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Company: Washington Natural Gas

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WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant,

v.

WASHINGTON NATURAL GAS COMPANY, Respondent.

No. UG-920840

BRIEF OF PARTNERSHIP FOR EQUITABLE RATES FOR COMMERCIAL CUSTOMERS (PERCC)

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Introduction

The Partnership for Equitable Rates for Commercial Customers ("PERCC") is a coalition of schools, hospitals, public agencies, and other commercial customers of Washington Natural Gas ("WNG").

Residential and large industrial customers have traditionally been represented in rate cases. The views of these customers are typically presented by competent legal counsel and expert witnesses. Commercial customers have not until recently intervened in most Commission proceedings. However, when WNG announced its $42.5 million rate increase, PERCC members felt compelled to intervene. PERCC member Roy Cosper testified:

> We are concerned that commercial customers like hospitals are bearing an unfair share of WNG's costs. Health care providers, schools, and public agencies are in the midst of a financial crisis. When our costs go up, the public suffers. Our intent -- as our name indicates -- is to promote equitable rates for commercial customers.

Ex. T-253 (Testimony of R. Cosper), p. 1.

PERCC now urges the Commission to address the interests of commercial customers as follows:

1. Require WNG to offer transportation service to commercial and small industrial customers at reasonable rates and under reasonable terms and conditions.

2. Approve WNG's proposed Schedule 50 for firm service vehicular natural gas.

3. Require WNG to adopt rates that are fair and equitable to commercial customers.

This brief addresses these and other matters of concern to PERCC and other commercial and small industrial ratepayers.

I. Transportation Should Be Available To Commercial And Small Industrial Customers At Reasonable Rates And Under Reasonable Terms and Conditions.

WNG has made transportation service available to many of its commercial and small industrial customers since 1988. Commercial customers have benefited enormously from the opportunity to transport market priced gas. In one twelve month period, PERCC member hospitals saved almost $300,000 by transporting gas. Providence Hospital alone saved almost $27,000 a year through transportation. Similarly, public schools, which buy most supplies and commodities through a competitive bidding process, have achieved significant savings by transporting gas. For example, in the 1990-91 school year, Tacoma Public Schools saved $32,000 -- the equivalent of a teacher's salary -- by transporting market priced gas. Ex. T-253 (Testimony of R. Cosper), p. 4.

Now, with no cost basis or other justification, WNG proposes to cut off transportation as a viable option for most -- if not all -- commercial and small industrial customers. WNG has proposed a new Schedule 58 for so-called "limited volume" transportation service. In spite of the nomenclature, Schedule 58 for all practical purposes excludes any customer with annual usage of less than 240,000 therms. Even if a commercial or small industrial customer could qualify for Schedule 58, the commodity rate for this service is <u>three times</u> the rate under Schedule 57. Finally, WNG has constructed balancing requirements and other barriers to make transportation difficult -- if not impossible -- for all customers, large and small.

WNG can and should make transportation service feasible for any qualified commercial and small industrial customer. To achieve this goal, PERCC recommends that the Commission order WNG to implement the following measures:

(1) Consolidate Schedules 57 and 58 into a single transportation tariff.

(2) Allow qualified groups of customers to aggregate volumes for purposes of balancing and to meet minimum transportation requirements.

(3) Lower the minimum transportation volume to 100,000 therms per year.

(4) Offer reasonable balancing requirements and other terms and conditions for transportation.

PERCC urges the Commission to order WNG to continue to offer transportation service under reasonable terms and conditions and at reasonable rates and charges to all qualified customers, including commercial and small industrial ratepayers.

A. Consolidate Schedules 57 And 58 Into A Single Transportation Tariff.

WNG has arbitrarily divided transportation customers into two rate classes based solely on minimum volume requirements -- Schedule 57 for customers with an annual interruptible load of 750,000 therms or more and Schedule 58 for customers with a minimum annual load of 240,000 therms. There is no cost justification for the barrier between Schedules 57 and 58.

There are two components to these transportation rates -- a demand charge and a commodity charge. Schedules 57 and 58 have the same demand charge. However, the commodity charge for Schedule 58 is <u>three times</u> the commodity charge for Schedule 57. A customer taking 100,000 therms of interruptible transportation a month under Schedule 57 would pay 4.5 cents/therm, while a customer taking the same volume under Schedule 58 would pay 13.5 cents/therm.

WNG's cost of service does not support this extreme differential in rates for Schedules 57 and 58. James Sutherland -- PERCC's cost of service expert -- testified:

> After examining Schedules 57 and 58 and comparing these rates to the results both of WNG's cost of service study and my own cost of service study, I conclude that there is no cost justification for a separate transportation rate for Schedule 58 and no cost justification for the minimum volumetric restrictions that separate Schedules 57 and 58.

Ex. T-272 (Testimony of J. Sutherland), p. 9. Mr. Betzold agreed: "This [price difference] discriminates unfairly against smaller transportation customers. This difference is not cost-based and, in my opinion, this discrepancy is unreasonable." Ex. T-302 (Testimony of D. Betzold), p. 6.

Washington law prohibits regulated utilities from charging different rates "for doing a like or contemporaneous service with respect thereto under the same or substantially similar circumstances or conditions." RCW 809.28.100. WNG's proposal to charge Schedule 58 ratepayers a rate that is three times the Schedule 57 rate for the same service is not "just, fair, [or] reasonable" and is unlawful. RCW 80.28.010; <u>State Ex Rel. Model</u>

Water & Light Co. v. Dept. of Public Service, 199 Wash. 24, 90 P.2d 243 (1939).

WNG's filing, moreover, violates the Commission's prior transportation order. In WNG's earlier transportation case, the Commission's January 1991 Order acknowledged the merit of the suggestion of expert Dr. Robert Johnston, who recommended that WNG submit a transportation cost of service "fully allocating transportation costs among customers by size." Second Supplemental Order Authorizing Tariff Revision, with Conditions, Docket No. UG-900210 (1991), p. 6 (emphasis added). The Commission ordered WNG to file a study of the cost of servicing transportation customers, including "an adequate basis for rate distinctions which reflect any differences in costs" among various types of transportation customers. Id., at 6.

WNG has blatantly ignored the Commission's order. The company's cost of service and other filings fail to provide any cost justification for the rate differential between large volume and other transportation customers. The company has no workpapers or cost studies to support the minimum volume requirements. Ex. 121; Ex. 123; Tr. 786, 3657. The only identifiable cost attributable solely to transportation is the cost of receiving daily nominations. Ex. 119 (Dep. of J. Sullivan), pp. 37-8. It is inconceivable that this cost could be three times as much for commercial and small industrial customers as it is for Schedule 57.

From the ratepayers' viewpoint, this price differential between Schedules 57 and 58 is irrational. A customer using 62,5000 therms per month would pay 7.2 cents/therm more or twice as much under Schedule 58 as the same customer under Schedule 57 for the same volume of gas and exactly the same service. Ex. T-T-302 (Testimony of D. Betzold), p. 6. Depending on the circumstances, some ratepayers would save money by switching from Schedule 58 to Schedule 57 and paying the deficiency penalty.[1]

This arbitrary treatment could and should be corrected by consolidating proposed Schedules 57 and 58. With an appropriate block rate design, consolidation of the transportation tariffs would have little impact on current Schedule 57 customers and no impact on WNG's other ratepayers or its total transportation revenues. Ex. T-272 (Testimony of J. Sutherland), p. 10.

The Commission should order WNG to file an appropriate block rate for a consolidated transportation tariff. For example, an appropriate block rate design might include an initial block applicable only to customers using less than 750,000 therms/year or 62,500 therms/month, the current threshold for Schedule 57. A second block could apply to customers now eligible for Schedule 57 (more than 62,500/month) and would include all these

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1 For example, a ratepayer using 50,000 therms per month would pay a rate of 15 cents per therm or $7,500 per month under Schedule 58. Even with the deficiency penalty, the same ratepayer would pay only 10.5 cents per therm or $5,250 per month on Schedule 57. At 62,500 therms per month, switching to Schedule 57 would save this ratepayer $4,500 per month. See, Ex. T-302 (Testimony of D. Betzold), p. 7; Ex. 307.

customers' volumes up to 100,000 therms per month. A third block would include all volumes over 100,000 per month. Charging the new initial block customers 9.5 cents/therm and increasing WNG's proposed commodity rates for other transportation customers by only two-tenths of a cent per therm would produce the required commodity revenues of $7.3 million.[2]

This example of a consolidated transportation rate design is illustrated as follows:

Block	Volume	Example Rate	Example Commodity Revenue
<62,500	6,822,658	.095	$648,153
100,000	26,812,815	.047	$1,260,202
>100,000	135,807,691	.040	$5,432,308
Total	169,443,164		$7,340,662

WNG complains that PERCC's proposal for consolidation of the two transportation tariffs captures the benefits of economies of scale at the expense of Rate Schedule 57 customers. (Rebuttal

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2 WNG's commodity revenues can be calculated from Ex. 78 (RSJ-4), p. 6, as follows:

Block	Volume	Commodity Rate	Commodity Revenue
Schedule 58:			
<25,000	2,406,181	0.16	$384,989
25,000	3,233,596	0.14	$452,703
50,000	530,367	0.12	$63,644
100,000	594,969	0.12	$71,396
200,000+	57,545	0.12	$6,905
Schedule 57:			
100,000	26,812,815	0.045	$1,206,577
100,000+	135,807,691	0.038	$5,160,692
TOTAL			$7,346,907

Testimony of J. Sullivan), p. 22. WNG has not demonstrated any such economies of scale, and WNG's cost of service study indicates to the contrary that costs are unfairly allocated to Schedule 58. WNG's cost of service study shows wildly disparate rates of return for Schedules 57 and 58. The test year return on rate base for Schedule 58 is <u>88.18%</u>. The return on Schedule 57 is also high -- 53.39% -- but the Schedule 57 return is still less than a third lower than Schedule 58. Ex. 153 (RSJ-1 Revised), p. 3. Under WNG's proposed rates, Schedule 57 would earn a return of 40%, but Schedule 58 would yield a return of 79% -- almost <u>twice</u> as much. Exhibit 79R (RSJ-5, Revised).[3]

Consolidation of the transportation schedules would result in a more equitable allocation of costs. James Sutherland, PERCC's cost of service expert, noted: "If Schedules 57 and 58 are combined, the rate of return is 43.32%. The return for firm transportation service would be 46.69%, and the return for interruptible transportation would be 42.12%." Ex. T-272 (Testimony of J. Sutherland), p. 10.

WNG witnesses testified that Schedule 58 minimum volumes were modeled on Washington Water Power Schedule 146. However, the interruptible rate under Schedule 146 is 6.438 cents/therm, less than <u>half</u> WNG's proposed Schedule 58. Ex. 375; Tr. 3650. A

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[3] Staff's cost of service shows test year returns on rate base of 22.62% for sales under Schedule 85 and only .05% for sales under Schedule 87. Ex. 243, p. 2. Staff recommends that margin rates based on Schedules 85 and 87 be adopted as the transportation rates for Schedules 58 and 57 respectively. Ex. 240 (Testimony of A. Buckley), p. 60.

WNG customer with an interruptible transportation load of 240,000 therms a year will pay twice what the same customer would pay for transportation service in Water Power territory.

B. Allow Qualified Groups Of Customers To Aggregate Volumes For Purposes Of Balancing And To Meet Minimum Transportation Requirements.

1. Aggregation for Balancing.

PERCC urges the Commission to permit qualified commercial and small industrial customers to aggregate their load for purposes of balancing and meeting the minimum transportation volumes.[4] Aggregation would be appropriate for a customer that is (1) an owner of multiple facilities served by WNG at more than one location or (2) a member in good standing of a qualified natural gas procurement cooperative. A natural gas procurement cooperative should be considered "qualified" if (a) the cooperative consists of ten or more WNG customers, and (b) the customers have designated a qualified agent to purchase gas, make daily nominations to WNG, and manage the customers' balancing accounts.

The Commission could either require a tariff provision to permit aggregation or could approve special aggregation contracts between qualified buying groups and the company pursuant to RCW 80.28.080.

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4 PERCC is <u>not</u> recommending that customers become eligible for more favorable high volume rates by aggregating their loads. Tr. 2723-24.

The principle of aggregation for the purpose of balancing is simple. WNG must balance its nominations to Northwest Pipeline with the volumes it receives at the city gate.[5] A qualified buying entity or owner of several facilities on WNG's system can nominate and balance its entire load on WNG's system on an aggregated basis. For example, if one member of the group takes 1,000 therms more than it nominated but another member takes 1,000 therms less than it nominated, WNG's system will still be in balance. As Mr. Sullivan testified, overtakes at one point can "cancel out" undertakes at another point on WNG's system. Tr. 824.

Jim Lazar, Public Counsel's witness, agreed that aggregation could work. Mr. Lazar testified:

> I believe that a single customer with multiple facilities served by WNG should be allowed to aggregate those facilities for purposes of nominating gas supplies and paying for balancing service, so long as all of the facilities are served from the same point of delivery from the Pipeline.

Ex. T-280 (Testimony of J. Lazar), p. 50.

Mr. Lazar explained that the company should be "indifferent as to which customer uses gas on any particular day. What they should be concerned about is whether the balancing occurs among all of the jointly owned customers who have common responsibility for paying the bill." Tr. 2408-2409. Mr. Lazar added that

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[5] If necessary for WNG's operational purposes, aggregation for balancing purposes might be limited to gas coming through only one city gate.

issuing one bill to such customers would save on printing and postage costs as well. Tr. 2409.

2. Aggregation to Meet Minimum Volumes.

Aggregation is also appropriate to allow qualified customers to meet minimum transportation volumes. Again, aggregation would only be appropriate for a customer that is (1) an owner of multiple facilities served by WNG at more than one location or (2) a member in good standing of a qualified natural gas procurement cooperative. For example, the Tacoma School District takes about 1.4 million therms of gas per year, more than enough to qualify for Schedule 57 transportation. The District employs a qualified energy manager to order gas and to manage daily nominations and balancing. However, the District owns facilities and takes service from meters at about 75 different locations. For transportation and billing purposes, WNG treats each of these facilities as if it were a separate customer. As a result, most schools in the Tacoma District are not eligible for transportation service under either Schedule 57 or Schedule 58. Ratepayers like this should be allowed to aggregate their meters to meet the minimum transportation volumes.

On cross-examination, Mr. Lazar agreed that qualified school districts might be eligible to aggregate for meeting the transportation volume threshold. He testified:

> I'm not married to the company's notion of 240,000 therms per facility. I think the gas acquisition for a school district or for an office building management company is something that could be handled centrally, and so the savings to justify the employee training need to be what's

> recognized centrally. . . . [M]y recommendation that they be allowed to aggregate for nominating and balancing would seem to imply that they be allowed to aggregate for purposes of meeting a threshold.

Tr. 2413.

When asked by Chairman Nelson for examples to fit this model, Mr. Lazar answered, "Lake Washington school district and Tacoma school district come to mind." Tr. 2413. He added that as more school districts move away from electricity to natural gas, "I think school districts are ideal candidates for the kind of example that I gave on page 50." Tr. 2414.

C. Lower The Minimum Annual Volume For Transportation To 100,000 Therms And Eliminate The Exclusionary Minimum Bill.

The Schedule 58 minimum volume and minimum bill restrictions are not justified by any cost analysis and should be dropped. According to the uncontroverted testimony of Mr. Betzold, some customers can transport 100,000 therms a year on a cost-effective basis. PERCC urges the Commission to require WNG to make transportation available to customers with an annual load of 100,000 therms or more.

1. Lower The Minimum Annual Volume To 100,000 Therms.

With no cost justification whatsoever, WNG proposes a transportation limitation of 240,000 therms per year. Schedule 58 is available "to non-residential customers for transportation whose requirements exceed 240,000 therms on an annual basis." Ex. 43, p. 23. Although the company now contends that the 240,000 therm requirement is just a "guide," the minimum bill effectively precludes a customer with an annual load of less than 240,000 from transportation. See, Section I.C.2, infra.

Doug Betzold -- whose company manages gas transportation for 65 WNG customers -- testified that the minimum volume for transportation should be 100,000 therms annually. Tr. 2709. Mr. Betzold stated:

> Our experience has been that there is a natural threshold at approximately 100,000 therms per year. This threshold is recognized by most customers. At this point, the potential savings to be realized from transportation do not justify the additional work and risk involved in transporting customer owned gas.

Ex. T-302 (Testimony of D. Betzold), p. 2. See also, Ex. 376.

WNG has failed to present any cost justification whatsoever for the 240,000 therm limitation. WNG did not perform any studies or work sheets that would show any possible effect on system supply customers if the Schedule 58 minimum volume requirement were lowered. Ex. 119 (Dep. of J. Sullivan), p. 35. When asked whether any formal study was done to set the minimum below 240,000, Richard Johnson answered: "No. . . . We didn't have a lot of time to do studies that we didn't think would be a factor in our final judgment." Ex. 134 (Dep. of R. Johnson), p. 76. He added: "There were other issues more important to the Company than to determine whether the minimum should be 20,000 a month or 240,000 annually or some other number, high or lower." Ex. 134 (Dep. of R. Johnson), p. 93.[6]

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6 Although the minimum volume was not important enough for WNG to bother with, the issue is extremely important to some commercial and small industrial customers. As Mr. Betzold testified: "Transportation affords commercial and smaller

Don Schoenbeck, the expert witness for Northwest Industrial Gas Users ("NWIGU"), agreed that WNG should not be allowed to impose a volume constraint on transportation with no quantitative justification. Mr. Schoenbeck testified that the proposed minimum volume

> results in the exclusion of a small number of current transportation customers under current WNG Schedules 31, 36, 41, and 86 <u>without any justification</u>.

Ex. T-312 (Testimony of D. Schoenbeck), p. 36.

Mr. Schoenbeck added:

> Provisions such as an annual minimum throughput for transportation service or a functionally equivalent minimum bill for transportation service should be allowed by the Commission only to the extent there is a cost justification proven by the Company. WNG has offered no quantitative evidence for the 240,000 annual throughput requirement. Until an appropriate showing by the Company, WNG should not be allowed to impose a volume constraint.

Ex. T-312 (Testimony of D. Schoenbeck), p. 36.

WNG modeled the transportation volume limitation on an order approving Washington Water Power's Schedule 146. Ex. 374 (Rebuttal Testimony of J. Sullivan), p. 21; Tr. 788. In the Water Power order, the Commission simply accepted the company's proposed tariff limitation without comment or analysis. No intervenors or other parties opposed the proposed minimum volume of 250,000 therms. Ex. 122; Tr. 789.

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industrial transporters the opportunity for substantial savings in their gas bills. . . . In tight economic times, the savings from gas transportation can make a big difference in the budget of a hospital or a school district, where revenues are fixed and control of operating costs is crucial." Ex. T-302 (Testimony of D. Betzold), p. 3.

In any event, WNG's reliance on Schedule 146 is misplaced since the other provisions of the tariff are not incorporated in Schedule 58. As discussed above, the Water Power rate for interruptible transportation of the minimum volume is half what WNG proposes to charge. See, Section I.A, supra. Schedule 146, moreover, has a minimum bill requirement of only $1,200 per month and no balancing penalties. Ex. 122; Tr. 3650. If WNG looks to Schedule 146 for its minimum volume provisions, it should also model its tariff on the other provisions of Schedule 146.

In designing Schedule 58 in such a way as to exclude commercial and small volume transporters, WNG ignored the fact that permitting smaller customers to transport has only a minimal effect on the system. When WNG estimated which commercial and small industrial customers would switch from transportation to sales as a result of its new tariffs, it estimated that the impact on gas costs would only be $1.2 million. Ex. 119 (Dep. of J. Sullivan), p. 36. This load represents less than one per cent of WNG's total purchased gas. Tr. 794-795; Ex. 47.

2. Lower the Exclusionary Minimum Bill.

WNG's current minimum bill for transportation is $500 per month. When this issue came before the Commission in an earlier proceeding, the Commission approved the $500 minimum bill on an interim basis. As a condition to the continuation of this minimum bill amount, the Commission directed WNG to make a future tariff filing "supported with accounting and policy information." Second Supplemental Order Authorizing Tariff Revision, with

Conditions, Docket No. UG-900210 (Jan. 4, 1991). In that order, the Commission indicated its intent to allow for "thorough consideration of suggestions offering promise for achieving rate equity among classes of transportation and sales customers and for advancing other appropriate public policy goals." The order added: "Supporting data will be necessary to determine what, if any, monthly minimum bill is suitable for Schedule No. 57 customers in the long term." Id., at 5.

Contrary to the Commission's order, WNG now proposes to raise the Schedule 58 minimum bill to $3,200 per month -- a 540% increase -- and raise the Schedule 57 minimum to $4,500 -- an 800% increase -- with no supporting data whatsoever. WNG presented no cost analysis for the minimum bill proposals. WNG performed no studies and has no workpapers to justify the new minimum bill. Tr. 861. To the contrary, the minimum bill for Schedule 58 was arbitrarily established by dividing the 240,000 annual requirement by twelve and multiplying by the first block rate of 16 cents. Ex. 119 (Dep. of J. Sullivan), p. 14.

Moreover, this drastic increase ignores the Commission's earlier directive to consider "equity among classes." Even if the Schedule 58 annual volume threshold were lowered, the minimum monthly bill of $3,200 would preclude most commercial and small industrial customers from transportation.

Perhaps WNG failed to come forward with any data to support the amount of the minimum bill because there is no justification. Although WNG has never shown that transportation poses any greater risk[7] or expense to the company than sales service, the proposed Schedule 58 minimum bill in some instances is twenty times greater than the minimum bill for comparable sales service. For example, a school taking interruptible sales service under Schedule 86 would be subject to a minimum annual charge of $1,878.90 or an average of $156.58 a month.[8] The minimum monthly bill for commercial sales customers ranges from $233.48 for firm service (Schedule 41) to about $379.80 for interruptible service (Schedule 85).

Clearly, there is no cost justification for these exorbitant, unjustified minimum bills. Their only purpose is to exclude commercial and small transportation customers from transportation. The Commission should order that WNG delete the minimum bill provisions from its transportation tariffs.

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7 To the contrary, customers who switch from transportation to sales actually impose more risk on the system because WNG bears the risk of purchased gas supply and no longer benefits from the customer's daily nominations. Tr. 831.

8 An annual minimum bill is necessary for school buildings that often close and use little or no gas in summer. Schools could also benefit from switching from transportation service to sales in the summer months. Mr. Sullivan quite reasonably agreed that there is no reason why WNG could not provide sales service for the three summer months to a customer (like a school) that took transportation service the remainder of the year. Ex. 119 (Dep. of J. Sullivan), p. 45. However, the $3,200 minimum bill would prevent this sensible solution.

D. Balancing Requirements Should Be Reasonable.

1. A Reasonable Balancing Make-Up Period Is Necessary.

WNG's original proposal imposed a workable balancing requirement. In order to avoid balancing penalties, a customer's account would have had to balance perfectly on the last day of the billing period. There was zero tolerance and no make-up period, even though WNG performed no studies and has no work papers to demonstrate any costs associated with a make-up period. Tr. 797; Ex. 123; Ex. 124; Ex. 129.

Intervenors -- who all represent WNG transportation customers -- uniformly agreed that (1) zero tolerance is an operational impossibility; (2) a make-up period is reasonable and necessary; and (3) unreasonable balancing requirements will drive customers to switch to alternative fuels.

PERCC's witness Doug Betzold explained:

> WNG's proposed balancing requirements are unreasonable and unworkable. For example, if a transportation customer were to get out of balance on the last four or five days of the month, there is the possibility that balancing gas would not be permitted by WNG until after the billing period was over. In some cases, WNG will not accept gas for balancing. If this situation were to occur with no make-up period, an imbalance penalty would be imposed, and WNG could have arbitrarily influenced the size or amount of the penalty. This would be grossly unfair to the ratepayer who was trying, in good faith, to avoid imbalances.

Ex. T-302 (Testimony of D. Betzold), pp. 9-10. Mr. Betzold noted on cross-examination that WNG sometimes asks customers to nominate as early as six days prior to the end of the month. Tr.

2720. Under these circumstances, it would be virtually impossible for a customer to balance at month's end.

Don Schoenbeck, on behalf of NWIGU, testified: "The Company's proposal is unreasonable from technological, efficiency and practical perspectives. . . . It would be technologically impossible for a customer to comply with zero tolerance balancing without incurring penalties." Ex. T-312 (Testimony of D. Schoenbeck), p. 38. Jim Young, President of Seattle Steam, WNG's largest transportation customer, testified: "The unnecessarily restrictive [balancing] provisions in proposed Schedule 57 would significantly reduce Seattle Steams' ability to use natural gas in its plants." Ex. 252 (Testimony of J. Young), p. 2.

Staff recommended a balancing provision for transportation customers that would give a customer one billing period (presumably 30 days) to get back in balance. A tolerance of 3% would be allowed. Penalties would be assessed only on volumes exceeding the 3% tolerance limit. Ex. 240 (Testimony of A. Buckley), p. 55. On rebuttal, WNG accepted the proposal on certain conditions. The company would require that the customer "go through zero," i.e., come into balance at least once during next the billing cycle. Ex. 374 (Rebuttal Testimony of J. Sullivan), pp. 2, 10-14.

Staff's balancing scheme as modified by the company is an improvement over WNG's original proposal to the extent that it affords some sort of make-up period and some tolerance above zero. PERCC, however, urges the Commission to adopt NWIGU's recommendation that reasonable monthly balancing should include a tolerance band of 5% and a make-up period of 45 days after notification. WNG itself is subject to Northwest Pipeline's balancing rules, which allow a 30 day balancing period with a 45 day make-up period following notice of imbalance before any penalty is imposed. Tr. 819-21; Ex. 314; Ex. 128; Tr. 889.

If the Commission does not adopt NWIGU's recommendation, PERCC supports Staff's proposal as modified by the company with two conditions. First, with such a short balancing period, the customer must be allowed a tolerance of plus or minus 10% of the monthly nominated volume. A 3% tolerance is not operationally feasible in part because the telemetry equipment the company intends to use for billing equipment has a two per cent margin of error. Tr. 3639.

Secondly, the customer must receive notice of imbalance. The notice would trigger the 30 day make-up period. A customer cannot be expected to take efforts to get into balance without knowing what imbalance, if any, the company shows on its books.

2. Only Reasonable Balancing Penalties Should Be Approved.

Staff proposed, and WNG agreed with, penalties for overtakes ranging up to 200% of WACOG[9] for an imbalance up to 10% and $2.00 per therm thereafter. Undertakes would result in the "buyout" of

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[9] Staff's proposal cited the "highest" or "lowest" cost of gas as the index for penalties. Ex. 374, pp. 11-12. WNG's proposal, which ties penalties to the WACOG, a readily ascertainable cost, is preferable.

the customer's gas at penalty prices down to 50% of WACOG for an imbalance down to 10% and zero for undertakes below 10%.

While reasonable balancing charges may be necessary, the proposed penalty of $2.00 per therm and WNG's proposed unauthorized use penalty of $2.00 per therm is excessive and unreasonable. WNG's WACOG is currently about 19 cents/therm. Even at the 200% rate -- the highest imbalance charge proposed -- the penalty would be about 40 cents/therm. Similarly, the worse case overtake penalty or buy-out of the customer's gas would penalize the customer in an amount equal only to the price of the customer's gas or about 19 cents. Gas has never been and probably never will be valued at $2.00 per therm. This penalty is unreasonable and should not be approved.

E. No Customer Charge Should Be Imposed On Transportation.

Staff proposes a customer charge of $500 a month for Schedule 57 and $200 a month for Schedule 58. Ex. 240, p. 60. A basic customer charge on transportation was not included in WNG's projected revenues, the Company did not request this charge, and the Company did not revise its tariffs to reflect any such charge. Tr. 3653.

Staff witness Buckley concedes that the charge is not cost-based and that no cost studies were conducted. Tr. 2032-33. On cross-examination, Mr. Buckley admitted the charge was "not based on any particular calculation of costs." Tr. 2034.

PERCC is opposed to any charge that renders transportation unavailable for commercial and small industrial customers.

However, if the Commission adopts Staff's proposal, the Commission should also reject WNG's proposed minimum monthly bill provisions. No WNG sales tariff has both a customer charge and a minimum bill. The imposition of both a customer charge and a monthly minimum would impose an unfair burden on transportation customers.

F. The Commission Should Not Allow WNG To "Tilt" Rates, Terms, And Conditions Of Service To Discourage Transportation.

Competition in the gas markets benefits all customers. Transportation encourages price competition among gas producers, marketers, and brokers. As PERCC witness Doug Betzold noted, "Gas prices have been responsive to the downward pressure of competition from transportation." Ex. T-302 (Testimony of D. Betzold), p. 3. Largely as a result of competition arising out of open access to transportation, gas prices have declined, WNG's rates have gone down,[10] and all WNG's ratepayers have benefited.

Transportation has also benefited WNG's system from an operational standpoint. For example, WNG's Jerry Sullivan noted that the flow of transportation gas helps the system when WNG's own supplies are curtailed, regardless of whether the transportation gas belongs to a large or a smaller customer. Tr. 806.

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10 James Thorpe testified that the price of natural gas service for WNG's residential customers has declined 23.1% since 1984. Ex. T-1 (Testimony of J. Thorpe), p. 4.

Unfortunately, in spite of the proven benefits of transportation, WNG's policy now is to discourage transportation and to favor sales service. Mr. Sullivan stated that the company "made a conscious effort to design our system supply rate to encourage system supply sales service." Tr. 880. The only justification for this "tilt" against transportation is WNG's unsubstantiated concern that gas producers might extract higher prices for gas if the system's load factor declined. The only testimony on the subject came from Mr. Sullivan, who admitted the company's concern was not supported by any work papers, studies, or worksheets. Tr. 791; Ex. 119 (Dep. of J. Sullivan), p. 42; Ex. 123. WNG offered no direct testimony from its own gas supply experts or anyone else to prove that transportation has had or will have any effect whatsoever on the price of WNG's system supply. Such a vague, unsubstantiated concern does not justify discrimination against transportation.

1. Large Volume Sales Customers Should Pay Cost-Based Rates.

To promote sales over transportation, WNG proposes to offer large volume sales service at a margin <u>less than</u> the cost of transportation. Ex. 130; Tr. 849-50. The marginal price for "full service" sales service under Schedule 87 is 1.495 cents; the price of "self service" transportation under Schedule 57 is 3.8 cents. Tr. 901.

Mr. Betzold prepared several graphs to illustrate how irrational this policy appears from a customer's perspective. See, Exs. 303, 304, 305. He explained:

> During Mr. Sullivan's testimony, the comparison was made between "full service" and "self service" at the gas station. WNG sales service is like full service. Transportation is analogous to self service, where you pump your own gas. We would expect "full service" to cost more because the gas station provides more service. This graph shows just the opposite.

Ex. T-302 (Testimony of D. Betzold), p. 4.

Except for two "windows" between 20,000 and 30,000 therms and 82,000 and 140,000 therms per month, the margin on WNG's large volume interruptible sales service is uniformly lower than the transportation rate at any usage level. Mr. Betzold explained that:

> the price difference is not enough to offset the risk and extra work for the customer to migrate to transportation. As a result, commercial and industrial ratepayers are discouraged from transportation.

Ex. T-302 (Testimony of D. Betzold), p. 4.

PERCC agrees with the expert testimony of Don Schoenbeck that WNG's rate spread proposal for large volume sales and transportation customers is "fundamentally flawed" in requiring transportation customers to pay more than similarly sized sales customers and that the Commission should require WNG to move toward cost-based transportation charges. Ex. T-312 (Testimony of D. Schoenbeck), p. 3.

As Mr. Schoenbeck points out, the effective recovery of WNG's delivery-related costs under Schedule 87 is 2.4

cents/therm. By contrast, the effective rate for Schedule 57 large volume transportation is 4 cents/therm. Ex. T-312 (Testimony of D. Schoenbeck), pp. 28-9. Mr. Schoenbeck concludes that WNG is attempting "to extort a substantial premium -- on average 1.6 cents/therm -- for delivering volumes purchased by a Schedule 57 transportation customer as compared to providing a lower level of service to a sales customer under Schedule 87." Ex. T-312 (Testimony of D. Schoenbeck), p. 29.

2. Telemetry, If Required At All At Customer Expense, Should Be Limited To A One Time Investment And Should Be Required Of Both Sales And Transportation Customers.

Telemetry does not appear to be necessary for transportation customers. Transportation customers already supply daily nominations and meter readings to WNG. Sophisticated customers handle meter readings electronically and could, if WNG had telephone modems, electronically transmit daily nominations and meter readings. Ex. T-302 (Testimony of D. Betzold), p. 11.[11]

WNG did not justify why telemetry was necessary when the company already receives daily meter readings from its transportation customers. Although Staff generally agreed with the telemetry requirement, Staff did no analysis of its own to

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11 The telemetry requirement also imposes serious short-term operational problems. WNG intends to require its customers to rely on the telemetry equipment for billing and daily balancing purposes by October 1, 1993. However, as of July 9, 1993, telemetry had been installed for only six out of 50 customers. Tr. 3637. It seems unlikely that the equipment, related telephone lines, and related facilities can be installed by the effective date of the tariffs.

determine whether there was any need for telemetry. Ex. 244 (Dep. of A. Buckley), p. 183. Unless WNG provides more justification, the Commission should not allow the company to charge its customers for this costly equipment.

However, if transportation customers are required to install telemetry equipment at their own expense, sales customers also should be required to pay for the cost of their equipment. As Mr. Betzold pointed out:

> If the purpose of [telemetry] equipment is to permit WNG to more accurately monitor and control its distribution system, then all large users - transporters and sales customers alike - should be required to install this equipment. The fluctuations in volume by sales customers may impact the distribution system just as much as transportation customers.

Ex. T-302 (Testimony of D. Betzold), p. 11.

WNG is in the process of installing telemetry to its large volume <u>sales</u> customers at no charge. Tr. 3642. Although the cost of this equipment may be reflected in future rates for these customers (Ex. 374 (Rebuttal Testimony of J. Sullivan), p. 23), it is unfair to require transportation customers to make a cash outlay for equipment provided free with no direct cash expenditure from sales customers.

In any event, if transportation customers are required to pay for telemetry equipment, PERCC agrees with NWIGU that telemetry costs should be limited to a one-time investment. Equipment upgrades should be borne by the company. Ex. T-312 (Testimony of D. Schoenbeck), p. 4.

Finally, if the Commission approves the telemetry requirement and if the equipment is of "billing quality" as WNG claims it is, there should be a reduction in the transportation rate to account for the savings of not having to send a meter reader to each site for billing information.

3. The Date For Designation Of Transportation Service Should Be Flexible.

WNG has proposed that customers designate by July 1 of each year whether they intend to use sales or transportation service. The July 1 deadline puts the ratepayer who is contemplating transportation service at a disadvantage. A customer who must elect as early as July cannot evaluate fall and winter market prices to determine whether transportation or sales provides the more economical option. PERCC urges the Commission to require WNG to permit flexible designation dates for transportation.

II. The Commission Should Support WNG's Vehicular Natural Gas Program And Approve Schedule 50.

A. The Commission Should Endorse WNG's Vehicular Natural Gas Program.

PERCC supports WNG's vehicular natural gas program. Natural gas vehicles reduce carbon monoxide emissions and airborne toxins and do not emit soot particles as do diesel vehicles. The natural gas buses used by Pierce Transit reduce smog-producing hydrocarbons by up to 80 percent compared to diesel and gasoline. Ex. T-254 (Testimony of D. Monroe), p. 2-3.

In the Energy Policy Act of 1992, Congress legislated provisions to promote the use of alternative fuels, including natural gas. Pub. L. No. 102-486, § 303, 106 Stat. 2871-2 (1992). The Act establishes fleet requirements for federal agencies, the post office, and for some private vehicle fleets. The Washington Legislature also has found that "compressed natural gas offers significant potential to reduce vehicle emissions and to significantly decrease dependence on petroleum-based fuels." RCW 81.28.280. In support of this policy, the Legislature has directed the state energy office to create an advisory committee to address the use of compressed natural gas by school buses and state agencies. RCW 70.120.213-4.

According to the testimony of James Thorpe, WNG has been on the forefront in the development of natural gas as a vehicle fuel. Both Congress and the state Legislature have encouraged the use of natural gas as a vehicle fuel, and PERCC urges the Commission to support the company's program.

B. The Commission Should Approve Schedule 50.

PERCC urges the Commission to approve Schedule 50. By 1992, the number of vehicles operating on natural gas and supported by WNG had grown to more than 700 vehicles. Ex. 86, p. 2. However, if natural gas is to grow as a vehicle fuel, the price must be competitive. Staff witness Alan Buckley correctly noted that compressed gas must compete on price with liquefied natural gas ("LNG"). Tr. 2021, 2026-27. Proving the accuracy of Mr. Buckley's testimony, Seattle Metro recently selected LNG over compressed gas to fuel its bus fleet. As a result, WNG will lose the opportunity to sell gas for Metro's fleet, which is expected to number 810 natural gas buses by the year 2000. In order to meet future competition from LNG, WNG must be able to offer firm service for vehicle use at a competitive price.

Don Monroe, Executive Director of Pierce Transit, one of the state's largest users of vehicular natural gas, testified:

> We believe [the Schedule 50] price is fair and will encourage the use of vehicular natural gas. At the same time, the price is somewhat lower than comparable commercial schedules, which keeps the price of natural gas competitive as a fuel. Transit agencies and fleet operators will have an incentive to convert to natural gas.

Id., at 4.

Schedule 50 offers both uncompressed gas for vehicular use (which Mr. Monroe's testimony addressed) and compressed gas. The proposed rate for compressed gas is 20 cents/therm higher than the rate for uncompressed gas, based apparently on WNG's capital costs and depreciation associated with compressors. Ex. 102; Ex. 103.

Staff witness Alan Buckley testified that WNG should develop and file a separately stated cost-based tariff for compressed natural gas. Ex. 240 (Testimony of A. Buckley), p. 41. He expressed a "general feeling" that the Schedule 50 compressed rate was not cost-based. Ex. 244 (Dep. of A. Buckley), p. 189.

In spite of his reservations about the compressed gas rate, Mr. Buckley nevertheless thought it would be appropriate for WNG to offer uncompressed gas for vehicular use under Schedule 50 while a study is conducted of costs on the compressed side. Tr. 2023-26. Acknowledging price competition from LNG and noting that vehicular use is an incremental load, Mr. Buckley recommended a price for uncompressed gas in the 30 to 40 cent range. Tr. 2021.

PERCC supports Staff's recommendation for a cost study to determine the actual cost of compression. In the interim, Schedule 50 should be approved as filed so that natural gas vehicles can immediately make use of the tariff. As LNG becomes a viable option in the Northwest, WNG must be able to meet the competition. The price for compressed gas can be revised in the future if warranted by the cost study.

III. WNG Should Allocate Costs And Design Rates In A Manner That Is Fair And Equitable To Commercial And Small Industrial Customers.

A. WNG's Cost Of Service Study Should Be Approved.

With some exceptions, PERCC supports WNG's cost of service methodolgy. Commenting on WNG's cost of service study, James Sutherland, PERCC's cost of service witness, testified: "The study generally follows the format used by many gas and electric utilities and, except for a relatively few areas within the study, I generally agree with the results." Ex. T-272 (Testimony of J. Sutherland), p. 2.

In his rebuttal testimony, Richard Johnson explained in detail how the company's cost of service study differs from the study offered by Staff and why he supported WNG's methodology. Ex. 386 (Rebuttal Testimony of R. Johnson), pp. 28-42. The prefiled testimony of Don Schoenbeck also discussed in detail why the company's approach is more appropriate than the "Cascade" methodology advocated by Staff. Ex. T-312 (Testimony of D. Schoenbeck), pp. 11-18.

Staff and Public Counsel have argued that the earlier orders of the Commission mandate the use of the "Cascade" methodology. The Cascade order on which Staff and Public Counsel rely does not require the use of any particular cost of service methodology. The Commission suggested that the "Johnson/Herbig model," as modified, be used in future natural gas cases, but the Commission noted: "This recommendation would not prohibit the parties from presenting other types of proposals to the commission in the future, so long as such proposals are fully argued and well supported." Ex. 135 (Fourth Supp. Order, 1987, Cascade Natural Gas, Docket No. U-86-100), p. 11.

B. The Commission Should Not Permit The Allocation Of A Negative Income Tax To Any Customer Class.

Although PERCC generally supports WNG's cost of service methodology, the allocation of a negative income tax to the residential and rental classes is artificial and does not reflect reality. If any customer class is to receive a subsidy, it should be express and not buried in the cost of service.

Mr. Sutherland explained that calculating income taxes for each rate schedule or customer class is valid only if all schedules indicate a positive pretax income. It is "drastically" wrong to use this method when it results in significant negative income taxes. Ex. T-272 (Testimony of J. Sutherland), p. 3.

When income taxes are calculated as they were in this case, the result is a calculated negative income tax of minus $6,085,519 to the residential class and a negative income tax of minus $1,504,800 to the rental class. The total negative income tax is $7,590,319.

A negative income tax is inequitable because it grants a subsidy to classes with a negative pretax income or loss. WNG's income tax of $4,260,123 is a real operating expense. The calculated negative income taxes, however, are "imaginary." Since the IRS, of course, does not actually make a refund to these ratepayers, the commercial and other ratepayers subsidize the residential and rental classes by $7,590,319. The combined tax subsidy by the commercial and other classes due to negative income taxes is 178% of WNG's actual system income tax. Ex. T-272 (Testimony of J. Sutherland), p. 4.

C. In The Future, The Commission Should Consider An Appropriate Allocation Of Distribution Main Costs To The Customer Component.

WNG's cost of service study allocates none of the distribution main costs to the customer component. Ex. 153 (RSJ-1 Revised), p. 4. This treatment results in what Mr. Sutherland characterizes as a "substantial subsidization" to the residential classes. Mr. Sutherland explained that some costs are directly correlated with the number of customers, such as customer accounting costs, meter reading, and customer service costs. Other costs, including part of the distribution system costs, are also customer related because they are caused by the presence of customers on the system, independent of the magnitude of any customers' volumetric requirements. Ex. T-272 (Testimony of J. Sutherland), pp. 6-7.

Part of the distribution main costs are a function of the number of customers attached to the system. The addition of new customers requires more mains and related facilities, regardless of the volume of their demands. WNG's failure to allocate any part of the distribution mains to the customer component means that "the low volume customers are not paying their share of these costs." Ex. T-272 (Testimony of J. Sutherland), p. 6.

One method for calculating customer costs related to distribution mains is the minimum system method. This method theoretically replaces distribution mains with the smallest practically sized pipe. The cost or value of the theoretically based system then becomes the customer related portion of distribution mains. The remaining investment of the distribution main system is then classified as demand related. Ex. T-272 (Testimony of J. Sutherland), p. 7.[12]

The minimum system method is an accepted method of allocating distribution mains. Mr. Campbell indicated that the standard rate design manual indicates that an allocation of distribution mains is a proper part of the customer service

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12 Distribution mains can also be allocated to customer by the zero intercept method. The zero intercept method is a graphical approach which computes the portion of main costs that are associated with a zero load of the distribution system. When these costs are computed, they become the customer related portion of the distribution mains. Ex. T-272 (Testimony of J. Sutherland), p. 7.

charge. Tr. 3680. However, to be conservative and to avoid dispute, WNG did not allocate any part of the distribution mains to the customer service charge category. Ex. 377 (Testimony of R. Campbell), p. 31-32; Tr. 3680.

Mr. Sutherland demonstrated that the allocation of distribution mains to the customer component directly impacts the rate of return for each customer class. For example, classifying none of the distribution main costs to customer results in a return on rate base to residential Schedule 23 of 5.09%, but a return on Schedule 85 interruptible transportation of 111.56%. By contrast, if 20% of the distribution main costs are classified as customer, the return on Schedule 23 is 4.61% and the return on Schedule 85 is 16.85%. Ex. T-272 (Testimony of J. Sutherland), p. 8; Ex. 276.

PERCC urges the Commission to consider an appropriate method for allocating some part of distribution main costs to the customer component in WNG's next rate case or other proceeding.

D. Commercial And Small Industrial Customers Bear More Than Their Share Of WNG's Costs.

Historically, commercial and small business customers have been allocated more than their share of utility costs. One analysis of electric rates for small business concluded that the "minimal or nonexistent" participation of small business in utility rate hearings over the years has resulted in the allocation of a disproportionate share of costs to this class.

Hickel, a discernible trend in electric rates for small businesses, Public Utilities Fortnightly (June 7, 1984), 25.

Hickel's study observed:

> Residential and industrial customers generally have an active voice in the rate-making process. Industrial customers who rely heavily on the use of electricity in their manufacturing processes may have a full-time staff member whose job it is to monitor the state rate-making proceedings. Residential customers . . . have a consumer affairs office that represents the residential consumer in state rate-making proceedings. . . It is usually the small business electric user who is left voiceless in the state rate-making proceeding.

Id., at 29-30. The result is "a cost allocation that is likely to be unfair to the small business." Id., at 31.

As suggested in Hickel's study, WNG's cost of service study indicates a cost allocation that is unfair to commercial and small industrial classes. The return on WNG's original proposed revenues for commercial and small industrial ("C&I") customers was 18.1%, compared to the total company proposed return of 10.4%. Ex. 79R, p. 3. The return on individual classes was even higher: Schedule 41 was 52.5%; Schedule 85 was 63.5%; and Schedule 86 was 34.3%. The proposed return on small commercial class revenues was closer to the company average, but was still high at 16.9% (Schedule 31) and 14.521% (Schedule 36). Ex. 79R, p. 3. By contrast, the proposed return on the residential classes return was only 6.796% or about two-thirds of the total company return. Ex. 79R, p. 1.

Staff's cost of service also showed that commercial and small industrial customers pay more than their share of costs.

Compared to a total company return of 12.6% and a return on residential customers of 10.3%, Staff showed total C&I return of 25.7% with a return of 23.4% on Schedule 31; 25.5% on Schedule 36; 51.3% on Schedule 41; and 22.6% on Schedule 85. Ex. 243, pp. 1-2; Tr. 2030-31.

E. Rate Spread Decisions Should Result In More Equitable Rates For Commercial And Small Industrial Customers.

In deciding rate design and rate spread issues, the Commission looks to cost of service results along with "perceptions of equity and fairness," rate stability, economic circumstances within the region, and other factors. Ex. 135 (Fourth Supp. Order, 1987, Cascade Natural Gas, Docket No. U-86-100), p. 11. Commenting on the disparity in returns in the company's cost of service, Jim Sutherland testified: "These discrepancies indicate that the non-residential classes are paying far more than their fair share of WNG's costs." Ex. T-272 (Testimony of J. Sutherland), p. 13.

Both WNG and Staff generally proposed across-the-board reductions or increases for the commercial and small industrial classes based on a percentage of the average company reduction or increase. WNG proposed spreading its rate increase among all customer classes so that the increase for any class was not more than twice the average percent increase for the company. Ex. 134 (Dep. of R. Johnson), p. 82. Staff's rate spread recommendation resulted in reductions equal to the system average reduction for Schedules 31, 36, 85, and 86. Staff did, however, recommend a reduction equal to 150% of the system average for Schedule 41. Ex. 240 (Testimony of A. Buckley), p. 36.

The rate spread methods suggested by both WNG and Staff generally ignore historical factors that may have resulted in currently effective rates that are too high or too low. Simply raising or lowering rates by an across-the-board percentage perpetuates rate spread inequities from the past and ignores the Commission's mandate to look at cost of service results, perceptions of equity and fairness, and other factors.

On rebuttal, WNG proposed a lower revenue requirement and a different rate spread. According to the revised proposal, the system average increase would be 4.2%. Excluding the safety tracker, the commercial and small industrial firm classes would receive increases of only 2.8%. Ex. 401, p. 2.

PERCC urges the Commission either to apply the company's rebuttal rate spread or the Staff's treatment of Schedule 41 to all the C&I classes. If the Commission approves an increase in the company's revenues, the increase to the C&I classes should be two-thirds (.66%) of the system average. If the Commission approve a decrease in the company's revenues, the decrease to the C&I classes should be 150% of the company average.

IV. Other Matters

A. The Commission Should Reject Staff's Proposal To Redesign WNG's Firm And Interruptible Large Volume Tariffs.

Staff recommends that large volume sales Schedules 85, 86, and 87 be designated as interruptible only. Firm service under these tariffs would move to Schedule 41. Ex. 240 (Testimony of A. Buckley), p. 52. In addition, Staff proposes that WNG be permitted to offer only firm transportation service with credits in the event service is curtailed due to distribution system requirements. Id., at 55.

WNG's tariffs currently allow transportation and large volume interruptible sales customers to "firm up" part or all of the load by paying a monthly demand charge. Under the proposed tariffs, the demand charge would be $1.50 per therm for firm sales and $1.00 per therm for firm transportation. Ex. 43.

Staff's proposal is unacceptable to the Company for operational and financial reasons. Ex. 374 (Rebuttal Testimony of J. Sullivan), p. 2. For operational reasons, the distribution system sometimes cannot accommodate firm transportation; interruptible service is by necessity the only option. Ex. 374 (Rebuttal Testimony of J. Sullivan), p. 5. According to the testimony of Mr. Young, Seattle Steam is frequently interrupted due to operational problems on the distribution system.

Adoption of Staff's recommendation would result in severe rate shock for large volume sales customers that firm up part or all of their load. For example, the monthly bill for a sales customer using 100,000 therms a month of which 62,000 therms is firm would increase by 40% a month. Ex. 249; Tr. 2038. Mr. Campbell noted: "Many of our ratepayers will be extremely upset as their gas bills will be much higher." Ex. 377 (Rebuttal Testimony of R. Campbell), p. 38.

Requiring large volume customers to take sales service under Schedule 41 would seriously disrupt the allocation of costs to the existing rate schedules. Schedule 41 is designed for smaller loads, not large volume customers. Ex. 377 (Rebuttal Testimony of R. Campbell), p. 38. Both the Company and Staff agreed that a new cost of service would have to be calculated for Schedule 41. Tr. 2039. Mr. Buckley admitted that this drastic change might "open up another bag of worms." Tr. 2043.

Staff's recommendation that all transportation be firm service with a credit for interruption fails to meet the needs of many transportation customers. Under the current system, an interruptible customer who is willing to pay a monthly demand charge can "firm up" part of its transportation load. Some industrial processes, such as paint drying or metal fabrication, cannot be interrupted without great cost to the manufacturer. Any credit WNG would pay to such a customer could not compensate for the lost wages, destruction of materials, and other losses caused by the shut-down of the manufacturing process. Such a customer should be entitled to pay to "firm up" that essential load, as permitted by the current transportation tariffs.

WNG's current design for firm and interruptible service has worked well for over thirty years. Ex. 377 (Rebuttal Testimony of R. Campbell), p. 36. Customers have not expressed dissatisfaction with this system and are not "confused" about the option. (Rebuttal Testimony of J. Sullivan), p. 10; Ex. 377 (Rebuttal Testimony of R. Campbell), p. 38. As Mr. Sullivan testified: "There is no reason to tinker with a method of service which has satisfied customers and accommodated the features (and constraints) of the Company's distribution system." (Rebuttal Testimony of J. Sullivan), p. 10.

For these reasons, PERCC urges the Commission to reject Staff's recommendation and retain the current design for large volume firm and interruptible service.

B. WNG's Safety Program Tracker Should Be Disapproved.

PERCC supports WNG's efforts to comply with the WUTC's order and to maintain a safe and reliable system. However, prudently incurred safety program expenditures should be recovered through normal ratemaking procedures, not a tracker mechanism. PERCC joins NWIGU in urging that WNG collect the costs of the safety program through rates, not through a separate tracker because "the method is not cost-based and substantially undermines the Company's efforts to move toward cost-based rate levels." Ex. T-312 (Testimony of D. Schoenbeck), p. 25.

In its order dismissing the refueling tracker, the Commission noted that the tracker mechanism "runs counter to long-held, sound regulatory policies." Third Supplemental Order

Granting Motion to Dismiss Public Refueling Station Schedule (Schedule 117), Docket No. UG-920840 (Mar. 12, 1993), p. 3. Like the refueling station tracker, the proposed safety tracker offers "a dollar-for-dollar return of company expenses and is a guarantee that the company will recover every penny it spends." Id.

For these reasons, PERCC urges the Commission to require WNG to revise its cost of service study to reflect actual test year expenditures for the safety program and to recover these costs in the same manner it recovers any other prudently incurred operating expense of the company.

C. The Commission Should Require WNG To Improve The Amount Of Useful Billing Information Available To Its Customers.

PERCC agrees with the testimony of Jim Lazar that WNG should be required to improve the quality of information provided on its bills. Ex. 280 (Testimony of J. Lazar), pp. 52-53. Many larger commercial customers such as the Tacoma School District apply sophisticated electronic analysis to their utility bills for energy conservation purposes. If these customers receive more information, they can save more gas and reduce their energy costs.

At the customer's request, WNG should make this information available in electronic form by "down loading" the billing information to a floppy disc or directly to the customer's computer. The pay-off in energy conservation savings both to the customer and to the company would more than offset the nominal cost to provide this service.

Finally, the Commission should require WNG to send one bill to customers that own numerous facilities. For example, a school district that owns 150 schools currently receives 150 bills each month. As Mr. Lazar noted, this is "evidence of either a poor computer program or a lack of attention by the company to economies." Tr. 2409.

D. The Staff's Recommendation For A Working Capital Allowance For Environmental Expenditures Should Be Approved.

PERCC supports Staff's proposal to include $521,000 as a working capital allowance for WNG's remediation expenditures. The amount recommended by Staff is based on the average-of-monthly-averages balance during the test year and is reasonable and appropriate.

The Commission should reject the company's proposal for a pro-forma adjustment to take into account additional remediation costs beyond the test year. The Commission has already determined that WNG may apply for recovery of prudently incurred remediation costs after the litigation with its insurers has been concluded.

As PERCC stated earlier, there is reason to believe that WNG's predecessors did not operate the gasification plants in a prudent manner. In no event should the working capital allowance for environmental expenditures include the $450,000 paid in penalties. See, Ex. 151. Until the prudency issue has been resolved by the Commission, the company's working capital allowance should be limited to test year expenditures.

Respectfully submitted,

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August 10th, 1993

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing documents upon all parties of record in this proceeding, by depositing a copy of same in the United States mail, postage prepaid, to the following:

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