

ZACHARY KRAVITZ
Director, Rates and Regulatory
Tel: 503.220.2379
Fax: 503.721.2516
Email: zdk@nwnatural.com



January 17, 2019

VIA ELECTRONIC FILING

Mark L. Johnson, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, Washington 98504-7250

Received
Records Management
01/17/19 16:28
State Of WASH.
UTIL. AND TRANSP.
COMMISSION

Re: Docket U-180907: Comments of Northwest Natural Gas Company

Dear Mr. Johnson:

Northwest Natural Gas Company (“NW Natural” or “the Company”) appreciates the opportunity to submit the following comments in response to the Washington Utilities and Transportation Commission’s (“Commission”) Notice of Opportunity to File Written Comments in Docket U-180907.

- 1. Please identify the problem statements and principles that are important to you or your constituency. Please indicate which problems are the most important to address during this process and which principles are most important to consider when developing potential solutions.**

The current regulatory system has provided a durable framework for utilities to provide safe, reliable, and affordable energy to their customers. In this respect, it has succeeded in supporting the build out of utility infrastructure that has supplied the energy needs of a growing region, while maintaining affordable rates for customers. This system has been safe and reliable, and the interests of utilities, customers and society have been balanced through the regulatory compact. The current system of regulating public utilities promotes, among others, the following very important public policy objectives:

- Affordability. This is accomplished through establishing rates that are set at a level no higher than required to provide reliable and safe utility service to customers while providing the utility with a reasonable opportunity to earn a fair rate of return.
- Planful and accountable utility management. This is accomplished through the Commission's prudence reviews of utility investments, and specific mandates placed upon utilities to ensure that they invest in necessary infrastructure, generally using least-cost methods.
- Customer satisfaction. Because utilities are not guaranteed to earn their authorized rate of return, they must ensure that they maintain customer accounts and find ways to grow. This is especially relevant for gas utilities, because customers have a choice about switching away from gas, which creates a very high incentive for the Company to ensure that its customers are satisfied with their utility service.

These objectives are tied to the existing regulatory framework, but they should continue to guide the regulatory system as we begin engaging discussions around the transformational changes unfolding in the industry.

As was discussed at the December 10, 2018 workshop, there are limitations on the current regulatory system, and stakeholders on all sides of utility regulation are voicing concern that the world around us is changing while the existing regulatory system is lagging behind. The current system of regulating public utilities may impede, to some extent, the following public policy objectives.

- Supportive Regulatory Mechanisms. NW Natural supports regulatory mechanisms that allow for flexibility to the “modified historical test year” approach. Given the recent Court of Appeals decision in Avista Corporation’s 2015 general rate case,¹ legislation may likely be required to alleviate the narrow view of the Commission’s authority described in that decision. In the event that legislation is passed, establishing rules for ratemaking tools such as forward test years or multi-year rate plans will significantly decrease the regulatory lag associated with utility investment, provide stable rates, and relieve all stakeholders of the costs and drain on resources of ongoing rate cases at the Commission.
- Responsiveness to Customer Needs. Customers are engaging with utilities more than ever and have high expectations that utilities can be responsive to the changing nature of the business. Because utilities are subject to least-cost planning standards and often lengthy regulatory processes, utilities may be hesitant to take actions that, although they may be desired by customers, do not fit within the current regulatory framework. NW Natural would encourage a discussion around more flexible and nimble ratemaking that would allow utilities to pursue such projects for our customers.
- Innovation and investment in new technologies. Because innovation inherently involves trying things that have not been traditionally used, utilities may hesitate to engage in these activities without specific Commission approval, for fear of the risks

¹ *Wash. State Attorney General’s Office, Public Counsel Unit v. Wash. Utils. & Transp. Comm’n and Avista Corp.*, COA No. 48982 -1 – II.

of cost disallowance associated with these items. Furthermore, it is often difficult to engage with innovative businesses because they are moving at a faster pace than our regulatory system allows. In order to provide the best service to our customers, utilities will need to modernize technologies; providing a regulatory framework that allows for innovation, without putting additional risk on utilities or customers, will benefit all of our stakeholders.

- Performance/Incentive Based Ratemaking. NW Natural encourages the Commission to explore alternative forms of regulation. Performance Based or Incentive Based Ratemaking can be used to align the interests of utilities and customers to establish rates based on metrics that are most meaningful to stakeholders, rather than tied to the traditional cost-of-service model. For example, rates could be set based on metrics related to performance and efficiency, safety, reliability, customer satisfaction, or environmental considerations.
- Climate Change. As the Commission looks to the future of ratemaking, it is imperative that we continue to consider climate change in these discussions. NW Natural notes that it is interested not only in any changes to the Commission processes or regulatory construct, but also that, as a provider of energy within the State, NW Natural is interested in ensuring that our Company plays an important role in combating climate change. This includes helping to achieve greenhouse gas reductions targets, and our customers' interests in climate change and emissions reduction. To this end, NW Natural voluntarily developed a greenhouse gas savings goal and is working to reduce the carbon intensity of the gas we deliver to customers.

- 2. During the December 10, 2018, workshop, stakeholders identified several potential principles to guide the Commission's consideration of alternatives to the current regulatory framework, including, among others, net customer benefits, equity, alignment of customer and utility incentives, universal access, safety, reliability, affordability, customer choice, innovation, environmental protection, and alignment with state policies. Please provide comments on problem statements and principles raised by other stakeholders during the workshop and provided in pre-filed comments, and discuss their importance to you or your constituency.**

The current regulatory system has provided a framework for utilities to provide safe, reliable, and affordable energy to their customers. Our customers have always come first in the existing system, and as we embark on these discussions about our shared future, our customers will remain our top priority. The December 10, 2018 workshop made clear that a diverse set of stakeholders are dedicated to cooperative engagement in this process and also that stakeholders share an understanding that there is room to examine the current regulatory system to see where we can find areas to modernize regulation. We fully support the openness and inclusiveness into these proceedings so that a diversity of views are heard by the Commission.

Again, NW Natural appreciates the opportunity to participate in the process, and we look forward to continued discussion and action on these important and timely topics.

Sincerely,

/s/ Zachary D. Kravitz

Zachary D. Kravitz
Director, Rates & Regulatory Affairs
NW NATURAL
220 NW 2nd Ave.
Portland, OR 97209
503-220-2379
zdk@nwnatural.com