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September 28, 2012

VIA EMAIL FILING TO RECORDS CENTER
Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Re: Commission Investigation into the Need to Enhance the Safety of Natural Gas Distribution Systems - UG-120715
Reply Comments of the Northwest Industrial Gas Users on Proposed Interim Cost Recovery Mechanisms

Dear Mr. Danner:

These reply comments are being provided on behalf of the Northwest Industrial Gas Users ("NWIGU") in the above-captioned matter.

Perhaps the most illuminating comment submitted to the Commission so far is Avista's conclusion that it replaces pipe "because it is the right thing to do, and [pipe replacements] have not been dependent, conditioned, or contingent upon timely recovery of costs, or the presence or absence of a financial incentive."[1] This is consistent with NWIGU's comments submitted to the Commission on September 14th, in which NWIGU stated that the development of a recovery mechanism for pipeline replacement should be tailored to the specific facts relevant to the utility seeking the recovery, as opposed to being based on incentives.

With the exception of Puget Sound Energy ("Puget"), the local distribution companies have not yet submitted specific replacement plans to the Commission and, therefore, the Commission cannot determine whether there is or is not a particular safety problem confronting each utility. With respect to Puget's plan, the level of detail in the information the company submitted is no more granular than the information it already submitted as part of its Pipeline Integrity Program proposal in UG-110723 ("PIP"). Moreover, as anticipated by Public Counsel's prescient opening comments, Puget has designed its replacement plan in part around a

[1] Comments of Avista Utilities – Docket No. UG-1207715 (Sep. 14, 2012).

recovery mechanism instead of developing its plan around what is needed from a safety standpoint. If the other utilities follow suit, the Commission will be in no better position for determining the need for an interim cost recovery mechanism.

The comments the Commission received in support of an interim cost recovery mechanism do not warrant a decision by the Commission to pursue one of Staff's two options. While NWIGU does not believe the record in this proceeding justifies the adoption of a cost recovery mechanism, and believes that the utilities already are incentivized to replace riskier pipe for cost recovery in their almost yearly rate filings, NWIGU provides these comments in reply to the other interested parties' comments submitted in this docket.

With respect to the Interim Pipeline Replacement Cost Recovery Mechanism ("IPR-CRM"), which each of the utilities favor, NWIGU notes that not a single utility acknowledges what has been pointed out several times – the model for that mechanism accompanied a rate moratorium that lasted nine years. No utility even attempted to address how the IPR-CRM would balance utility and customer interests in the context of more frequent rate filings. The Commission should not implement the IPR-CRM without also imposing some length of time for a rate moratorium.

Additionally, no utility acknowledges that the IPR-CRM model from Oregon happens in a regulatory context that includes an excess earnings review process. In 2012, NW Natural and Cascade hit their respective excess earnings thresholds that required them to share excess profits from 2011 operations with their customers. Because the IPR-CRM could lead to excess earnings for Washington utilities, too, the Commission should not consider implementing such a mechanism without also implementing an earnings review process.

It is also worth noting that although each utility claims to favor the IPR-CRM approach, no utility favors that approach without major modification.

If the Commission is going to pursue an interim cost recovery mechanism, it should view the Capital Cost Deferral and Recovery Mechanism ("CCDR") as the more reasonable starting point. For example, the CCDR, by deferring costs for later recovery in a subsequent rate case, will allow the Commission to better determine how those costs will be allocated because the rate case will include information on the relative cost of service of customer classes.

NWIGU also urges the Commission to consider modifying the CCDR proposal (or any proposal) by clarifying when the mechanism can be used. Specifically, NWIGU advocates that such a mechanism should be used only for certain safety improvements that are beyond any improvements a utility could have anticipated in its prior rate case. For example, the mechanism could be used for unexpected discoveries of safety issues that require large capital contributions. The mechanism could also be used for new broad-scale regulations on the order of the federal Distribution Integrity Management Plan regulations until such time as the utility's required response to a regulatory change can be incorporated into its base rates in a general rate case. Reserving the cost recovery mechanism for these types of activities is consistent with the

Commission's order in the PIP docket that questioned whether the PIP would actually provide an increment of activity.

Finally, NWIGU continues to urge the Commission to consider an appropriate reduction to Return on Equity ("ROE") as part of any interim cost recovery mechanism – whether adopted by rule or order. The guaranteed recovery of costs through a separate mechanism provides a utility with predictable revenue and a source of funds insulated from the risk of being used for other authorized utility purposes. The mechanism would lower the risk of under-recovery and reduce the risks a utility faces. The revenue stream created by the recovery mechanism, therefore, creates a reduced risk for at least a portion of the utility's operations and the ROE should account for that reduction.

Very truly yours,

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