

**BEFORE THE WASHINGTON  
STATE UTILITIES AND TRANSPORTATION COMMISSION**

Commission Investigation Into the Need to  
Enhance the Safety of Natural Gas Distribution  
Systems

DOCKET NO. UG-120715

**THIRD COMMENTS OF PUBLIC COUNSEL**

**SEPTEMBER 28, 2012**

**I. INTRODUCTION**

1. Public Counsel files these comments in response to the Commission's Notice of Opportunity to Comment on Proposed Interim Cost Recovery Mechanisms (Notice), dated August 24, 2012. Public Counsel previously filed comments in this docket on June 8, 2012 and September 14, 2012, and incorporates those comments herein by this reference.<sup>1</sup>

**I. COMMENTS**

**A. Public Counsel Response to Intervenor Comments on Interim Cost Recovery Proposals.**

2. On September 14, the companies filed comments regarding Staff's Interim Cost Recovery Proposals.<sup>2</sup> In short, these comments had two common themes: (1) the companies do not support a narrowly tailored mechanism such as the Capital Cost Deferral and Recovery Mechanism (CCDR), and (2) the companies do support a broader mechanism such as the Interim Pipeline Replacement Cost Recovery Mechanism (IPR-CRM), however, they believe it should

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<sup>1</sup> Comments of Public Counsel, June 8, 2012 (June 8 Comments) and Comments of Public Counsel, September 14, 2012 (September 14 Comments).

<sup>2</sup> PSE also filed its proposed Pipeline Replacement Plan. Considering that the plans of the other companies will not be filed until September 28, we reserve most of our comments regarding PSE's plan for a later round of comments, if allowed.

be expanded to allow additional elements that would allow for even more recovery. Further discussion of the companies' responses to each mechanism is included below.

#### Capital Cost Deferral and Recovery Mechanism

3. Overall, the companies comments did not support the proposed CCDR Mechanism, stating that it does not provide adequate incentive to encourage accelerated pipe replacement plans and/or investment. In fact, the limited design of the CCDR, which Cascade Natural Gas Corporation (Cascade) described as “simple, straightforward, and easy to understand and administer,”<sup>3</sup> would allow for additional recovery not currently contemplated under the existing regulatory structure. However, it seems the companies have no interest in a narrowly tailored tool. As revealed in the comments regarding the IPR-CRM, discussed below, it appears that they are instead focused on maximizing recovery under a mechanism, regardless of it is needed or would result in enhanced safety.

#### Interim Pipeline Replacement Cost Recovery Mechanism (IPR-CRM)

4. Notably, none of the companies' comments about the IPR-CRM, which is based on a mechanism in Oregon, included any discussion of the fact that, when adopted there, it was an integral part of a negotiated settlement that included an eight-year rate case moratorium. Neither did the companies mention that, as noted in NWIGU's September 14 comments, the Oregon mechanism is scheduled to sunset in two years. While selectively avoiding any mention these components, both Northwest Natural Gas Company (NW Natural) and Puget Sound Energy (PSE) proposed adding other elements that were a part of the Oregon mechanism, all of which would increase the companies' opportunity for additional recovery. Indeed, most of additional

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<sup>3</sup> Cascade September 14 Comments, p. 2.  
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components proposed for IPL-CRM, would allow increased recovery beyond the design of the proposed mechanism.<sup>4</sup>

5. Avista’s comments regarding the IPR-CRM highlight the problems with discussing proposed cost recovery mechanisms prior to any identification of need to improve safety or performance. Avista argued that the IPR-CRM proposal invites gamesmanship and contention over the “normal” level of replacements, and does nothing to compensate the Company for its normal level of replacements.<sup>5</sup> Avista went on to explain that, in its service territory, “replacements are being made because it is the right things to do, and have not been dependent, conditioned or contingent upon timely recovery of costs, or the presence or absence of a financial incentive.” This statement confirms that the company does not need the mechanism to make improvements to safety. Nevertheless, Avista believes that the mechanism should be adopted, with no “normal” investment baseline, despite the fact that the company has not identified anything additional that needs to be done to enhance the safety of its system.<sup>6</sup>

6. It is not surprising that the companies favor the IPR-CRM, as it could provide the most revenue. This does not mean that this choice is the best one for the public interest or customers. The goal of this docket is not simply to develop the largest possible financial incentive mechanism, regardless of need, benefit, or the cost.

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<sup>4</sup> For example, Avista opposes placing a cap on recovery, PSE recommends adding additional O&M cost recovery, and Northwest Natural urges that any DIMP-or TIMP-related costs be included in the mechanism.

<sup>5</sup> Indication of gamesmanship between “normal” and “accelerated” replacement might be found in PSE’s proposed “accelerated” 21-year replacement plan for Aldyl-HD pipe under the an interim recovery mechanism, which looks much like what Avista proposed in its current rate case for a “normal” 20-year replacement plan of its Aldyl-A pipe under the existing regulatory structure. Considering that both Avista and PSE have filed general rate cases almost annually for the past several years, a comparison of how each company is approaching pipeline safety in its service territory is particularly interesting.

<sup>6</sup> Avista September 14 Comments, p. 4.

**B. General Discussion.**

7. As stated in earlier comments, Public Counsel believes consideration of both of the proposed mechanisms is premature, considering that none of the companies have provided any evidence indicating that this sort of mechanism is necessary or reasonable. Furthermore, neither the proposals nor the comments from the companies contain elements important for the protection of ratepayers, such as rate moratoriums, ROE reductions, defined dates for review and/or measures that would lead to expiration of the mechanisms. Accordingly, Public Counsel does not support the adoption of any mechanism at this time. In the event that at a later date a company does make a threshold showing that there is a problem to be solved, and that resolution of that problem would result in extraordinary financial circumstances for that company, the Capital Cost Deferral and Recovery Mechanism (CCDR) is preferable to the Interim Pipeline Replacement Cost Recovery Mechanism (IPR-CRM), because it is narrowly constructed, providing increased recovery for the company, while minimizing ratepayer burden.

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### III. CONCLUSION

8. Public Counsel looks forward to continuing participation in this docket. Public Counsel respectfully requests that participants in this docket should be allowed an opportunity to file written comments regarding the pipeline replacement plans requested from the Commission in the August 24 Notice.