

0021

1           BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2   COMMISSION  
3   WASHINGTON UTILITIES AND           )  
  TRANSPORTATION COMMISSION        )  
4   )  
                  Complainant,        )   DOCKET NO. UG-031885  
5   )   Volume II  
                  vs.                   )   Pages 21 - 40  
6   )  
  NORTHWEST NATURAL GAS            )  
7   COMPANY,                            )  
  )  
8                    Respondent.        )  
-----

9

10                           A hearing conference in the above matter  
11 was held on June 10, 2004, at 10:02 a.m., at 1300 South  
12 Evergreen Park Drive Southwest, Olympia, Washington,  
13 before Administrative Law Judge KAREN M. CAILLE,  
14 Chairwoman MARILYN SHOWALTER, Commissioners RICHARD  
15 HEMSTAD and PATRICK OSHIE.

16

17                           The parties were present as follows:

18                           WASHINGTON UTILITIES AND TRANSPORTATION  
19                           COMMISSION, by GREGORY J. TRAUTMAN, Assistant Attorney  
20                           General, 1400 South Evergreen Park Drive Southwest,  
                          Post Office Box 40128, Olympia, Washington 98504;  
                          telephone, (360) 664-1187.

21                           NORTHWEST NATURAL GAS COMPANY, by JAMES M.  
22                           VAN NOSTRAND and JENNIE BRICKER, Attorneys at Law,  
                          Stoel Rives, LLP, 900 Southwest Fifth Avenue, Suite  
                          2600, Portland, Oregon 97201; telephone, (503)  
23                           294-9679.

24                           PUBLIC COUNSEL, by ROBERT W. CROMWELL, JR,  
25                           Assistant Attorney General, 900 Fourth Avenue, Suite  
                          2000, Seattle, Washington 98164; telephone, (206)  
                          464-6595.

0022

1                   CITIZEN'S UTILITY ALLIANCE, by RONALD L.  
ROSEMAN, Attorney at Law, 2011 14th Avenue East,  
2                   Seattle, Washington 98112; telephone, (206) 324-8792.

3                   NORTHWEST INDUSTRIAL GAS USERS, by EDWARD A.  
FINKLEA, Attorney at Law, Cable, Huston, Benedict,  
4                   Haagensen & Lloyd, 1001 Southwest Fifth Avenue, Suite  
2000, Portland, Oregon 97204; telephone, (503)  
5                   224-3092.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24                   Kathryn T. Wilson, CCR

25                   Court Reporter

0023

1

2

---

INDEX OF EXHIBITS

---

3

4	EXHIBIT:	MARKED:	OFFERED:	ADMITTED:
5	1	26	26	26
6	1A	33	33	32
7	2T	26	26	26
8	3T	26	26	26
9	4 - 9	26	26	26
10	10T	27	27	27
11	11 - 15	27	27	27
12	16T	27	27	27
13	17 - 19	27	27	27
14	20T	27	27	27
15	21 - 24	27	27	27
16	25T	27	27	27
17	26 - 33	27	27	27
18	34T	27	27	27
19	35 - 41	27	27	27
20	42T	27	27	27
21	43	27	27	27
22	44T	27	27	27
23	45C	27	27	27
24	46C	27	27	27
25	47C	27	27	27

0024

1

2

---

INDEX OF EXHIBITS

---

3

4	EXHIBIT:	MARKED:	OFFERED:	ADMITTED:
5	48T	27	27	27
6	49	27	27	27
7	50T	27	27	27
8	51 - 58	27	27	27
9	59T	27	27	27
10	60 - 61	27	27	27
11	62T	27	27	27
12	63 - 65	27	27	27
13	66T	27	27	27
14	67T	27	27	27
15	70T	27	27	27

16

17

18

19

20

21

22

23

24

25

0025

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

2 JUDGE CAILLE: This is a hearing on the  
3 settlement stipulation in the Northwest Natural Gas  
4 Company general rate case, Docket No. UG-031885. Today  
5 is June the 10th, and we are convened in a hearing room  
6 in the Commission's offices in Olympia. My name is  
7 Karen Caille. I'm the presiding administrative law  
8 judge in this proceeding. The Commissioners are  
9 sitting, and they will be joining us later.

10 As the first matter of business, I would like  
11 to have the parties enter their appearances. I believe  
12 everyone has given full appearances, so if you will  
13 just state your name and who you represent, beginning  
14 with Northwest Natural Gas.

15 MR. VAN NOSTRAND: On behalf of Applicant  
16 Northwest Natural Gas, James M. Van Nostrand and Jenny  
17 Bricker with the law firm of Stoel Rives.

18 JUDGE CAILLE: Mr. Finklea?

19 MR. FINKLEA: On behalf of Northwest  
20 Industrial Gas Users, I'm Ed Finklea of the law firm  
21 Cable, Huston in Portland, Oregon.

22 JUDGE CAILLE: Mr. Roseman?

23 MR. ROSEMAN: On behalf of the Citizen's  
24 Utility Alliance, my name is Ronald Roseman, attorney  
25 at law, Seattle.

0026

1           MR. CROMWELL: Robert Cromwell, assistant  
2 attorney general with the Public Counsel section.

3           JUDGE CAILLE: For Staff?

4           MR. SOUTHWORTH: Greg Trautman, assistant  
5 attorney general for Commission staff. Also  
6 representing Commission staff is assistant attorney  
7 general Chris Swanson.

8           JUDGE CAILLE: Let the record reflect there  
9 are no other appearances. At this time, I would like  
10 to take care of the exhibits, and it's my understanding  
11 that as part of the stipulation, the parties have  
12 agreed to admit all of the Company's prefiled exhibits;  
13 is that correct?

14          MR. VAN NOSTRAND: That is correct, Your  
15 Honor.

16          MR. CROWELL: That is correct.

17          MR. ROSEMAN: Yes.

18          MR. FINKLEA: Yes.

19          JUDGE CAILLE: Then you can relax for a few  
20 minutes while I read these into the record.

21                 The following exhibits are admitted into the  
22 record by the stipulation of the parties: Exhibits  
23 No. 1 and 2T, which are exhibits presented by all the  
24 parties; the exhibits of Bruce DeBolt, which are  
25 Exhibits 3T through 9; the exhibits of Samuel Hadaway,

0027

1 which are Exhibits 10T through 15; the exhibits of  
2 Kevin McVay, which are Exhibits 16T through 19; the  
3 exhibits of Dr. John Hanson, which are Exhibits 20T  
4 through 24; the exhibits of Lea Anne Doolittle, which  
5 are Exhibits 25T through 33; the exhibits of Kimberly  
6 Heiting, H-e-i-t-i-n-g, which are Exhibits 34T through  
7 41; the exhibits of Sandra K. Hart and Scott A. Milam,  
8 which are Exhibits 42T and 43; the exhibits of Charles  
9 E. Stinson, which are Exhibits 44T through 47C; another  
10 set of exhibits from Dr. John A. Hanson, which include  
11 Exhibits 48T and 49; exhibits of Dr. Francis Ferguson,  
12 which are Exhibits 50T through 65, and then another  
13 exhibit for Dr. John Hanson, which is Exhibit 66T;  
14 Exhibit 67T for C. Alex Miller, and Exhibit 70T for  
15 Public Counsel, which is the aggregated written public  
16 comments.

17 That reminds me, is there anyone in the room  
18 that's a customer that is here to comment at all? Is  
19 there anyone here who has come to the hearing and would  
20 like to comment afterwards? Just wanted to make sure.

21 With that, I would like to swear in the  
22 witnesses, so is everyone here? If all the witnesses  
23 will stand up and raise your right hand, I'll do this  
24 as a group.

25 (Witnesses sworn.)

0028

1                   JUDGE CAILLE: I think we've taken care of  
2 all my housekeeping matters. Is there anything from  
3 the parties before we take a brief recess? All right.  
4 Then we are recessed, I think, until 10:30.

5                   (Recess.)

6                   JUDGE CAILLE: Let's go on the record,  
7 returning from a brief recess. I would like to welcome  
8 the Commissioners to the bench. Commissioners, we've  
9 already taken appearances and sworn in the panelists  
10 and admitted the exhibits. My understanding is that  
11 the parties have an amendment to their settlement  
12 stipulation that they would like to present to you, so  
13 I'm not sure who's doing that.

14                  MR. VAN NOSTRAND: I thought if I could have  
15 sort of a background as to how we all got here and some  
16 of the elements of the stipulation. Good morning,  
17 Commissioners. We are pleased to be able to present  
18 this morning a stipulation among all the parties to the  
19 case which settles all the issues in the case.

20                  The company filed this case last November  
21 asking for an increase of about 7.9 million dollars, or  
22 15 percent. This stipulation provides for an increase  
23 of 3.5 million, or about 6.7 percent, and there are a  
24 couple of larger revenue requirement issues that  
25 explain how we got from 7.9 million to 3.5.



0029

1           One is the Vancouver service center issue,  
2    which was an item that, basically, wasn't right in as  
3    much as that facility has not entered service, so that  
4    was one of the items that were removed from the revenue  
5    requirement. The other is the South Mist pipeline  
6    extension, which is another item that is not yet in  
7    service, and the stipulation addresses a process for  
8    what happens when that item is placed into service, and  
9    it's contemplated it will be handled in a PGA filing  
10   this fall.

11           The amendment which we've presented this  
12    morning is a further development of the proposal for  
13    handling the South Mist pipeline extension. The  
14    parties have reached agreement on this issue, and it  
15    was inadvertently excluded from the original  
16    stipulation, but the parties have reached agreement on  
17    a recommended approach for how the rate of return would  
18    be calculated on that South Mist pipeline investment  
19    once it is included in the rate base, and the amendment  
20    to the stipulation reflects the parties' agreed  
21    proposal on how the rate of return should be calculated  
22    on that investment when that issue is brought to the  
23    Commission in the fall.

24           The stipulation also includes provisions  
25    relating to the implementation of a low-income

0030

1 weatherization program, and that's due largely to the  
2 participation of Chuck Ebert and the Citizen's Utility  
3 Alliance in this case. The low-income weatherization  
4 program is largely similar to what the Company operates  
5 in Oregon and is similar to what other utilities in  
6 Washington offer, and it is a key element of the  
7 stipulation as far as the parties are concerned.

8           The stipulation also includes a number of  
9 changes in rate structure and rate design. A number of  
10 the rate schedules were consolidated. A number of rate  
11 structures within the schedules were simplified  
12 eliminating declining block structures. On that point,  
13 I think it's helpful to point out that all the classes  
14 of customers who were represented in negotiating the  
15 stipulation, industrial customers, represented by Ed  
16 Finklea and the Northwest Industrial Gas Users, and the  
17 residential customers represented by Public Counsel,  
18 Mr. Cromwell, as well as the Citizen's Utility  
19 Alliance.

20           Just a little bit about the process. When we  
21 had the prehearing conference in this case, we actually  
22 identified a couple of days that we set aside in the  
23 schedule to have a settlement conference, and we  
24 scheduled those about three weeks before when the  
25 parties would file the opposing testimony with the idea

0031

1 that the parties would be far enough along in their  
2 knowledge of the case that they would be able to form  
3 opinions as to issues and possible positions on issues  
4 but not so far along that they would be committed to  
5 writing their testimony.

6           As it turned out, I think scheduling those  
7 days in the schedule turned out to be a significant  
8 event. I think the parties ended up conducting their  
9 discovery on a time line that would allow informed  
10 participation in the settlement conference, and Staff  
11 came to the conference with positions on many of the  
12 issues and positions on overall adjustments and revenue  
13 requirement, which led to a couple of very productive  
14 days of settlement discussions which resulted in the  
15 stipulation.

16           And as far as how the parties got to the  
17 number, I think on the basis of those discussions, it  
18 appeared as though there was a consensus on overall  
19 revenue requirement, and it's pretty much in the same  
20 range. I think the parties have different ways of  
21 getting there, so they would have different approaches  
22 as to how we would arrive at that overall amount, but  
23 there seemed to be a consensus, and that's how the  
24 parties were able to come up with the ultimate  
25 stipulation.

0032

1           The prefiled testimony outlines the key  
2 elements of the stipulation, and we believe that plus  
3 the Company's original filing we submitted that  
4 provides sufficient evidentiary basis for adoption of  
5 the stipulation, and we have each of the parties  
6 represented here today in a panel of seven witnesses  
7 who are available to answer questions from the  
8 Commission about the stipulation. Thank you.

9           JUDGE CAILLE: Anything from any other  
10 counsel?

11           MR. TRAUTMAN: Commission staff concurs with  
12 the remarks of Mr. Van Nostrand and also urges that the  
13 Commission approve the settlement agreement.

14           MR. CROWELL: Public Counsel would concur as  
15 well, and just as a housekeeping matter, I guess I  
16 would ask either that we include the amendment to the  
17 stipulation that was submitted this morning as part of  
18 Exhibit 1, or as an alternative, you wish to assign  
19 another number to it and formally make it a part of the  
20 record.

21           JUDGE CAILLE: How about if we include that  
22 as Exhibit 1A? Anything further from the parties?  
23 Then I think we are ready for the panel of witnesses.  
24 Let me just check. The understanding is that the  
25 Commissioners will just be asking questions of them;

0033

1 there isn't going to be any further presentation from  
2 the witnesses; is that correct? Thank you.

3 CHAIRWOMAN SHOWALTER: I'll ask one question.  
4 Mr. Van Nostrand said that this resolves all issues,  
5 and I take that to mean that to date, and I understand  
6 that the Mist extension and the Vancouver issue are in  
7 the future and that's one reason they weren't included  
8 in this settlement, so excluding those, I'm trying to  
9 determine whether there are any lurking issues that  
10 would come up later, and my reference really is to  
11 other proceedings in which there have been big  
12 settlements only for us to find out later that  
13 something, like prudence of a major issue, comes up  
14 after a settlement, and I think that the general  
15 community perceives that when you have a settlement,  
16 that resolves all issues to date, and so my question  
17 is, is there anything that you know of that could come  
18 up later that deals with issues or activities prior to  
19 today?

20 MR. RUSSELL: From Staff's perspective, we  
21 don't anticipate anything, but let the Company speak.

22 MR. MCVAY: From the Company's perspective, I  
23 would say the same.

24 CHAIRWOMAN SHOWALTER: This is really  
25 bringing everything up-to-date. Thanks.

0034

1           COMMISSIONER HEMSTAD: I'm curious. In the  
2 settlement, there is not an agreement on the capital  
3 structure from which the rate of return could be  
4 calculated. Any general comments on that?

5           MR. RUSSELL: That was probably the most  
6 contentious issue in this case. From Staff's  
7 viewpoint, we were keeping numbers as we were going  
8 along through negotiation, so from Staff's perspective,  
9 we always knew where we were on those issues and where  
10 we would be if we went to hearing. So we were tracking  
11 that from our perspective, but the parties could not  
12 agree on either structure or cost rates.

13           COMMISSIONER HEMSTAD: So it's possible to  
14 come up with additional revenue required but not to  
15 fill in the planks behind that as to how you would  
16 arrive at that.

17           MR. RUSSELL: With regard to SMPE and  
18 Vancouver?

19           COMMISSIONER HEMSTAD: But even thinking more  
20 generally than that. In other words, we don't have in  
21 front of us a capital structure, I think.

22           MR. RUSSELL: Correct.

23           COMMISSIONER HEMSTAD: And your point is the  
24 parties could not agree on that but you could agree on  
25 additional revenue.

0035

1 MR. RUSSELL: Correct.

2 MR. MCVAY: I think what happens is you go  
3 into it with an array of capital structures and rates  
4 of return, and you gauge it, you judge the context of  
5 the settlement where you think other people can settle,  
6 where you think the case will go if it went to  
7 litigation, and you evaluate it with respect to that.

8 JUDGE CAILLE: Let me interrupt for a moment.  
9 Will each of the witnesses introduce yourself for the  
10 record before you speak so we have a clear  
11 understanding of who is speaking?

12 MR. MCVAY: I'm Kevin McVay with Northwest  
13 Natural, and I think that's what everyone does. They  
14 look at the, if their baseline amount with respect to  
15 their cost of capital and the elements of the overall  
16 rate of return, and probably fortunately, there were  
17 other issues still on the table that I think we had  
18 gotten close on but we are perfectly in sync on and had  
19 agreed on.

20 So I think with respect to most parties, they  
21 probably could look at the whole range of unsettled  
22 issues at that time and fit it into their thinking  
23 about what would I give up on that, but still knowing  
24 that what you are coming to on an overall revenue  
25 requirement would be a decent proxy. It would be close

0036

1 to what you might get out of litigation.

2 COMMISSIONER HEMSTAD: An echo on the Chair's  
3 earlier question, is there any downstream implications  
4 of that that we should know about?

5 MR. MCVAY: I think with regard to SMPE, I  
6 think this takes care of it; the amendment will take  
7 care of that. I think with regard to a new service  
8 center, that's an issue for a future rate case. It's  
9 not provided for in the settlement. There is nothing  
10 automatic that would give rate relief. I don't know of  
11 any future investments that would rely on rate of  
12 return that would come up, so I think we are okay.

13 CHAIRWOMAN SHOWALTER: So if there is in the  
14 future some significant expense that you want to put in  
15 the rate base, you will just have to come back and  
16 request a general rate case and start from scratch on  
17 the capital structure, etcetera. Of course, if it's  
18 pretty far down the road, you would need to be starting  
19 over anyway.

20 MR. MCVAY: Right.

21 COMMISSIONER OSHIE: I understand that this  
22 is a settlement, that the PGA is the next proceeding in  
23 line, so to speak, but why is the PGA an appropriate  
24 proceeding in which we would decide an adjustment to  
25 the rate base of the Company, for example, allowing the



0037

1 South Mist pipeline extension into rate base?

2 MR. MCVAY: The PGA was really chosen as a  
3 rate event that we could match that we could do SMPE  
4 with so you wouldn't have numerous rate changes in some  
5 period, and we know that the SMPE is supposed to come  
6 online in the fall, and that rate event would be a good  
7 match for it.

8 The other thing that is some rationale for  
9 including it is that SMPE is to some extent an  
10 alternative for pipeline demand. So to the extent that  
11 you've got other gas cost issues, you've got pipeline  
12 demand issues. You can look at it in terms of being a  
13 cost of gas kind of an issue. So the PGA is not a bad  
14 place for it to be.

15 The other things, the benefits that accrue  
16 from the SMPE investment occur in the context of the  
17 PGA, so there may be some up-front -- probably not  
18 up-front but more on a deferral basis with regard to  
19 the deferral of gas costs, and the benefits that come  
20 out of the existence of the SMPE would show up in  
21 benefits that would be deferred for pass-back in the  
22 following year.

23 MR. RUSSELL: One last point on that too is  
24 that the purchasing strategy of the companies discussed  
25 through their least-cost planning process, a lot of the

0038

1 Mist investment has been justified through the  
2 least-cost planning process also, so they are tied  
3 there to.

4 COMMISSIONER OSHIE: Are the parties  
5 confident that if there is an issue as to the prudence  
6 of the expenditure, parties don't agree, for example,  
7 and that there is a hearing required to deal with the  
8 prudence issue that there would be plenty of time in  
9 the context of the PGA to handle that?

10 MR. RUSSELL: In that event, I don't think  
11 so.

12 MR. MCVAY: I think what you do have is -- I  
13 can't remember if the wording was in here or not -- the  
14 rate effects that would be going into place would be  
15 subject to refund. So to whatever extent the initial  
16 rate filing was in error because of future  
17 determination of prudence of expense, that sort of  
18 thing would be reflected in a deferral account. It  
19 could be dealt with in regard to the idea that the  
20 rates would be subject to refund.

21 COMMISSIONER OSHIE: Maybe to put it in a  
22 nutshell, Mr. McVay, I think what you were saying is  
23 that there would be an opportunity to fully hear this  
24 matter in the event that there is a dispute, perhaps  
25 outside of the PGA process, and whatever rates would be

0039

1 in place would be subject to refund.

2 MR. MCVAY: That's true.

3 COMMISSIONER HEMSTAD: With regard to the  
4 amendment to the stipulation, Alternatives A and B are  
5 dependent upon rate of return determined in the Puget  
6 Sound Energy or the Pacific Power and Light Company  
7 rate cases, and I know the Puget case is scheduled to  
8 end in early March of 2005, and I've forgotten the  
9 schedule for Pacific, but I think it is relatively  
10 late, so unless one or both of those settle, that rate  
11 of return, I think, wouldn't be available, which would  
12 leave Alternative C, rate of return in Oregon, and  
13 someone tell me what is that rate of return at the  
14 present time.

15 MR. MCVAY: The overall rate of return is  
16 8.62 percent, and that reflects a cost of equity of  
17 10.2, and that was a result of last summer that was  
18 effective on September 1 of '03.

19 COMMISSIONER HEMSTAD: I assume that you do  
20 not anticipate any further proceedings in Oregon.

21 MR. MCVAY: No. I would mention though that  
22 this would serve as a bridge, so at the next rate case,  
23 it would all be at the Washington cost of capital.

24 CHAIRWOMAN SHOWALTER: I have no other  
25 questions.

0040

1                   JUDGE CAILLE:  Anything more?  All right.  
2   Then if there is nothing further to come before the  
3   Commission, we thank the panelists for appearing today,  
4   and we thank the parties for diligently pursuing the  
5   settlement, and you all are excused.

6                   (Hearing concluded at 10:50 a.m.)

7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25