
18 about what alternative studies might be appropriate and
19 acceptable to the parties, and we couldn't reach
20 agreement today, but we have agreed to meet next week
21 to see if that can be resolved and then advise you and
22 the Commission no later than March 17th as to whether
23 or not we have an agreement which we would present to
24 the Commission for its approval on cost-of-service
25 methodology, or that we haven't reached agreement, in

00027

1 which case, we would ask you or the Commission to go
2 ahead and actually decide the Company's request for a
3 waiver of the cost-of-service requirement, so with
4 respect to schedule, the first date on the schedule is
5 that March 17th deadline.

6 The next date on the schedule is that on
7 March 24th of 2000, the Company will be refiling its
8 testimony and exhibits to reflect the impact of actual
9 numbers for the month of December, 1999, which in its
10 current filing does not include actual numbers. Those
11 numbers will become available, so the actual filing
12 will take place with the understanding that the
13 methodology for adjustments won't be changed but the
14 numbers will, and that was acceptable to the other
15 parties.

16 The next date is on April 17th at 10:00 in
17 the morning, the parties will initiate a conference
18 call amongst themselves to determine whether or not
19 it's appropriate to engage in settlement discussions,
20 and we'd like that acknowledged in the Commission's
21 prehearing conference order, but that's something we
22 will take care of on an informal basis and that we've
23 agreed to set aside sometime soon thereafter for
24 settlement talks if we decide to go forward.

25 The next date is July 21st, 2000, will be the

00028

1 date when Staff and Intervenors file their direct
2 cases. August 30th, Northwest Natural will file its
3 rebuttal case. Hearings will occur the week of
4 September 25th, which we understand is available from
5 the Commissioners' point of view, with a public hearing
6 in probably Vancouver or at least some point in the
7 Company's service territory, on October 5th. Briefs to
8 be filed November 1st, 2000, and then the final date is
9 a discovery issue, which backs up into the schedule,
10 but we've agreed that June 30th will be a cutoff date
11 for the parties to take depositions of the Company's
12 direct case, so beyond June 30th, no depositions of the
13 direct case will occur, but that doesn't preclude
14 depositions of Staff Intervenor direct cases or the
15 Company's rebuttal case later this time. We haven't
16 discussed any cutoff date for those matters. I think
17 that covers the schedule.

18 JUDGE CAILLE: Does anyone have anything to
19 add?

20 MR. FFITCH: I just wanted to state for the
21 record that we did raise an additional matter with
22 Ms. Ackerman for Northwest Natural. That was our ask
23 request that certain of the Company's filing be
24 restated to reflect the filing as a margin-only case
25 excluding the cost of gas rather than the current form

00029

1 in which it's been presented in order to reflect more
2 accurately the percentage of the increase, particularly
3 on residential customers, and I've agreed to follow-up
4 with Ms. Ackerman and talk to her in more detail about
5 how that adjustment to the filings would look and also
6 to keep Mr. Cedarbaum and Staff informed of those
7 discussions.

8 JUDGE CAILLE: All right, thank you.
9 Ms. Davison?

10 MS. DAVISON: Thank you, Your Honor. I
11 wanted to raise the issue that in the event we are not
12 able to reach a settlement on the cost-of-service
13 issue, I would like the opportunity to file a written
14 response to the motion admitted by Northwest Natural
15 Gas for the waiver in the cost-of-service study, and I
16 wanted to bring that to everyone's attention. I can do
17 that right away as soon as it becomes apparent that if
18 we are not able to reach settlement -- hopefully, we
19 can reach settlement and it will be a moot point, but I
20 did not want to have this issue take someone by
21 surprise.

22 JUDGE CAILLE: Why don't we wait and see what
23 happens, and I can schedule that in whatever order, if
24 necessary.

25 MS. DAVISON: Thank you, Your Honor.

00030

1 MR. CEDARBAUM: On that point, though, just
2 in case it comes to that, I don't really want to have
3 to file that kind of a brief, but I'd feel compelled to
4 since Ms. Davison does and Mr. Finklea already has, so
5 at this point, I would oppose that request. We've
6 stated our arguments today. Ms. Davison had the
7 opportunity to file a document which was not filed, and
8 that just prolongs resolution of the issues if we need
9 resolution from the Commission, and I think that
10 complicates matters.

11 JUDGE CAILLE: As you know, this will not
12 probably be my decision, so I will take it up with the
13 commissioners and mention it to them. Are there any
14 other issues that I should know about? Have the
15 parties been able to narrow the issues, or is this just
16 general rate case issues here? Okay. That brings to
17 mind, is there going to be a need for a protective
18 order?

19 MS. ACKERMAN: There may be a need for a
20 protective order. I don't see one right now though.

21 JUDGE CAILLE: Then you will advise me if
22 there is a need for one, and we can take care of that
23 with the commissioners.

24 MS. ACKERMAN: Excuse me, Your Honor. Could
25 we go off the record for just a minute?

00031

1 JUDGE CAILLE: Sure.

2 (Discussion off the record.)

3 MS. ACKERMAN: We did discuss off the record
4 the need for a protective order, and I think the
5 parties all agree that there may be a need to protect
6 customer-specific information from competitive
7 customers, so I think the customers as well as the
8 company would be interested in a protective order along
9 those lines.

10 JUDGE CAILLE: That sounds like that would be
11 the prudent thing to do. I will have a protective
12 order prepared and ready for signature by the
13 commissioners immediately. Is there any other
14 business?

15 MR. FFITCH: I don't want to open up a can of
16 worms here, but you did ask for any issues that you
17 should know about, and erring on the side of
18 completeness, there is an issue here with regard to a
19 request by the Company to implement some rates before
20 the entire case is completed, and just for the record,
21 I want to state that Public Counsel will be strongly
22 opposing any such requests. I don't know how that will
23 be presented specifically to the Commission at this
24 point in time, but that may well be an issue that comes
25 before you before the conclusion of the case.

00032

1 MS. ACKERMAN: I believe the Company's
2 position might have been -- and I may have led to this
3 confusion on this particular point. We had actually
4 hoped for a settlement of all revenue requirement
5 issues fairly early in the case and that having reached
6 a settlement of all revenue requirement issues could
7 phase in the implementation of the final numbers so
8 that the impact on customers would not be dramatic and
9 immediate, so I don't believe that we are asking for
10 interim rates with the possibility of refund or
11 anything like that, and it doesn't appear that phase-in
12 is a likely result at this point.

13 MR. CEDARBAUM: Since we are on the issue, I
14 guess I'll just throw in my two cents. We looked at
15 the phase-in as something that might come up for
16 discussion in settlement discussions, and we reserved
17 the right, I think, very clearly with the Company off
18 the record that that was not something that we were
19 agreeable to at this stage, but if they wanted to put
20 the issue on the table, we certainly couldn't stop
21 them. We didn't think of it as being something that
22 would be formally presented to the Commission outside
23 of a settlement discussion, so again, we're reserving
24 our right to look at that issue and take it up if and
25 when we need to.

00033

1 JUDGE CAILLE: Would anyone else like to be
2 heard on that? Any other business? Let me go through
3 my reminders. You are already going to engage in some
4 sort of settlement discussion, so I'm not going to
5 remind you that the Commission encourages that.

6 I will issue a prehearing conference order
7 that will include our prehearing schedule and other
8 matters. I remind everyone that anything you file must
9 be directed to the attention of the Commission
10 secretary, and that brings to mind the letter that you
11 submitted, please don't submit things to me. They
12 should go to the Commission secretary and then I'm on a
13 distribution list so I will get it through that
14 distribution. That way, it finds its way into the
15 record in the file.

16 The Commission secretary address is 1300
17 South Evergreen Park Drive Southwest, Post Office Box
18 47250, Olympia, Washington, 98504-7520. You will need
19 to use both the street address and post office box to
20 accommodate the needs of the state's mailing system.
21 We will need an original plus 14 copies for
22 distribution, and I will ask that everything you file
23 that you file not only in a hard copy but in an
24 electronic format, and it could be Word or Word
25 Perfect, and you can do that by e-mailing to the

00034

1 Commission's records center, or you can do it by a disk
2 attached with your filings.

3 MS. ACKERMAN: What is the e-mail address for
4 the Commission.

5 MS. HANSEN: records@wutc.wa.gov.

6 JUDGE CAILLE: Thank you, Penny. If there is
7 nothing further --

8 MR. CEDARBAUM: I just have a standard Staff
9 request that our rule on discovery already requires
10 everybody to gets copies of each other's data requests
11 but doesn't say anything about the responses. Staff
12 would like responses to all data requests made of all
13 parties in the case.

14 MR. CROMWELL: Concur.

15 JUDGE CAILLE: So does that go for everyone
16 here that as well as the data requests you want
17 responses?

18 MR. CROMWELL: Yes as to Public Counsel.

19 MR. CEDARBAUM: If somebody's response is
20 boxes, just terribly voluminous, then certainly a call
21 to me or Shannon Smith to see if we really need a copy
22 of something is worth making, but as a general rule, we
23 would like copies of all responses.

24 JUDGE CAILLE: And everyone is aware that I'm
25 not involved in receiving any data requests or any

00035

1 responses at this point. If that's it, I thank you all
2 for coming today, and this meeting is adjourned.
3 (Prehearing conference adjourned at 12:00 p.m.)

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25