Q. Please state your name, title, and business address.

A. My name is Bruce R. DeBolt. I am Sr. Vice President and Chief Financial Officer at NW Natural (company). My business address is 220 NW Second Avenue, Portland, Oregon, 97209-3991.

Q. Please describe your education and employment background.

A. I received an A.B. from Princeton University in 1969. Subsequently, I attended the Stanford Law School and the Stanford Graduate School of Business, and was awarded the J.D. and M.B.A. degrees in 1973. From 1974 through 1980, I was an Assistant Attorney General for the State of Oregon. I joined the company as Associate Counsel in February 1980 and was elected Vice President and General Counsel on June 1, 1983. I assumed my present position on March 1, 1990.

Q. What are your responsibilities with NW Natural?

A. As Senior Vice President and Chief Financial Officer, I am a member of the senior management team reporting to the President and CEO. My responsibilities as chief financial officer of NW Natural include the financial planning, treasury, accounting, budgeting, tax, strategic planning, and investor relations functions, among others. I participate on matters affecting the rates charged the company by its primary pipeline suppliers, Northwest Pipeline Corporation (a subsidiary of Williams Gas Pipelines West) and PG&E Gas Transmission Northwest (formerly Pacific Gas Transmission Company). I am jointly responsible for the preparation and presentation of evidence relating to ratemaking and other regulatory activities in Oregon and Washington.

Q. Have you testified previously before regulatory agencies on matters affecting natural gas rates?

A. Yes, I have presented testimony on natural gas ratemaking issues before the Oregon Public Utility Commission (OPUC), the Washington Utilities & Transportation Commission (WUTC), the Federal Energy Regulatory Commission (FERC) and the National Energy Board of Canada.

Q. What is the purpose of your testimony?

A. I am appearing as the company's witness on general policy issues. The purposes of my testimony are four-fold.

First, my testimony presents background information on the company, including important facts about its operations and a summary of the company's experience since its last Washington general rate case in 1997.

Second, it summarizes the main elements of the company's presentation in support of this filing.

Third, it explains the reasons which have necessitated the company's filing for a general rate increase and outlines the financial results which will be realized from the increased rates which comprise this filing.

Last, it addresses several specific adjustments or issues presented in the filing.

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Rates & Regulatory Affairs
NORTHWEST NATURAL GAS COMPANY
220 N.W. Second Avenue
Portland, Oregon 97209-3991
1-503-226-4211

I. BACKGROUND.

Q. Please describe the business of Northwest Natural Gas Company.

A. Northwest Natural Gas Company was incorporated under the laws of Oregon in 1910. The company and its predecessors have supplied gas service to the public since 1859. In 1997, the company began doing business as NW Natural (pronounced "Northwest Natural"), an abbreviated name by which most of our customers and the general public knew us already.

The company is principally engaged in the distribution of natural gas. The company holds certificates from the WUTC granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River. The OPUC has allocated to the company as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the Willamette Valley and the coastal area from Astoria to Coos Bay. Gas service is provided in 95 cities, together with neighboring communities, in 16 Oregon counties, and in nine cities, together with neighboring communities, in three Washington counties.

At year-end 1999, the company had about 500,000 customers, including about 446,000 residential customers, 53,000 commercial customers and 630 industrial customers. In Washington, NW Natural serves about 35,000 residential customers, 4,000 commercial customers and 55 industrial customers. Industries served include pulp, paper and other forest products; the manufacture of electronic, electrochemical and electrometallurgical products; the processing of farm and food products; the production of various mineral products; metal fabrication and casting; and the production of machine tools, machinery and textiles.

Q. Does NW Natural have any subsidiaries engaged in unregulated activities?

A. The company has two active subsidiaries. NNG Financial Corporation (NNGFC) is incorporated in the State of Oregon, and Canor Energy, Ltd. (Canor) is an Alberta, Canada corporation. During 1996, a third subsidiary, Oregon Natural Gas Development Corporation (Oregon Natural), transferred its interests in certain gas-producing properties in the western United States to NNGFC. Oregon Natural was then merged with and into the company, thus effecting the transfer of Oregon Natural's assets relating to natural gas storage to NW Natural.

NNGFC holds financial investments as a limited partner in three solar electric generating plants, four windpower electric generation projects and a hydroelectric project, all located in California, and in two low-income housing projects in Portland. NNGFC now holds interests in the gas producing properties in the western United States formerly held by Oregon Natural.

The company owns a 66 percent equity interest in Canor, which is engaged in natural gas and oil exploration, development and production in Alberta and Saskatchewan, Canada.

Neither NNGFC nor Canor provides utility services in Oregon or Washington. NW Natural does not buy natural gas from Canor, or other forms of energy from NNGFC, for delivery to its utility customers. NW Natural still buys all of the natural gas produced from the Mist Field in northwest Oregon, in which Oregon Natural was a discovery partner in the late 1970s and a production partner into the mid-1980s. Oregon Natural sold its production interests in the Mist Field in 1995, however, such that NW Natural now purchases all of the Mist gas from an unaffiliated entity.

No expenses relating to the company's subsidiaries are included in system operating results for purposes of its rate filing. The company reports its financial results to the public on a consolidated basis, but routinely isolates its subsidiary results so they do not affect regulatory review. In cases where company employees perform services for a subsidiary, appropriate portions of their salaries are allocated to the subsidiaries where these costs are recorded as expense.

Q. In what respects is the company subject to regulation as a utility?

A. The company is subject to regulation with respect to, among other matters, rates, systems of accounts and issuance of securities by the OPUC and the WUTC. In 1998, about 5.8 percent of the company's gas deliveries and 6.5 percent of its utility operating revenues were derived from Washington customers. The company is exempt from the provisions of the Natural Gas Act by order of the Federal Power Commission (now the FERC). The company is subject to regulation by the Securities and Exchange Commission with respect to the issuance of its securities for sale to the public.

The company's most recent general rate case in Washington, in 1997 (Docket No. UG-970932), authorized rates which were designed to produce a return on equity of 11.25 percent. The company's last general rate case in

Oregon, concluded in November 1999 (Docket No. UG-132), authorized rates in that state designed to produce a return on common equity of 10.25 percent.

Q. Please describe the ownership of the company.

A. NW Natural had about 25.1 million shares of its common stock outstanding as of December 31, 1999. These shares were held by about 11,500 widely scattered shareholders. The company's most recent offering of common stock was in April 1998, when it sold 1,725,000 shares of common stock through a secondary public offering led by three underwriters. The company had made secondary public offerings of common stock of comparable size in 1995, 1992 and 1989.

Typically, between 25 and 35 percent of the shares of common stock are held by institutions such as pension funds or mutual funds. Nearly half of the company's common stockholders are residents of Oregon and Washington.

Q. Please describe the significant developments since the company's last Washington general rate case, which concluded in 1997.

A. The company's test year in Docket UG-970932 used recorded and adjusted financial results for the 12 months ended June 30, 1996.

NW Natural continues to experience remarkable growth in its system, as well as continuing dramatic changes in its business and economic environment.

In the interests of efficiency, and in the face of increasingly competitive conditions, NW Natural continues to become steadily more productive. Our total employee count has declined since our last case, from 1,337 at year-end 1996 to 1,276 at year-end 1999. Our ratio of customers per operating employee, a basic measure of productivity, has gone up by 14 percent, from 560 customers per operating employee in 1996 to about 640 in 1999. A primary contributor to the company's increasing productivity has been the Key Goals program, an incentive-based or "gain sharing" compensation system that has helped direct all employees towards the kinds of efficiencies that have insulated customers from rate cases.

Q. How has NW Natural's emphasis on productivity and profitable growth helped avoid rate cases?

A. Prior to the company's 1997 Washington rate case, NW Natural had not asked for a general rate increase in Washington since 1986. Before the company's most recent Oregon general rate case, which just concluded, NW Natural had not asked for a general rate increase in Oregon since 1989. In other words, even though high levels of growth were occurring in both states, NW Natural used its emphasis on productivity and profitable growth to manage the growth without the need for price increases to customers.

Q. Why has NW Natural filed this case?

A. This case has two primary purposes. The first is to implement a state allocation of the company's plant and operations between Washington and Oregon. The second is to recover the cost of service of some major investments the company has made in utility plant since 1996. These investments were required to continue providing reliable service to our customers, but they did not produce revenue in and of themselves to offset costs.

Q. Please describe the state allocation issue.

A. NW Natural is, to my knowledge, the last remaining utility with operations in Washington and Oregon that has not implemented a state allocation as the basis for establishing rates in each state. NW Natural's utility operations are highly integrated, so in the past it has filed for and based rates in both states on a "system" approach. The system approach has developed revenue requirements based on the company's entire operations, regardless of physical situs of the plant, and then assigned costs to each state based on the proportionate share of revenues from each state. Both of the company's most recent rate cases, UG-970932 in Washington and UG 132 in Oregon, used a system approach to rate making. However, both states have required other utilities with multi-state operations to account for their plant and operations on a state-allocated basis. *See*, WAC 480-90-031(3), and OAR 860-027-0055(2).

During the proceedings in 1999 regarding the company's most recent Oregon rate case, the Oregon Staff asked NW Natural to implement a state allocation in Oregon no later than December 1, 2000. The company agreed to do this. Beginning in July 1999, NW Natural met and discussed state allocation methodology with both WUTC Staff and OPUC Staff. In December 1999, the Staffs of both states generally agreed to an allocation methodology for the company's plant and operations, although Washington Staff reserved the right to further review the allocation if as a result of this rate case it appeared that a change was necessary. The company's filing in this case is based on the allocation methodology generally accepted by the Staffs of both states in

December 1999. The company will file to implement the state allocation in Oregon later this year. Our objective is to implement the new state allocation methodology, and the rates it implies in each state, simultaneously in both states on December 1, 2000.

Q. Please describe the major investments in new plant that NW Natural has made since the 1997 case.

A. The company has made two types of major utility investments, in addition to the smaller investments it makes to add new customers and improve or reinforce its system. The first was in a new customer information system (CIS), which was completed and placed into service in November 1997, about a month after the Commission's order in our 1997 Washington case. The company had been extending the life of its 1960s-vintage customer information system until the early 1990s, when it became clear that the system would likely fail at some point in the not-too-distant future due to its inability to keep up with the company's growing customer base. Certainly the system would have failed in connection with the roll-over to year 2000. The company developed and installed a replacement system which I consider to be one of the company's chief successes of the 1990s.

The second type of major investment was additional underground gas storage in the Mist storage fields in northwest Oregon. The company's first increment of Mist storage was placed in service in 1988 and was included in Washington rates in the 1997 case. In this current case, NW Natural is seeking to recover its cost of service for the next two increments of Mist storage, called

"Mist Phase II" and "Mist Phase III-A." Phase II was placed in service in 1998, and Phase III-A was placed in service on November 30, 1999. Although the Mist storage facilities are physically located in Oregon, they serve the needs of Washington as well as Oregon customers through displacement of pipeline gas deliveries into Washington that otherwise would go to our Oregon gate stations. Mist also provides peaking capacity at a price far lower than the price of the next best alternative, which is firm pipeline capacity. Mist allows the company to serve the peak loads of all customers at an average cost substantially below the cost of interstate pipeline capacity alone.

During all this time, however, operating expenses have been going up. These include payroll, the company's largest category of expense. The company also has been reinforcing its system or replacing old sections of the system, neither of which activity directly adds to revenues, in order to serve the needs of its growing base of firm service customers.

The effects of these investments and other cost factors have been to erode the company's return for the adjusted test year in Washington to 4.63 percent on rate base, and 1.31 percent on equity, as shown in Mr. McVay's exhibit.

II. SUMMARY OF EVIDENCE.

Q. What evidence is the company providing in support of its filing?

A. The company's filing is based on a calendar 1999 test year, which consists of 11 months of actual results and one month of estimated results.

Mr. Kevin S. McVay's testimony and his attached exhibits [Exhibits 3,4,5 and 6] present the state allocation methodology and the company's test year actual results and estimated results on the basis of the state allocation. Mr. McVay also presents the derivation of the company's revenue requirement, which incorporates adjustments to the test year actuals and estimates presented in his earlier testimony.

Next, Dr. Francis P. Ferguson, in Exhibits 7, 8, 9 and 10, presents the company's proposed spread of the revenue requirement generated by this filing across the company's rate schedules. Dr. Ferguson also describes his analysis comparing NW Natural's rate spreads to the spreads of other Washington gas utilities which have recently implemented rate spreads according to the WUTC's policies on this subject.

Following Dr. Ferguson's testimony is the testimony of Messrs. Stinson, Hanson, and Friedman regarding Phase II and Phase III-A of NW Natural's underground storage facility at Mist, Oregon.

First, Mr. Charles E. Stinson's testimony and his attached exhibits, Exhibits 11 and 12, present a detailed description of the new Phase II and Phase III-A additions to Mist.

In Exhibits 13 and 14, Dr. John A. Hanson explains the importance of Mist Storage in terms of the company's Integrated Resource Plan, which was the basis for the company's decision to develop further storage capacity at Mist. Dr. Hanson describes how Washington customers receive the economic benefit of Mist Storage development.

Last, in Exhibits 15 and 16, Mr. Randolph S. Friedman describes the company's existing gas supply resources and how they compare to the company's required resources on peak. In addition, Mr. Friedman describes the operational and non-quantifiable benefits of market area storage, and how Mist storage benefits Washington customers.

Following the Mist testimony is the testimony of Messrs. Beyer and Feltz regarding the development and implementation of the company's new Customer Information System (CIS).

Mr. Charles A. Beyer in Exhibits 17 and 18 describes the company's development of the CIS, and its successful completion and deployment, as well as the functions provided to the company in the CIS along with the efficiencies the company has gained from its implementation.

Mr. Stephen P. Feltz in Exhibits 19 and 20 describes the components of the CIS, hardware and software, as well as the costs associated with developing it.

Finally, Dr. Thomas M. Zepp's testimony and his attached exhibits, Exhibits 21 and 22, present a multi-stage Discounted Cash Flow (DCF) analysis of the cost of common equity that support the company's request for an authorized return on equity (ROE) of 11.25%, including 0.25% for stock flotation costs.

III. Revenue Requirements and Contributing Factors.

Q. What revenue requirement increase does the company's presentation support?

A. As summarized on page 1 of Exhibit 4 (KSM-Exhibit), the company's testimony and exhibits support the need for a revenue increase in Washington of $6.2 million per year. This increase reflects the use of an adjusted 1999 test year, a Washington-allocated rate base, and a proposed return on equity of 11.25 percent.

Applying the revenue increase as an equal percentage increase in margins, as Dr. Ferguson defines this approach in his testimony, produces increases in current rates, by sales category, averaging 17.8 percent for residential customers, 18.4 percent for commercial customers, 18.2 percent for industrial firm customers, and 17.6 percent for industrial interruptible customers. The overall average rate increase across all classes of service is 18.8 percent.

Q. What earnings position will the increased revenues permit the company to achieve?

A. Based upon normalized operations for the 12 months ended December 31, 1999, reflecting all adjustments, the company would have the opportunity to attain a rate of return on common equity of 11.25 percent after a full year under the rates. Under the same assumptions, the equity return would be only about 1.3 percent without the requested rate increase.

IV. Specific Issues and Adjustments.

Q. Do you have other testimony of a policy nature?

A. Yes. This portion of my testimony describes other issues of policy, some of which are not addressed elsewhere in the filing.

A. <u>Test Year</u>.

Q. Please explain the factors affecting the company's choice of a test year for this filing.

A. I instructed Mr. McVay to develop a test year for the filing covering calendar year 1999. This test year necessarily incorporates 11 months of recorded actual data (January through November) and one month of estimated data (December).

A 1999 test year, despite its one month of estimated results, is not a "future test year" as that term sometimes has been used in the past. There are good reasons for its use.

First, the test year includes a significant number of months of actual operating data, and the estimates for the balance of the year are based primarily on a corporate financial tool – the company's operating budget – that is used to manage the company's operations. The values in the budget for factors such as customer additions and operating and maintenance expenses were not developed with their use in a rate case in mind.

Second, there are significant changes in certain areas of the company's operations that have occurred in 1999. That makes this year's normalized results substantially more representative of future results than an entirely historical test year (such as calendar 1998) would be. One of these changes is a full year of operations with Phase II of Mist storage and the new residential and commercial CIS in place. Another is the inclusion within the test year of the in-service date (November 30, 1999) for Phase III-A of Mist Storage.

Third, it is likely that even this test year will be "history" well before the time the case is litigated or settled. This means there will be an opportunity for the Commission to ensure that the recorded actual results for the last months of the year are not materially different from the estimates, with or without a true-up from estimates to actuals.

B. Capital Structure and Return on Equity.

Q. What is the company proposing that the Commission authorize as a return on equity and a return on rate base?

A. I directed Mr. McVay to calculate a Washington revenue requirement based upon a return on common equity of 11.25 percent. In translating that return into a return on rate base, I further directed Mr. McVay to use the company's actual capital structure at December 31, 1999, including short- and long-term term debt, preferred and preference stock, and common equity. As shown on page 6 of Mr. McVay's exhibit, those values generate a return on rate base of 9.166 percent.

Q. Is the company's actual capital structure reasonable for use in determining a return on rate base?

A. In my opinion, it is. The company's capital structure at December 31, 1999 included total debt of 50.5 percent and common equity of 45.6 percent. I know from discussions with Standard & Poor's and Moody's Investors Service, the two leading debt rating agencies, and from a Standard & Poor's report on the factors it uses in determining ratings, that both rating agencies consider NW Natural's total debt ratio still to be higher than the top of the nominal range for an A-rated gas utility. The company has maintained it's "A" rating on secured long-term debt from S&P in recent years, and it received an upgrade to an "A-2" rating from Moody's. I believe our success in maintaining these ratings to date stands on the strength of improving results in interest coverage statistics and our demonstrated ability to earn acceptable returns from new customers in a context of rapid customer growth.

The company wants to maintain its "A" rating on secured long-term debt and its equivalent ratings (A1/P-1) on commercial paper. Our costs of capital will be lower in the long run, to the benefit of our customers, if we can do so. It would contribute to the security of the company's debt ratings and its ability to attract debt capital at a reasonable cost if its actual capital structure were recognized as reasonable for ratemaking purposes.

Q. What is the basis for your proposal to set the authorized return on equity for NW Natural at 11.25 percent?

A. The return on equity we have proposed is the same authorized return that was stipulated between company and WUTC Staff, and later approved by the WUTC, in the company's last Washington rate case in 1997. Current capital market conditions for gas utilities are similar to those we faced in 1997, with the exception that spreads on the sale of utility debt are much wider than they were then. Dr. Zepp, testifying on behalf of the company, has completed a multi-stage Discounted Cash Flow analysis demonstrating acceptable returns for NW Natural. Our requested return on equity, 11.25 percent, is within the range indicated for NW Natural using a traditional DCF analysis of capital costs.

Finally, based upon my actual experience as the company's chief financial officer in negotiating for the sale of the company's securities, and for the maintenance of our debt ratings, my opinion is that an authorized return on equity of 11.25 percent, applied in an actual capital structure as of the end of the test period in this case, would allow NW Natural to attract new capital on reasonable terms and to maintain its financial integrity.

C. <u>Rate Spread</u>.

Q. How is the company proposing to spread the revenue requirement in its filing across its customer categories or rate schedules?

A. I instructed Dr. Ferguson to spread the revenue increase across the rate schedules on an equal percentage of margin basis. This means that we remove from rates in each affected schedule the component representing the cost of commodity (natural gas) before calculating how much of an increase each schedule will be allocated.

Spreading the increase in proportion to margins (net revenues) is preferable to spreading in proportion to total rates (gross revenues) because the margin is designed to recover the costs of the company's fundamental function, which is the distribution of natural gas. NW Natural is a vendor of gas in the sense that it buys and sells the commodity itself. Indeed, the company believes it is in the best interests of its customers for it to retain the role of a vendor, because it can give customers the advantage of its purchase of a large, diversified portfolio of natural gas from different producers and producing regions. But the ideal rate treatment of the commodity component of the total rate - known as the Weighted Average Cost of Gas, or WACOG - is to treat it as a direct passthrough, without a separate profit margin and without any role in the allocation of general rate increases.

I further directed Dr. Ferguson to prepare a comparison of the company's rates, as they would result from the proposed increase, with the rates of the other gas distribution companies with service areas in Washington. In my opinion, a comparison of this type would be a good indication whether the company's underlying rate structure, and its spread of a current revenue increase, are reasonably in line with the Commission's rate spread policies.

D. CIS Plant.

Q. What level of CIS plant is the company seeking to recover through its rates in Washington?

A. As described in the testimony of company witness Mr. Stephen P. Feltz, NW Natural invested $40.3 million in its new residential and commercial (R & C) customer information system. In this case, however, the company is asking for recognition of only Washington's allocated share of a total plant amount of $37.1 million associated with the R & C CIS.[1]

Q. On what is the $37.1 million in CIS plant based?

A. This amount is based on a stipulation between the company and the OPUC Staff that was reached in the company's Oregon rate case regarding the appropriate level of R & C CIS plant that should be included in Oregon rates. A copy of that stipulation, as well as my testimony supporting the stipulation, is attached in my exhibits.

Q. Why did NW Natural stipulate to a level of R & C CIS plant that was less than the total net cost of the investment?

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A. The company was trying to resolve issues in the case, and the stipulated CIS plant amount was, in my opinion, a reasonable settlement of that issue. The $37.1 million stipulated investment was developed by OPUC Staff, which had conducted a survey of the CIS costs of 17 other utilities. The OPUC Staff developed a "range" of reasonable CIS plant amounts, where the high end was one standard deviation above the average and the low end was one standard deviation below the average. The stipulated amount is the high end of the

[1] NW Natural has also presented testimony reagarding the completion of its industrial and commercial (I & C) CIS. The I & C CIS was not at issue in Oregon, as it was placed in service outside the Oregon test year.

OPUC Staff's reasonable range for CIS cost per customer. NW Natural did not necessarily agree with using that approach to evaluating utility investments as a general matter. However, the stipulated amount came very close to a value that the company believed was fair and reasonable on the basis of more traditional regulatory review standards respecting whether the plant was "used and useful" and the investments prudent. Consequently, the company agreed to $37.1 million of plant for the CIS.

Q. How did the company evaluate its CIS investment?

A. The company believed then, and believes now, that the vast majority of its R & C CIS investment was prudent, used and useful. However, no major computer system replacement that I am aware of ever goes perfectly smoothly, and ours was no exception.

NW Natural needed to replace its vintage 1960s customer information system or risk complete failure in the year 2000 rollover, if not earlier. The company attempted to find an off-the-shelf product when it began its replacement effort in 1992, but no suitable system existed. Consequently, the company negotiated a contract with IBM to build a custom CIS at a fixed price. As Mr. Beyer discusses at length, the custom project was to be developed in stages, and in fact the company and IBM developed and put in service the first phase of the custom CIS, called AFG1 (where AFG signifies ‘Application Function Group’).

In the Fall of 1995, the company and IBM reconsidered the project's direction because we had concluded that the custom project could not be completed on time and within the company's budget. By 1995, however, advancements primarily in hardware technology, but also in some software systems, made an off-the-shelf product viable where none had been available or viable in 1992. The company and IBM chose a suitable product, purchased it, modified it, and successfully implemented the replacement CIS in late 1997.

An important thing to know about the custom effort is how much of the extensive preparatory work involved in developing the custom AFG1 phase was directly transferred to and used in the "purchase and modify" strategy which became the final CIS. In developing the custom AFG1 phase, the company undertook extensive documentation of our customer information system requirements and business rules. The company also extensively "scrubbed" its customer data in the legacy system and developed tools to migrate the information from the old system to the new system. These efforts were not wasted. They would have had to be done anyway with a "purchase and modify" strategy, and the fact that the company had completed them in the custom phase gave the company a head start when it switched directions in 1995.

Only one aspect of the work involved in the custom effort was not usable in the subsequent "purchase and modify" phase of the CIS replacement effort. The AFG1 had a graphical user interface (GUI) for which IBM had written custom code. The GUI was not usable in the CIS as completed, but the GUI represented only 20 percent of IBM's effort through that date during the custom phase. In a chart prepared by IBM and presented to the company in 1995 while the company was considering changing directions, IBM gave us its best estimate as to how much of the CIS custom effort was usable in the new phase of the project. IBM did not believe the GUI code was usable in the purchase and modify path, and we agreed. We estimated the cost of the GUI code development at about $2 million.

It is the $2 million associated with IBM's GUI in the AFG1 phase of the project that the company accepts was not "used and useful" in the final successful replacement CIS. Because the original plant investment, minus the $2 million associated with the GUI code, was very close to the $37.1 million amount developed by the OPUC Staff, the company agreed to this level of plant. The company's allocation to Washington of its share of CIS plant is based on the $37.1 million total stipulated amount for the system.

Q. Did the OPUC allow $37.1 million of CIS plant in its decision in NW Natural's Oregon case?

A. No. The Commission took the company's original CIS budget, adjusted for inflation, and determined a total plant amount by averaging the inflation adjusted budget amount of $26.9 million with the stipulated amount of $37.1 million, for a total allowance of $32 million.

Q. Why isn't the company basing its Washington allocation of CIS plant on the $32 million figure awarded by the Oregon Commission?

A. We disagree with both the Oregon Commission's result and its approach to finding allowable CIS plant. The Oregon Commission's reasoning was that the company's CIS costs were "too high," although there was no evidence in the record which demonstrated that the company's CIS costs were "too high" under the actual circumstances of the company's development of its system. The OPUC Staff's analysis had indicated that the company's CIS costs were about average. I think the Washington Commission should be in a position to make a judgment of its own on the CIS, which is important to the company as both a financial and a policy matter, so we have presented a full record on the issue.

Q. Does this conclude your direct testimony on these issues?

A. Yes, it does.