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1                   BEFORE THE WASHINGTON UTILITIES AND  
2                   TRANSPORTATION COMMISSION

3

4 THE WASHINGTON UTILITIES            )  
AND TRANSPORTATION COMMISSION,    )  
5    )  
                                  Complainant,    )  
6    )  
                                  vs.            ) DOCKET NO. UG-000073  
7    )  
NORTHWEST NATURAL GAS COMPANY,    ) VOLUME 3  
8    ) Pages 48 to 80  
                                  Respondent.    )

9 -----

10                   A hearing in the above matter was held on  
11 September 29, 2000, at 9:40 a.m., at 1300 South  
12 Evergreen Park Drive Southwest, Olympia, Washington,  
13 before Administrative Law Judge KAREN M. CAILLE,  
14 Chairwoman MARILYN SHOWALTER, Commissioner RICHARD  
15 HEMSTAD, and Commissioner WILLIAM R. GILLIS.

16                   The parties were present as follows:

17                   THE WASHINGTON UTILITIES AND TRANSPORTATION  
18 COMMISSION, by ROBERT CEDARBAUM, Assistant Attorney  
General, 1400 South Evergreen Park Drive Southwest,  
Olympia, Washington 98504.

19                   PUBLIC COUNSEL, by ROBERT CROMWELL, Attorney  
20 at Law, 900 Fourth Avenue, Suite 2000, Seattle,  
Washington 98164.

21                   SEH AMERICA, by ROBERT M. SCHAEFER, Attorney  
22 at Law, 501 West Evergreen Boulevard, Vancouver,  
Washington 98666.

23

24

25 Joan E. Kinn, CCR, RPR  
Court Reporter

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1                   NORTHWEST NATURAL GAS COMPANY, by GAYLE  
2           PATTERSON, Attorney at Law, 220 Northwest Second Avenue,  
3           Portland, Oregon 97209.

4                   NORTHWEST INDUSTRIAL GAS USERS, by EDWARD A.  
5           FINKLEA, Attorney at Law, 526 Northwest 18th Avenue,  
6           Portland, Oregon 97209.

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

2 JUDGE CAILLE: We are here this morning for a  
3 hearing on a settlement agreement in Docket UG-000073.  
4 This is the Northwest Natural Gas Company's request for  
5 increase in rates. The settlement agreement is  
6 presented for the Commission's approval under WAC  
7 480-09-465, which is the alternative dispute resolution,  
8 as a full settlement of all the issues raised in the  
9 proceeding.

10 My name is Karen Caille, and I am the  
11 presiding Administrative Law Judge in this proceeding.  
12 Today is September the 29th, 2000, and we are convening  
13 in a hearing room in the Commission's headquarters in  
14 Olympia, Washington.

15 We will be joined by the commissioners once  
16 we have taken care of a few preliminary matters. Our  
17 first order of business this morning -- and one thing I  
18 would like to just mention to everyone is to please pull  
19 the microphone close to you when you speak, and that way  
20 you will be heard by everyone.

21 Our first order of business is taking  
22 appearances, and I believe everyone except Ms. Patterson  
23 has already entered E-mail address, fax number,  
24 telephone numbers. So I will begin with you,  
25 Ms. Patterson, your name, whom you represent, your

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1 address, your business telephone, fax, and E-mail,  
2 please.

3 MS. PATTERSON: Yes, I'm Gayle Patterson. I  
4 represent Northwest Natural, 222 Northwest Second  
5 Avenue, Portland, Oregon, telephone number (503)  
6 220-2404, fax number (503) 721-2516, E-mail  
7 g2p@northwestnatural.com.

8 JUDGE CAILLE: Thank you.  
9 Mr. Finklea.

10 MR. FINKLEA: I am Ed Finklea representing  
11 the Northwest Industrial Gas Users. I have previously  
12 entered an appearance. I am with the law firm Energy  
13 Advocates LLP at 526 Northwest 18th Avenue, Portland,  
14 97209.

15 JUDGE CAILLE: Thank you.  
16 Mr. Schaefer.

17 MR. SCHAEFER: I'm Robert M. Schaefer, and  
18 I'm an attorney for SEH America, and my office is in  
19 Vancouver, Washington at 501 West Evergreen, and our  
20 phone number there is 693-5883, and our fax number is  
21 693-1777.

22 JUDGE CAILLE: Mr. Cedarbaum.

23 MR. CEDARBAUM: Thank you, my name is Robert  
24 Cedarbaum. I'm an Assistant Attorney General  
25 representing Commission Staff, and my vital statistics I



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1 think have been noted of record at the prehearing  
2 conference back at the beginning of this case.

3 JUDGE CAILLE: Thank you.

4 MR. CROMWELL: Robert Cromwell on behalf of  
5 Public Counsel, Your Honor.

6 JUDGE CAILLE: Thank you.

7 Maybe at this point, Mr. Cedarbaum, if you  
8 would just inform us of what the ground rules are for  
9 this, or perhaps should we wait for the commissioners?

10 MR. CEDARBAUM: Well, it's your preference.

11 JUDGE CAILLE: Well, why don't you tell me  
12 what they are; I don't know.

13 MR. CEDARBAUM: First of all just for the  
14 record, yesterday I did E-mail you with a copy to all  
15 the parties about Melinda Davison not being able to be  
16 present this morning because of some unavoidable  
17 conflicts that neither she nor anyone else in her firm  
18 could avoid. So I just wanted the record to reflect  
19 that she's not here today, but that's not by any  
20 circumstance that we could control, and that she  
21 authorized us to try to do the best without her, and I'm  
22 assuming that's acceptable from the Commission's point  
23 of view.

24 JUDGE CAILLE: Yes, it is.

25 MR. CEDARBAUM: Yesterday the parties set up

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1 a conference call, and we talked about some ground rules  
2 that we thought might be helpful to allow this hearing  
3 to proceed on a smooth basis, and so this is just our  
4 suggestions. If Commission wants to do it otherwise,  
5 that's obviously fine.

6           Prior practice that I have seen with the  
7 Commission is that they have asked for an opening  
8 statement from somebody. It generally tends to be staff  
9 counsel, and so I'm prepared to do that if the  
10 Commission wishes. We also thought that it might be  
11 helpful that we designate Mr. Lott, who will be the  
12 staff representative on the panel, as being the first  
13 person to answer any of the commissioners' questions, if  
14 he can answer the question. And then other parties  
15 could follow him and either add or subtract or give  
16 their perspective on a particular question as they see  
17 fit.

18           And then the third point was and the company  
19 expressed a desire that if anyone felt at the end of the  
20 hearing that any of the panelists wished to make some  
21 sort of a closing statement or wrap things up from their  
22 perspective that they be given the opportunity to do  
23 that. If the Commission would allow that, that would be  
24 helpful as well. So those were the ideas that we had on  
25 how this might be able to proceed.

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1 JUDGE CAILLE: That sounds very good. I  
2 think that when the commissioners come on the Bench, I'm  
3 going to probably ask you to go through those again,  
4 Mr. Cedarbaum, just so that they are aware of how we  
5 will be proceeding.

6 The next thing I would like to do is take  
7 care of the exhibits. The settlement agreement states  
8 that all testimony exhibits previously filed in this  
9 docket and previously marked for identification are  
10 jointly offered into evidence by the parties without  
11 objection except for the following exhibits, exhibits  
12 55, 67, 68, 69, 89, and 90. May I have just some  
13 confirmation by the parties that that's correct?

14 MR. CROMWELL: No objection, Public Counsel.

15 MS. PATTERSON: No objection.

16 MR. FINKLEA: No objection, Your Honor.

17 JUDGE CAILLE: With the exception of those  
18 exhibits that I just read off, the remainder of the  
19 exhibits are admitted.

20 MR. CROMWELL: Your Honor, the following  
21 sentence in the agreement also referred to the public  
22 comments that either the commissioners received through  
23 Ms. Hanson or that we may receive at the public hearing  
24 on the 12th. I don't think we preassigned a number for  
25 that, but I presume we can just use whatever number.

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1 JUDGE CAILLE: I will have a number for you  
2 by the end, Mr. Cromwell.

3 MR. CROMWELL: Okay.

4 JUDGE CAILLE: Yes, those will also be  
5 considered as part of the record.

6 MR. CROMWELL: Thank you.

7 JUDGE CAILLE: Is there anything else before  
8 I swear in the panel?

9 MR. CEDARBAUM: Just in the way of exhibits,  
10 the Commission's custom seems to be to mark and have  
11 admitted into evidence the settlement docket as an  
12 exhibit as well.

13 JUDGE CAILLE: Yes.

14 MR. CEDARBAUM: Which I don't think has to  
15 happen, but if you want it to happen, now might be the  
16 appropriate time.

17 JUDGE CAILLE: Let's mark the settlement  
18 agreement as Exhibit 200, and that is admitted into the  
19 record.

20 As long as I'm assigning numbers,  
21 Mr. Cromwell, why don't we make Public Counsel's exhibit  
22 199.

23 MR. CROMWELL: Thank you, Your Honor.

24 JUDGE CAILLE: Thank you for that reminder,  
25 Mr. Cedarbaum.

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1 All right, will the panelists please stand up  
2 and raise your right hand, and I will swear you in  
3 together.

4 (Panelists MERTON R. LOTT, JIM LAZAR, BRUCE  
5 R. DEBOLT, and DONALD W. SCHOENBECK sworn  
6 in.)

7 JUDGE CAILLE: I would like to welcome the  
8 commissioners to the Bench, and perhaps before -- we  
9 have already sworn in the witnesses and taken  
10 appearances, but if the attorneys would please introduce  
11 yourselves and who you represent for the benefit of the  
12 commissioners.

13 I will begin with you, Ms. Patterson.

14 MS. PATTERSON: Good morning, Commissioners.  
15 I'm Gayle Patterson, and I represent Northwest Natural.

16 MR. FINKLEA: Good morning, Commissioners.  
17 I'm Ed Finklea, and I'm representing the Northwest  
18 Industrial Gas Users.

19 MR. SCHAEFER: Good morning, Commissioners.  
20 I am Robert Schaefer, and I am representing SEH America.

21 MR. CEDARBAUM: Robert Cedarbaum, Commission  
22 Staff.

23 MR. CROMWELL: Robert Cromwell, Public  
24 Counsel.

25 JUDGE CAILLE: The parties have agreed to

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1 certain ground rules on how to proceed this morning, and  
2 I'm going to ask Mr. Cedarbaum to repeat these. They  
3 seem very reasonable to me.

4 CHAIRWOMAN SHOWALTER: Can we have the rest  
5 of our panel introduced.

6 JUDGE CAILLE: All right, let's introduce the  
7 panel as well.

8 MR. LOTT: My name a Merton Lott. I'm with  
9 Commission Staff.

10 MR. LAZAR: Jim Lazar, consultant to Public  
11 Counsel.

12 MR. DEBOLT: I'm Bruce DeBolt, Senior Vice  
13 President, Northwest Natural.

14 MR. SCHOENBECK: Don Schoenbeck, consultant  
15 here on behalf of the Northwest Industrial Gas Users and  
16 SEH.

17 JUDGE CAILLE: Thank you.

18 Now, Mr. Cedarbaum.

19 MR. CEDARBAUM: Thank you. First, I just  
20 want to note that the only person not in the room is  
21 Melinda Davison on behalf of Washington Food Industries,  
22 and her lack of appearance today is not because she has  
23 cold feet or anything. She just had a prior commitment  
24 that was unavoidable and just couldn't attend today, and  
25 I advised the ALJ and the parties of that yesterday, and

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1 that seemed to be acceptable to everyone.

2           There were some grounds rules that we talked  
3 about as parties yesterday that we thought would help  
4 the process to proceed smoothly, and that was with  
5 respect to the panel, when questions are directed to the  
6 panel, we agreed that Mr. Lott would be the first one to  
7 answer the question from Staff's perspective, and then  
8 others could follow him with their perspective or their  
9 answers subtracting or adding to what Mr. Lott may have  
10 to say from their perspective.

11           The other point was that the parties wanted  
12 to have the opportunity, if necessary, to provide some  
13 sort of a closing statement just from the panel in case  
14 there was something that was missed or needed to be  
15 detailed or clarified that they be given the chance to  
16 do that. That may or may not become necessary, but at  
17 least we would like that opportunity.

18           And the third point is that other than the  
19 panelists, there are other staff members in the room and  
20 company staff members in the room who have worked on the  
21 case, and there may be some questions that go beyond  
22 that, that go into detail that the panelists may not  
23 have, and we have those other witnesses if the  
24 Commission needs them to rely upon. So those were the  
25 ground rules that we thought would help the process.

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1 JUDGE CAILLE: And my understanding is  
2 there's going to be sort of an opening statement made by  
3 you, Mr. Cedarbaum.

4 MR. CEDARBAUM: If the Commission wishes an  
5 opening statement by the parties, I have been designated  
6 for better or worse to be that person.

7 COMMISSIONER HEMSTAD: Perhaps you could  
8 break the ice.

9 JUDGE CAILLE: You may proceed.

10 MR. CEDARBAUM: Would you like me to do that?

11 JUDGE CAILLE: Yes, please.

12 MR. CEDARBAUM: Obviously we filed a  
13 settlement a couple of days ago, and so I will assume  
14 that everyone on the Bench has read it. I won't go  
15 through the details of that. There were just three  
16 general statements I wanted to make about the  
17 settlement.

18 The first is that you will see that this is a  
19 global settlement by all the parties in the case, and so  
20 represented at the table when we were negotiating the  
21 case were broad and at times conflicting range of  
22 interests of residential, commercial, and industrial  
23 customers taking service under the company's, all of the  
24 company's major rate schedules. And like all  
25 settlements, not everybody got what they wanted, not



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1 everybody is happy with everything that's in the  
2 settlement. But on balance, we're all here to support  
3 and recommend that you adopt the settlement as a full  
4 resolution of the case that meets the statutory  
5 standards of being in the public interest and  
6 establishing rates that are just, fair, reasonable, and  
7 sufficient.

8         The second point is that oftentimes when  
9 settlements are brought before the Commission, they  
10 appear to be black boxes to the Commission, as if we  
11 have grabbed numbers out of the air and asked you to a  
12 accept them. I don't think that's the case in this  
13 situation. We do have a prior settlement that the  
14 Commission has indicated it will accept on rate of  
15 return, which will establish an 8.95% authorized rate of  
16 return for the company. We also did September 15th file  
17 with the Commission at the Commission's direction an  
18 issues list from the staff and the company, which was a  
19 spreadsheet that shows at that time a range of revenue  
20 requirements from where the staff was and where the  
21 company was. We settled on an amount that was about  
22 halfway in between those two points. And while we  
23 haven't, other than how Y2K expenses will be treated and  
24 how the CIS expenses will be treated, although we  
25 haven't agreed to the exact treatment of revenue

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1 requirement issues underlying that amount, I think that  
2 document does provide you with some feel for the issues  
3 that we dealt with and how each party from their  
4 perspective has resolved them in their minds. So in  
5 that sense, while I wouldn't call it a completely --  
6 it's not a black box, but I think it's a fairly dark  
7 shade of gray that we have presented to you.

8           And the third and final point is that we did  
9 look at the historical context of our settlement in  
10 which we're recommending a \$4.3 Million increase in the  
11 company's revenues. And by that I mean we recognized  
12 that last December the company had a tracker increase of  
13 I think it was in the range of about 10%, 9% or 10% for  
14 residential customers. And just last month the  
15 Commission approved I think it was about a 21%, 22%  
16 tracker increase, and this was another increase. And so  
17 we recognized that, and we tried to soften the pain or  
18 accommodate that in two ways.

19           The first way was a phased in approach where  
20 the rate increase will be phased in over two years, the  
21 first phase being November 1st if an order can be issued  
22 that quickly, the second phase being next October 1st.  
23 And we also included a rate moratorium provision in  
24 which the company can not have another rate increase  
25 with rates effective before April of 2003. And so in

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1 that sense, we have I don't know if I can characterize  
2 it as a three year rate plan, but it kind of has those  
3 connotations to it. So we did look at the history in  
4 the last year of increases, and we tried to accommodate  
5 this additional increase through a couple of mechanisms  
6 that we hope will help rate payers to get through this  
7 time.

8 But those were the three essential statements  
9 or basic introductory statements I wanted to make. I'm  
10 available for questions, as are other counsel. And the  
11 panelists, of course, are the main players here to  
12 answer your questions on the substance of the agreement.

13 JUDGE CAILLE: Thank you.

14 Commissioners, do you want to begin?

15 CHAIRWOMAN SHOWALTER: I thought we would  
16 hear a little bit, am I right or wrong, on the format,  
17 hear a little bit from the panelists, or you just want  
18 only questions?

19 MR. CEDARBAUM: I think the way we thought we  
20 were proceeding was that after the opening statement, if  
21 you had questions of the panelists, you could ask them.  
22 If any of the panelists want to make an opening  
23 statement, if that is your wish.

24 CHAIRWOMAN SHOWALTER: I can start with one  
25 question if that gets things going, but I certainly

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1 don't mind the panelists -- I have on page four, this  
2 has to do with the revenue and the rate phase in,  
3 there's an 8.43 increase November 1st, and then a year  
4 later or so a 3.37 increase. And are those absolute  
5 amounts, or is there any interest accruing on the second  
6 phase in pending that phase in?

7 MR. LOTT: There is no interest accruing.  
8 This is a phase in to the allocation suggested in my  
9 testimony, so it's just this one rate increase and then  
10 another rate increase next year.

11 CHAIRWOMAN SHOWALTER: Okay.

12 COMMISSIONER HEMSTAD: Well, I don't know if  
13 any of the panelists want to make any comments. The  
14 proposed settlement or the settlement agreement is  
15 rather straightforward. I don't have a lot of  
16 questions. You may want to make some comments, but the  
17 problem is that the parties have come to an agreement  
18 with your trade offs and the like, and so if there's  
19 anything you think is appropriate or would be  
20 informative for us to know, I would like to hear it.

21 MR. LOTT: For my part, I don't really have  
22 any comments. I agree with you that the settlement is  
23 straightforward. Basically staff and the company on  
24 revenue requirements have agreed to disagree on certain  
25 things and weighed our options and decided that this

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1 settlement was within reason. We both did it  
2 independently and came up with a number that was similar  
3 on rate spread. The parties discussed it for a long  
4 period of time, and this was the final result of a long,  
5 long, you know, most of the week was spent just talking  
6 about rate spread and who was going to pay what.

7 CHAIRWOMAN SHOWALTER: I have one question  
8 about something that's not in the agreement, and that is  
9 mist, if it's appropriate to ask, what is the  
10 consequence of this whole settlement to the treatment of  
11 mist?

12 MR. LOTT: The mist phase 3 that was put into  
13 rate base last year will be treated as a rate base item.  
14 It is included in these calculations. It was part of  
15 staff's case to leave mist into rates and that's -- I,  
16 you know, staff had a small adjustment related to  
17 growth, but that wasn't related to the mist facility  
18 being prudent. The staff's position was that the mist  
19 was prudent. I don't think any party took a position  
20 that it was imprudent. There may have been a position  
21 that growth was there to cover it. But other than that,  
22 nobody is objecting to mist phase 3 or 2 or previous  
23 pieces of mist.

24 MR. LAZAR: We were the party that took the  
25 position that if mist is cost effective, then it ought

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1 to provide purchase gas benefits in an amount equal to  
2 the rate base revenue requirement increase. We still  
3 believe that. It's a little difficult to find purchase  
4 gas, an offsetting purchase gas benefit in the context  
5 of the huge increases in the commodity cost of natural  
6 gas. And the availability of storage does provide  
7 flexibility which over time should provide benefits.  
8 Obviously those are completely dwarfed by 27% or 22%  
9 increase for this company tracking increase on August.

10 COMMISSIONER HEMSTAD: Does the company have  
11 any general comments?

12 MR. DEBOLT: Bruce DeBolt for the company.  
13 Just a thought on the comprehensive approach to mist  
14 storage. Among all the LDCs that serve in Washington, I  
15 think probably we have the largest commitment to  
16 underground gas storage as a peaking component, both for  
17 purposes of meeting daily peaks of our customers and  
18 also seasonal requirements. And as Mr. Lott said,  
19 everything the company has had in service going into  
20 last winter is incorporated in rate base and treated, in  
21 our opinion, appropriately in this case.

22 So that because the storage services are used  
23 both for service to Washington customers and Oregon  
24 customers, this is a commitment to the storage  
25 investments we have made. The latest investments in

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1 storage which went in place last fall are in here, but  
2 the current ones are not, because they are outside the  
3 test period.

4           As Mr. Lazar said, there are benefits that  
5 are expected from storage. We have experienced those  
6 benefits literally from the first day that storage went  
7 in place on the system in 1989, both in the form of the  
8 seasonal savings in those summers when gas has been less  
9 expensive as opposed to costs during the winter. That  
10 has been less true during the summer of 2000 than it  
11 ever had been before, but we think that over time those  
12 patterns will probably reappear. By and large, the  
13 largest single advantage of storage is that it displaces  
14 the need for 100% pipeline capacity, capacity we would  
15 not use all the time but you pay for every day, and  
16 those benefits are very, very large in our system.

17           COMMISSIONER HEMSTAD: What is the capacity  
18 of mist?

19           MR. DEBOLT: Currently the total capacity is  
20 about 10 billion cubic feet, and we are growing  
21 incrementally each year as the system grows.

22           COMMISSIONER HEMSTAD: What does that  
23 translate into?

24           MR. DEBOLT: On a peak day, Commissioner,  
25 maybe that's the best way to do it, we expect we would

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1 have a total load on the system of about 7 million  
2 therms. And within that total, we have a pipeline  
3 capacity contract of only 3 million. So the other 4  
4 million therms of gas that are coming through the system  
5 for delivery to our customers have to come from  
6 different storage capacity facilities. Mist provides  
7 about -- is more than half of that, almost two million  
8 therms a day we expect to come from mist storage during  
9 our peak days.

10 COMMISSIONER GILLIS: I don't have any  
11 questions.

12 CHAIRWOMAN SHOWALTER: I have no more  
13 questions.

14 JUDGE CAILLE: Mr. DeBolt.

15 MR. DEBOLT: If I might add just a few  
16 thoughts, call these closing comments if you like, but  
17 one thing that we have found from experience in these  
18 proceedings is there might be an interest on the part of  
19 the commissioners in what did we do in the settlement  
20 that might have an impact on the future, or what we call  
21 the we did what factor.

22 One element of that is, of course, a phased  
23 in rate change. It means that next October, there will  
24 be a rate increase for customers in Washington. That  
25 doesn't come straight out of the blue. It's affected by



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1 or created by the settlement in this case. So there  
2 will be a filing next summer to take care of the last  
3 part of this proceeding.

4 The second piece is that we are over time  
5 phasing in some changes in two of our primary industrial  
6 rate schedules, both dealing with transportation, that  
7 have a longer term goal of converging the rates for  
8 transportation by large customers between the state of  
9 Washington and the state of Oregon. They are for the  
10 most part part of the same economic climate, and we have  
11 felt and our industrial customers have felt that it's  
12 important for those rates to come closer together. By  
13 the way, the direction that we are moving with those  
14 rates is in the direction of the primary transportation  
15 rates that Cascade and Puget and Avista have within the  
16 State of Washington. So these are not changes that are  
17 inconsistent with the gas rates that are in place today  
18 on other systems.

19 As Mr. Cedarbaum said, there are no binding  
20 precedents that this Commission will have to follow in  
21 the future by virtue of the decisions that the parties  
22 made in this case. So you wouldn't find in a future  
23 rate case that any particular rate making issue has been  
24 boxed in by virtue of the settlement treatments in this  
25 case. That includes issues as important as return,

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1 return on equity, capital structure, rate spread, the  
2 way that cost allocation studies are done, all important  
3 issues in any case, and we are not binding the  
4 Commission for the future by regard of what we are doing  
5 here. There are no limits on other elements of rate  
6 making. There will be purchase gas adjustment filings  
7 in the future, as there have been in the past. They may  
8 be increases. We hope they will be decreases as the  
9 commodity climate ameliorates, and we will follow those  
10 procedures as we have in the past. That's apart from  
11 this case.

12 There is one point that counsel will add in a  
13 moment that deals with the effective date of phase one,  
14 which is that we are requesting that the compliance  
15 order include a statement that compliance rates can be  
16 effective on less than statutory notice if that is  
17 required in order to meet the November 1 target date the  
18 parties are requesting.

19 I would like to say that in my 20 years of  
20 experience before this Commission and in the company's  
21 rate proceedings over this time period, this is the  
22 broadest involvement in a Northwest Natural rate general  
23 rate case that we have ever experienced. Besides the  
24 activities of the Commission Staff and Public Counsel,  
25 we had active involvement from industrial gas users,

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1 both the NWIGU and individual industrial customers on  
2 our system. We had active involvement by a commercial  
3 customer group. So we were able to cover among the  
4 various interest groups that are affected by a case like  
5 this many issues that had not surfaced before, had not  
6 been dealt with before. I think that we all did so  
7 responsibly in a way that's done some good for all  
8 customers on the system.

9 We also accomplished some things I think that  
10 are very important that have been old business for  
11 Northwest Natural, as viewed by this Commission. We had  
12 been until this case the only energy company with  
13 operations in more states than Washington that did not  
14 have a state allocation in place. We now have  
15 accomplished that through what we believe were  
16 collaborative and constructive efforts on the part of  
17 your staff, the Oregon commission staff, and the company  
18 to put together a state allocation methodology that can  
19 work for the future, and that has been implemented in  
20 this case.

21 We also, I won't say we were the last, but we  
22 had not formally prepared a cost of service study to  
23 investigate the differences in costs among the different  
24 customer categories, and the parties together looked at  
25 a number of different versions of well-prepared cost

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1 studies for use in this case. We prepared a settlement  
2 in that respect, and we don't have binding precedence  
3 for the future, but we made I think a lot of progress  
4 toward investigating the cost of service for all  
5 customers on the Northwest Natural system in Washington.

6 And we would like to thank all the parties  
7 who participated in this case for their efforts on what  
8 we think is a fair and really very worthwhile  
9 settlement.

10 JUDGE CAILLE: Do any of the other panelists  
11 wish to make a statement?

12 MR. LAZAR: There is one area I think that  
13 merits a little bit of attention. It's at the bottom of  
14 page six of the settlement. The company currently has  
15 three residential rate schedules: Schedule 2 which  
16 applies to customers with gas space heat, Schedule 24,  
17 which applies to customers who are all gas, and Schedule  
18 27, which is a dry out schedule that contractors use  
19 when new homes are built for gas service prior to actual  
20 occupancy.

21 In this settlement, we have made some  
22 convergence between Schedule 27, which is the cheapest  
23 of the three, and the other two and applied the increase  
24 uniformly to the other two. Schedule 2 was the most  
25 expensive, 24 is in the middle, and 27 is the cheapest.

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1 Rather than apply things on a percentage basis and  
2 exacerbate the differences, we have applied it on a  
3 cents per therm basis 2 and 24 and moved Schedule 27 in  
4 the direction of the other two.

5         And there's language here that says we're  
6 going to get together and work on further reasonable  
7 changes to the design of these. And I think what Staff  
8 and Public Counsel had in mind was further convergence  
9 of the schedules. For the other gas companies, they  
10 typically only have a single residential rate schedule.  
11 And we will be working on that over the next couple of  
12 years during this rate moratorium period.

13         I don't think you should expect to see any  
14 movement or proposals for movement during this rate  
15 period. We were concerned that the relative  
16 relationship of rates not be tampered with during this  
17 time of sharp increases in prices, that nobody should  
18 get a lot more than the average increase given how big  
19 those average increases were. But hopefully if we  
20 either reach a new plateau or come back down a little in  
21 gas costs, there will be an opportunity to begin the  
22 convergence of those rate schedules.

23         MR. LOTT: Just to show you why we didn't do  
24 it, it would have been another 2 1/2% increase on the  
25 Schedule 24 customers to converge the 2 and 24 schedules

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1 totally at this time. So we're already at 15% increases  
2 over the January rates, so tacking on another 2 1/2%  
3 seemed something that we can work on over a period of  
4 time rather than jumping in.

5 I had one comment related to Mr. DeBolt's,  
6 not disagreement, because everybody looks at things in a  
7 different fashion, and that is the convergence of  
8 Schedule 9091 rates to Oregon Schedule 9091 rates. Some  
9 people may think it's a cost of service convergence.  
10 Staff's in the State of Washington cost of service  
11 methodologies are different than the Oregon cost of  
12 service methodologies.

13 We reviewed this convergence in this  
14 particular proceeding not as much based on Northwest  
15 Natural Gas's cost of service, because there is only one  
16 customer, SEH, on either one of these two schedules at  
17 the current time, therefore a cost of service study is  
18 not very reliable for one customer, but more on the idea  
19 of looking at the rates we had in Cascade and PSE, whose  
20 rates were actually lower for these customers than  
21 Northwest's I will call them the phased in rates.

22 We had a settlement a year ago, if you  
23 remember, about creating these Schedule 9091 rates, so  
24 we were moving towards a rate that would have been  
25 effective next May. Those rates are still substantially

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1 higher than PSE and Cascade rates. Therefore I believe  
2 that the rate agreements that we have here move, the  
3 phase two increase at least, will move this company  
4 closer to the rates that we have in place for the other  
5 two companies for the transportation type customers.

6 And that's why staff is willing to move in  
7 this direction, and it's not because the Oregon rates  
8 that are based on Oregon cost of service studies. It  
9 was done with a completely different methodology than  
10 has been adopted by this Commission.

11 MR. SCHOENBECK: Obviously Schedule 9091 is a  
12 very important issue for the Northwest Industrial Gas  
13 Users and SEH. And we could spend a great deal of time  
14 revisiting all the gives and takes that were done during  
15 the settlement process. I guess I would urge you to  
16 just remember two things that were already stated, one  
17 by Commissioner Hemstad saying this is a very  
18 straightforward settlement. I think it's a very clean  
19 document. It's easy to understand, so it tells you what  
20 is going to occur under the rate plan and rate  
21 moratorium.

22 The second thing I would like to add goes to  
23 what Bruce DeBolt said with respect to the involvement  
24 of all the parties in this proceeding. This is the  
25 first time at least with respect to a gas filing before

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1 this Commission where you have had such great  
2 involvement from not only all the typical organizations,  
3 plus there are new commercial organizations also had  
4 involvement of many industrial customers on an  
5 individual basis. So to the extent that all the parties  
6 are willing to adopt this document, I think is  
7 extraordinarily important, and I urge you to do it in a  
8 quick, straightforward manner. Thank you.

9 CHAIRWOMAN SHOWALTER: I will just comment,  
10 we have a public hearing on this coming up in I think  
11 it's October 12th, so we will receive input at that  
12 time. But it's obvious that the parties here have done  
13 a lot of work to get the proceeding to this point.  
14 That's appreciated.

15 JUDGE CAILLE: Do any of the counsel wish to  
16 make any statements or closing statements?

17 MS. PATTERSON: Yes. Again, I'm Gayle  
18 Patterson for Northwest Natural. I would just like to  
19 ask the commissioners in consideration of their order to  
20 include a shortened time for compliance filings. We  
21 have an effective date of November 1st on the  
22 settlement, and in order to make that date, we would  
23 like to have the 30 days waived. We believe 5 to 7 days  
24 would be a sufficient amount of time.

25 JUDGE CAILLE: Anyone else?



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1 Commissioners?

2 COMMISSIONER HEMSTAD: No.

3 COMMISSIONER GILLIS: No.

4 JUDGE CAILLE: All right. I would also like

5 to commend the parties, your efforts in reaching

6 settlement. I know that you worked many long hours to

7 compromise and settle these issues, and the Commission

8 always does encourage alternative dispute resolution.

9 It's nice if the parties can agree and we don't have to  
10 make the decisions.

11 The Commission will be reviewing the

12 settlement agreement and will issue an order. And as

13 Chairwoman Showalter said, there is a public meeting on

14 October the 12th at 6:30 in Vancouver.

15 All right, if there's nothing more, then this

16 meeting is adjourned. Thank you.

17 (Hearing adjourned at 10:25 a.m.)

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