

1 **Q: WOULD YOU STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A: My name is James M. Russell. My business address is 1300 S Evergreen Park Dr SW,
3 Olympia, Washington, 98504.

4
5 **Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A: I am employed by the Washington Utilities and Transportation Commission
7 (Commission) as a Policy Research Specialist.

8
9 **Q: HOW LONG HAVE YOU BEEN EMPLOYED BY THE COMMISSION?**

10 A: Approximately 15 years, from June 1985 to the present.

11
12 **Q: WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK
13 EXPERIENCE AT THE COMMISSION?**

14 A: I graduated from Washington State University in 1983, receiving a Bachelor of Arts in
15 Business Administration with a major in accounting.

16 My work for the Commission generally includes financial, accounting, and
17 other analysis of rate filings, special contracts, incentive proposals, and least cost
18 plans. Presently, I am also involved in the Commission's current gas and electric
19 rulemaking processes.

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21

1 **Q: HAVE YOU TESTIFIED BEFORE THE COMMISSION?**

2 A: Yes. I have testified in the following formal natural gas proceedings: Docket Nos.
3 U-86-41 and U-87-2126, Northwest Natural Gas Company; Docket Nos. U-88-2380
4 and UG-901459, Washington Water Power Company; and consolidated Docket Nos.
5 UG-911236, UG-920840, and UG-931405, Washington Natural Gas Company. I have
6 also provided testimony in Avista Utilities' current general rate case, Docket Nos. UE-
7 991606 and UG-991607.

8
9 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

10 A. In Section I of my testimony, I summarize Staff's additional revenue requirement of
11 \$3,221,000 if a state allocation methodology is fully implemented (the Company
12 requested \$5,626,590). In Section II of my testimony, I briefly discuss the
13 jurisdictional allocation performed by the Company. In Section III, I present and
14 explain the following adjustments from Exhibit ____ (JMR-2) for which I am
15 responsible:

- 16 1. Weather Normalized Gas Sales & Purchases.
17 2. Vancouver District Office Adjustment.
18 3. Uncollectible Accounts Adjustments.
19 4. One Pacific Square Adjustment.
20 5. Marketing and Advertising Adjustment.

21

1 **SECTION I: SUMMARY OF STAFF'S REVENUE REQUIREMENT**

2

3 **Q. PLEASE DESCRIBE YOUR EXHIBIT WHICH PRESENTS STAFF'S**
4 **REVENUE REQUIREMENT RECOMMENDATION.**

5 A. As the Staff witness sponsoring the overall revenue requirement calculation in this
6 case, I have prepared an exhibit which combines the rate of return of 8.95 percent, as
7 agreed to in the stipulation, and the necessary accounting adjustments to Washington
8 allocated test year results presented by myself and Staff members Merton Lott, Ken
9 Hua, and Yohannes Mariam.

10 The summary of a fully allocated Washington revenue requirement is presented
11 in Exhibit ____ (JMR-2). Column (a) shows the company's Washington allocated
12 results per the financial records for the test period (12 months ended December 1999).
13 Column (b) shows the total of the test year adjustments which are detailed on pages 2
14 through 4 of Exhibit ____ (JMR-2). Column (c) shows the adjusted test period results.
15 Column (d) shows the effect of the Staff's additional revenue requirement and column
16 (e) shows the net allocated results at the stipulated rate of return.

17

18 **Q: WOULD YOU BRIEFLY EXPLAIN THE FORMATTING AND**
19 **PRESENTATION OF THE EXHIBITS ILLUSTRATING YOUR RESULTS OF**
20 **OPERATIONS STATEMENT AND PROPOSED ADJUSTMENTS.**

21 A: The format of the results of operations statement in Exhibit ____ (JMR-2) mirror the

1 format of the Company's witness Mr. McVay. I have used Mr. McVay's Excel
2 spreadsheet file, which includes the detail of the adjustments. For reference purposes,
3 I have included the appropriate staff witness' name at the top of each column in
4 Exhibit ____ (JMR-2), pages 2 through 4. An electronic version of this Exhibit (Staff
5 Revenue Requirement.xls) has been filed with the Commission.

6
7 **SECTION II: JURISDICTIONAL ALLOCATION**

8
9 **Q: HAVE YOU REVIEWED THE STATE ALLOCATION STUDY THAT THE**
10 **COMPANY PERFORMED?**

11 A: Yes, I have reviewed the state allocation study. The allocation methodology is
12 consistent with the general agreement with the Oregon Commission Staff and
13 Northwest Natural after an extensive allocation review of the Company's 1998 results
14 during the fourth quarter of 1999.

15
16 **Q: APPROXIMATELY HOW MUCH OF THE STAFF'S ADDITIONAL**
17 **REVENUE REQUIREMENT OF \$3,221,000 IS A RESULT OF MOVING**
18 **FROM A SYSTEM REVENUE REQUIREMENT METHOD TO A STATE**
19 **ALLOCATED METHOD?**

20 A: Approximately \$3 million, or 93 percent, of the total additional revenue requirement is

1 a result of shifting to a state allocated basis. Staff witness Merton Lott discusses
2 Staff's proposal to phase in this allocation change over three years.

3 **SECTION III: RECOMMENDED ADJUSTMENTS**

4
5 **Q: PLEASE DISCUSS YOUR PROPOSED WEATHER NORMALIZED GAS**
6 **SALES & PURCHASES ADJUSTMENT SHOWN IN EXHIBIT ____ (JMR-2),**
7 **PAGE 2, COLUMN (A).**

8 A: Exhibit ____ (JMR-3), page 1, column (f), shows the "net normalizing effect" for sales
9 revenue (\$4,952,755), total industrial transportation margin (\$122,109), and gas costs
10 (\$3,660,849) which are brought forward to Exhibit ____ (JMR-2), page 2, column (a).
11 This adjustment differs from the Company's in several ways. First, column (c)
12 incorporates the normalized volumes for residential and commercial customers as
13 proposed by Staff witness Dr. Yohannes Mariam. Second, since the gas cost
14 commodity rate of \$.20189 (line 20) is already grossed up in the Purchased Gas
15 Adjustment (PGA) to include the costs associated with unaccounted for gas, I have
16 multiplied this rate by the sales volumes on line 6, column (c), rather than the total
17 sendout volumes on line 9 that the Company used to determine commodity costs. By
18 using sendout volumes as a multiplier, the Company's adjustment double counts the
19 costs associated with unaccounted for gas. Finally, I have recalculated normalized
20 demand costs on line 19 (\$5,903,644) to reflect the PGA demand cost increments
21 embedded within the class prices in column (d).

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Q: PLEASE DISCUSS YOUR ADJUSTMENT SHOWN ON PAGE 2, COLUMN (F), ENTITLED VANCOUVER DISTRICT OFFICE ADJUSTMENT.

A: This adjustment reflects the ongoing cost savings associated with the Company's consolidation of the Vancouver district office into the Vancouver service center. This adjustment differs from the Company's in two ways. First, the Company's adjustment did not include any cost saving in general office expenses as a result of consolidation. My adjustment includes a reduction in general office expenses to the level of the Company's fiscal year 2000 budget for this account to reflect these cost savings. I also propose that the amortization of brokers fees associated with the sublease of the Vancouver district office be amortized over the remaining life of the lease, rather than over three years as the Company proposes. This amortization period better matches the sublease costs with the sublease revenues. Exhibit ____ (JMR-3), page 2, details the calculation for this adjustment.

Q: PLEASE EXPLAIN YOUR PROPOSED ADJUSTMENT FOR UNCOLLECTIBLE ACCOUNTS AS SHOWN IN EXHIBIT ____ (JMR-2), PAGE 3, COLUMN (H).

A: The Company proposed an adjustment which reflects a three year average of the net write-off percentage for the years 1997, 1998, and 1999 (.4470 percent, .7272 percent, and .5614 percent of revenues, respectively). However, during 1998 the Company's

1 net write-offs were higher than normal due to problems associated with
2 implementation of the customer information system (CIS). Therefore, I believe that
3 the actual net write-off percentage of .5614 percent experienced during the test period
4 is more representative than a three year average, in this instance. My adjustment
5 reduces uncollectible accounts by \$14,131 to reflect the actual net write-off percentage
6 during the test period versus what was actually accrued on the books.

7
8 **Q: DO YOU HAVE ANY ISSUES WITH THE COMPANY'S ADJUSTMENT**
9 **ENTITLED "ONE PACIFIC SQUARE ADJUSTMENT" SHOWN IN EXHIBIT**
10 **____ (JMR-2), PAGE 3, COLUMN (J)?**

11 A: No, I have reviewed this adjustment and find it proper for ratemaking purposes.

12
13 **Q: PLEASE CONTINUE WITH A DISCUSSION OF YOUR PROPOSED**
14 **ADJUSTMENT TO MARKETING AND ADVERTISING WHICH IS SHOWN**
15 **IN EXHIBIT ____ (JMR-2), PAGE 3, COLUMN (K) .**

16 A: This adjustment removes the non-operating marketing promotional and advertising
17 costs incurred by the Company's Vancouver district office and Corporate Advertising
18 Department.

1 **Q: PLEASE DESCRIBE THE SUMMARY EXHIBIT, PAGE 3 OF EXHIBIT ____**
2 **(JMR-3), ILLUSTRATING YOUR PROPOSED MARKETING AND**
3 **ADVERTISING ADJUSTMENT.**

4 A: Lines 1 and 2 are the marketing and promotional expenses incurred in the Vancouver
5 district office. Line 4 shows the costs incurred by the Company’s natural gas vehicle
6 (NGV) segment. Line 5 illustrates the total test period advertising cost incurred by the
7 Company’s Corporate Advertising Department.

8
9 **Q: IN WHAT CONTEXT HAVE YOU ANALYZED THE COMPANY’S**
10 **MARKETING, PROMOTIONAL, AND ADVERTISING COSTS?**

11 A: WAC 480-90-043 Advertising, is the Commission’s rule covering advertising costs. I
12 have included a copy of the rule in Exhibit ____ (JMR-3), page 4.

13
14 **Q: WHAT IS YOUR GENERAL UNDERSTANDING OF THIS RULE?**

15 A: The rule prohibits the inclusion of all promotional advertising costs in the
16 determination of a natural gas utility’s revenue requirement.

17
18 **Q: ARE ANY ADVERTISING COSTS SPECIFICALLY ALLOWED FOR**
19 **RATEMAKING PURPOSES?**

20 A: Yes. Advertising which communicates to the utility’s current customers how to use
21 natural gas safely and efficiently is specifically allowed under the rule.

1 **Q: HOW HAVE YOU APPLIED THIS RULE’S INTENT TO THE COST**
2 **INCURRED BY THE COMPANY’S VANCOUVER MARKETING**
3 **DEPARTMENT?**

4 A: I requested a description of the activities of the employees who charge their time to
5 Account 12-912.065, Marketing Expense - Vancouver. Exhibit ____ (JMR-3), pages
6 5 through 7, is the response I received from the Company. It is a three page
7 memorandum from Scott Milam, Vancouver District Manager, to Kevin McVay, the
8 Company’s accounting witness to whom I requested the information.

9 According to the memorandum, and using the advertising rule as the basis for
10 allowable costs, I determined that approximately seven and one half of the 39 activities
11 listed, or 19 percent, were promotional in nature. Therefore, I have proposed to
12 disallow 19 percent of the Company’s Vancouver marketing expenses in Account 12-
13 912.065.

14 I have removed 100 percent of the expenses within Account 12-912.066
15 Promotional Expenses - Vancouver, consistent with the Company’s proposal.

17 **Q: PLEASE DISCUSS WHY YOU ARE PROPOSING TO REMOVE THE COSTS**
18 **INCURRED BY THE COMPANY’S NATURAL GAS VEHICLE (NGV)**
19 **SEGMENT ON LINE 4?**

20 A: In Docket No. UG-920840 (Third Supplemental Order) involving Washington Natural
21 Gas (WNG), the Commission rejected a proposal by WNG to recover costs associated

1 with developing a market for natural gas fueled vehicles. The Commission stated that
2 costs incurred to develop an NGV market should not be placed on the utility's
3 ratepayers. The Commission went on to say that if an NGV market is to be developed,
4 it should be done through a non-regulated company or through a public policy program
5 that spreads the cost over a broader population.

6 In this case, Northwest Natural Gas is proposing to recover costs associated
7 with NGV research and development. I propose removing these costs consistent with
8 the Commission's prior decision. If the Commission does not believe that its prior
9 Order is applicable in this instance, I would urge the Commission to view these costs
10 in the context of the advertising rule and consider them non-operating costs because
11 they are promotional (market development) in nature.

12
13 **Q: PLEASE CONTINUE WITH A DISCUSSION OF YOUR PROPOSAL TO**
14 **REMOVE CORPORATE ADVERTISING COSTS.**

15 A: Exhibit ____ (JMR-3), page 3, line 5, shows my proposed total company advertising
16 disallowance of \$1,392,452. Page 8 shows the total company non-operating costs by
17 sub-account. I have determined through data requests (see pages 9 -56) that, in the
18 context of the advertising rule, almost every major advertising expenditure I reviewed
19 was promotional in nature. For accounts I did not review in detail I gave the Company

1 the benefit of the doubt (indicated as BD in column d) and left the expenditure in to
2 recognize that some level of advertising is appropriate under the rule.

3

4 **Q: DOES THAT CONCLUDE YOUR TESTIMONY?**

5 **A:** Yes, it does.