

Exhibit \_\_\_(JL-T)

Before the  
Washington Utilities and Transportation Commission

Northwest Natural Gas Company General Rate Case  
Docket No.  
UG-000073

**REVISED**

Direct Testimony of

**Jim Lazar**  
Consulting Economist

On Behalf of  
Public Counsel

Revenue Requirement Issues

July, 2000

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**Q. Please state your name, address, and occupation, and summarize your utility regulation experience.**

A. Jim Lazar, 1063 Capitol Way S. #202, Olympia, Washington, 98501. I am a consulting economist specializing in utility rate and resource issues. I have been engaged in utility rate consulting continuously since 1979. During that time, I have appeared before many local, state, and federal regulatory bodies, authored books, papers, and articles on utility ratemaking, and have been a faculty member on numerous occasions at training sessions for utility industry analysts. I have appeared before this Commission on more than forty occasions in proceedings involving each of the gas and electric utilities regulated by the Commission. I have served as a consultant to this Commission on several occasions, including participation in BPA rate proceedings, assistance with technical studies, and staff training.

**Q. What exhibits are you sponsoring in this proceeding?**

A. There are three exhibits. The first is a news article dated July 20, 2000 in which the Company announced its joint meter reading program with Portland General Electric; this relates to my testimony on meter reading and billing. The second is a news article in which Puget Sound Energy announced the availability of on-line billing; this also relates to my testimony on meter reading and billing. The third is an article on the NWNG annual meeting, in which the Company discussed the use of its underground storage

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2 facilities to serve unregulated options; this relates to my testimony on Mist.  
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5 **Q. What is the purpose of your testimony in this phase of this proceeding?**

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7 A. I will identify three specific issues where Public Counsel takes exception to the  
8 Company's proposed test year expenses and rate base, and make a general policy  
9 recommendation with respect to the gradual implementation of a rate increase of a  
10 magnitude such as the Company's request.  
11

12 **Q. What is your principal observation regarding this rate request?**

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14 A. This is the highest proposed percentage increase in gas rates I can recall having seen in  
15 my 22 years as a consultant on utility ratemaking. The request is approximately a 37%  
16 increase in margin. In addition, the Company has filed an increase purchased gas rate in  
17 Docket UG-001011, which would increase the purchased gas component of rates by  
18 \$.14/therm. The combined effect of the Company's two requests would be a 44%  
19 increase in residential and commercial rates this coming winter compared with last  
20 winter. In my opinion, this is excessive and constitutes rate shock. If an increase  
21 anywhere near this magnitude is necessary, it should be phased in over a period of years.  
22 In no case should consumer bills increase by more than 10% per year.  
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**Q. Have other companies recognized the problem of rate shock, and taken steps to alleviate sudden changes in rates?**

A. Yes. Pacificorp proposed an overall increase of about 15% in Docket UE-991832, but proposed that only 9% be implemented in the first year, with the balance in the second year. A settlement proposal has been submitted to the Commission in that docket which would result in a 3% increase in the first year, 3% in the second year, 1% in the third year, and zero percent in the last two years of the five year rate plan further smoothing the impact on consumers compared with the Pacificorp original proposal.

**Q. What is your specific recommendation with respect to a phase-in?**

A. It is my understanding that the Commission Staff is proposing a multi-year phase-in of the interstate cost reallocation which is the single largest factor in this proposed rate increase. If the Commission determines an overall increase in rates were of greater than 10% is necessary, it should be phased in over a period of years in order to remove the rate shock elements.

**Q. Does your testimony contain all of the issues which Public Counsel will address in this proceeding?**

A. No, it does not. In the first phase of this proceeding, Public Counsel is focusing its

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2 resources on only a few issues. Public Counsel expects that the Commission staff will  
3 present the primary affirmative case on revenue requirement in this proceeding.  
4 Additional testimony will likely be presented by Public Counsel in the second phase of  
5 this proceeding on cost of service, rate spread, and rate design. Issues which Public  
6 Counsel does not address in testimony may be addressed in discovery, cross-examination,  
7 and/or briefs.  
8

9 **Q. What are the revenue requirement issues which you have examined?**

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11 A. I speak to three issues. These are meter reading and billing costs, customer information  
12 system costs, and the Mist III additions.  
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14 **Q. What options are available to the Company to reduce meter reading and billing**  
15 **costs?**

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17 A. The Company could reduce the frequency of meter reading and billing to bimonthly. The  
18 Commission's rules require only bimonthly meter reading and billing. Reducing the  
19 frequency would reduce costs. In the recent Avista proceeding, I estimated that  
20 bimonthly meter reading and billing would reduce meter reading and billing costs by  
21 about 45%.

22 Joint meter reading and billing is also an option. The Company recently  
23 announced a joint meter reading program with Portland General Electric for its Portland  
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2 and Salem service areas; this announcement is in Exhibit \_\_\_(JL-1). The Company could  
3 potentially enter into a joint meter reading and billing program with the Clark County  
4 Public Utility District. Alternatively, the Company could seek to partner with Clark PUD  
5 in an automated meter reading system to serve both utilities. Based on a short discussion  
6 with management at Clark Public Utilities, I believe that both of these are potential  
7 options.

8 Finally, electronic bill presentment and on-line payment can reduce both postage  
9 and printing costs. Exhibit \_\_\_(JL-2) is an announcement by Puget Sound Energy of the  
10 availability of on-line billing and payment on its gas and electric system in Washington.  
11 Northwest Natural Gas also offers a limited on-line bill paying option, but the cost  
12 savings of this have not been reflected in test-year operating expenses.

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14 **Q. What past guidance has the Commission provided on meter reading and billing**  
15 **expenses?**

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17 **A.** WAC 480-100-101 provides that utilities are only required to read meters and render bills  
18 bimonthly. In Washington Natural Gas? 1992 rate proceeding (UG-920840), the  
19 Commission directed that Company to examine the benefits of joint meter reading and  
20 billing and bimonthly meter reading and billing. In response to that directive, Puget  
21 Power and WNG began a joint meter reading program, which has since expanded to  
22 include joint billing. In Cascade Natural Gas? last rate proceeding, (UG-951415), Public  
23 Counsel raised the issue of excessive meter reading and billing costs, and Cascade agreed  
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2 as part of a stipulation settling that case that it would implement a program to reduce its  
3 meter reading and billing expenses by at least 30% (adjusted for inflation and customer  
4 growth) by its next rate case. The Commission approved that stipulation and settlement.  
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6 **Q. Would bimonthly meter reading and billing cause any costs to increase?**

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8 A. Yes. In the Avista proceeding I estimated that about one-third of the savings in meter  
9 reading and billing costs would be consumed by additional working capital required due  
10 to the increased lag between energy consumption and billing (which is exactly offset by a  
11 working capital benefit to consumers), and a slight increase in the provision for  
12 uncollectible expenses.  
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14 **Q. Turning to the Customer Information System, what are the costs associated with  
15 this facility?**

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17 A. Mr. Feltz indicates that the Customer Information System (CIS) system investment totals  
18 some \$37 million which he has labeled as "Net Amount In Rate Base for Washington."  
19 If this were an accurate portrayal, this would amount to more than \$1,000 per customer,  
20 which would be unquestionably excessive.

21 I assume that Mr. Feltz actually meant to indicate that this is a system amount,  
22 from which Washington is allocated less than 10%. On a Company basis the CIS  
23 investment amount is approximately 5% of total utility net plant or about \$80 per  
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2 customer, which is significantly higher than the amount of general plant for computer  
3 systems for other companies such as Avista and Pacific that have recently been before the  
4 Commission. It is my understanding that the Oregon Commission disallowed a large  
5 share of the Company's CIS investment.  
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7 **Q. Does the Company's testimony demonstrate that the CIS costs are reasonable?**

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9 A. No. The Company testimony recounts the history of this project, details the costs that  
10 were expended, and the delays that were incurred. It did not examine whether the overall  
11 project was cost-effective, either initially or subsequently. A proper analysis would have  
12 studied whether a third-party vendor, such as Clark Public Utilities, could have been  
13 contracted to provide this function for NWNNG at a lower cost. If the project was cost-  
14 effect at the original estimated cost but not at the revised cost, precedent suggests that this  
15 original estimate is what should be allowed into rate base. That is my understanding of  
16 what the Oregon Commission decided.  
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18 **Q. Has the Company demonstrated that the Mist costs are in all ways prudent and**  
19 **reasonable?**

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21 A. No. The Mist additions are intended to provide the Company with the ability to buy gas  
22 during the cheaper months of the year, avoid pipeline demand charges, and deliver gas to  
23 consumers when it is needed in the winter. As such, it should have both costs and  
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2 benefits. The costs are very clear in this proceeding: Mr. McVay shows a \$2.2 million  
3 increase in Washington rate base. Mr. Hanson's testimony at page 12 describes the  
4 benefits in general terms, but fails to quantify them. There is a mismatch between the  
5 costs and benefits of this facility. Any increase associated with Mist should be deferred  
6 and offset with the corresponding benefits. The Company has failed to demonstrate the  
7 prudence of this investment or to accurately reflect the relative use of the facility in  
8 support of its regulated operations in Washington, versus its Oregon and unregulated  
9 operations.

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11 **Q. Why have you focused on these items?**

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13 A. As indicated earlier, we have not examined the Company's total rate base or operating  
14 expense in detail. Public Counsel expects to file some additional testimony in the cost  
15 allocation/rate design phase of this proceeding on August 14. The particular items  
16 identified have significant impact on the residential share of costs, and the appropriate  
17 residential rate design.

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19 **Q. Does this complete your testimony in this phase of the proceeding?**

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21 A. Yes.  
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