

**Exh. JT-3T
Docket UG-181053**

**Witnesses: Kyle T. Walker
Jing Liu
Bradley G. Mullins
Shawn Collins**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**NORTHWEST NATURAL GAS
CORPORATION,**

Respondent.

DOCKET UG-181053

JOINT TESTIMONY OF

**Kyle T. Walker
Jing Liu
Bradley G. Mullins
Shawn Collins**

***In Support of
Partial Multi-Party Settlement Agreement on Decoupling***

June 6, 2019

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I. INTRODUCTION

1 **Q. What is the purpose of this prefiled Joint Testimony?**

2 A. This prefiled Joint Testimony (“Joint Testimony”) recommends that the
3 Washington Utilities and Transportation Commission (“Commission”) approve the
4 Partial Multi-Party Settlement Agreement on Decoupling (“Decoupling
5 Agreement”) filed on May 23, 2019, in this case among Northwest Natural Gas
6 Company d/b/a NW Natural (“NW Natural” or the “Company”), Staff of the
7 Washington Utilities and Transportation Commission (“Staff”), the Alliance of
8 Western Energy Consumers (“AWEC”), and The Energy Project (“TEP”)
9 (individually, “Party”; collectively, “Parties”). The Public Counsel Unit of the
10 Washington Office of Attorney General (“Public Counsel”) is not a party to the
11 Decoupling Agreement. The Decoupling Agreement, therefore, represents a partial
12 multi-party settlement under WAC 480-07-730(3)(b) because it is an agreement of
13 all but one of the parties to this proceeding that resolves one but not all disputed
14 issues. Specifically, the Decoupling Agreement resolves the single issue of the
15 Company’s proposed decoupling mechanism among the four Parties. The
16 Decoupling Agreement is the embodiment and the culmination of a significant
17 expenditure of time and effort by the Parties, and the Parties believe that approval
18 of the Decoupling Agreement is consistent with the public interest. The purpose of
19 this Joint Testimony is to present the common recommendations of the Parties and
20 request that the Commission approve the Decoupling Agreement in its entirety and
21 without condition.

1 **Q. Please state your names, titles, and the party you represent in this matter.**

2 A. Our names, titles, and representation are as follows:

- 3 • Kyle T. Walker, Rates/Regulatory Manager, NW Natural
- 4 • Jing Liu, Regulatory Analyst, Staff
- 5 • Bradley G. Mullins, Consultant, AWEC
- 6 • Shawn M. Collins, Director, TEP

7 **Q. Mr. Walker, please provide information pertaining to your educational**
8 **background and professional experience.**

9 A. My name is Kyle T. Walker. I am employed by NW Natural as Rates/Regulatory
10 Manager. Please see Exhibit KTW-1T filed in this docket on December 31, 2018,
11 for testimony describing my educational background and professional experience.
12 I was promoted to my current position on January 22, 2019, and I now oversee the
13 team responsible for the duties identified in Exhibit KTW-1T when I held the
14 position of Senior Rates/Regulatory Analyst.

15 **Q. Ms. Liu, please provide information pertaining to your educational**
16 **background and professional experience.**

17 A. My name is Jing Liu. I am a Regulatory Analyst employed by the Commission, and
18 I am Staff's analyst for decoupling in this proceeding. My business address is the
19 Richard Hemstad Building, 1300 South Evergreen Park Drive Southwest, P.O. Box
20 47250, Olympia, Washington, 98504. My email address is jing.liu@utc.wa.gov.

21 I hold a Bachelor's degree in English Language and Literature, a Master of
22 Arts degree in organizational communication and a Master of Science degree in
23 communication technology and policy from Ohio University. I also completed four

1 years of doctoral study in public policy at Ohio State University. I worked as a
2 graduate research associate at the National Regulatory Research Institute (NRRI)
3 from 2005 to 2007. I worked in the Telecommunications section of the
4 Commission's Regulatory Services division from 2008 to 2014. I have been
5 working in the Energy Regulation section of Regulatory Services since 2014. I
6 have participated in a number of general rate cases and have worked extensively on
7 decoupling, temperature normalization, pro forma revenue calculation, low income
8 bill assistance programs, purchased gas adjustments, and gas pipeline cost recovery
9 mechanisms.

10 I provided testimony to the Commission in the proceedings addressing
11 United Telephone Company of the Northwest Inc.'s intrastate access charges (UT-
12 081393), the acquisition of Verizon Northwest, Inc. by Frontier Communications
13 Corporation (UT-090842), the acquisition of Qwest Corporation by CenturyLink,
14 Inc. (UT-100820), Frontier Communications Northwest, Inc.'s petition for
15 competitive classification (UT-121994), Avista Corporation's General Rate Case
16 (GRC) (UE-160228/UG-160229), Puget Sound Energy's GRC (UE-170033/UG-
17 170034), Cascade Natural Gas's GRC (UG-170929), and Avista's depreciation
18 proceeding (UE-180167/UG-180168).

19 **Q. Mr. Mullins, please provide information pertaining to your educational**
20 **background and professional experience.**

21 A. My name is Bradley G. Mullins, and I am an Independent Energy and Utilities
22 Consultant representing large energy consumers before state regulatory
23 commissions. I am appearing in this matter on behalf of the AWEC. I have a Master

1 of Accounting degree from the University of Utah. After obtaining my master's
2 degree, I worked at Deloitte in San Jose, California, where I specialized in
3 performing research and development tax credit studies. I later worked at
4 PacifiCorp as an analyst involved in power cost forecasting. I began performing
5 independent energy and utility consulting in 2013 and currently provide services to
6 utility customers on matters such as revenue requirements, power cost forecasting,
7 and rate design. I have sponsored testimony in several regulatory jurisdictions
8 around the United States, including before the Commission.

9 **Q. Mr. Collins, please provide information pertaining to your educational**
10 **background and professional experience.**

11 A. My educational background and professional experience are set forth in my
12 testimony in Exhibit JT-1T in this case.

13 **Q. Mr. Walker, Ms. Liu, Mr. Mullins and Mr. Collins, are you sponsoring Joint**
14 **Testimony in support of the Decoupling Agreement filed with this Commission**
15 **on May 23, 2019?**

16 A. Yes. This Joint Testimony recommends approval of the Decoupling Agreement by
17 the Commission. The Decoupling Agreement represents a compromise among
18 differing points of view. Concessions were made by each of the Parties to reach a
19 reasonable balancing of interests. As will be explained in the following Joint
20 Testimony, the Decoupling Agreement received significant scrutiny and is
21 supported by sound analysis and sufficient evidence. Its approval is in the public
22 interest.

II. BACKGROUND

1 **Q. Please describe the Company’s initial filing in this proceeding related to**
2 **decoupling.**

3 A. NW Natural proposed a full decoupling mechanism that is nearly identical to the
4 decoupling mechanisms currently in place for Cascade Natural Gas Corporation
5 (“Cascade”), Avista Corporation (“Avista”) and Puget Sound Energy (“PSE”). The
6 proposed decoupling mechanism allows the Company to either recover revenue
7 declines related to reduced sales volumes or, in the case of sales volume increases,
8 refund such revenues to its customers. The mechanism is “full” in that it captures
9 all causes of usage variation, including weather, using a revenue-per-customer
10 methodology. It applies to all residential and commercial firm and interruptible
11 sales customers, which are the same customer classes and rate schedules eligible to
12 participate in NW Natural’s existing energy efficiency programs. As shown on
13 Exhibit KTW-2, the proposal is a revenue-per-customer mechanism that would, on
14 a monthly basis, decouple only the base revenue, or margin revenue, derived from
15 the volumetric base rate portion of each applicable rate schedule. The mechanism
16 also includes a deferral mechanism, an earnings test and a soft cap. Exhibit KTW-
17 1T describes the details of each component of the Company’s proposed decoupling
18 mechanism. The elements described in this paragraph have been accepted by the
19 Parties and are incorporated into the Decoupling Agreement.

20 **Q. Did the Parties conduct discovery on the Company’s proposed decoupling**
21 **mechanism?**

22 A. Yes. Pursuant to Order 01, Staff and Public Counsel conducted discovery through

1 data requests on the Company's direct testimony related to decoupling. The
2 Company responded to those requests. All parties had access to, and were able to
3 review and analyze, those data requests and responses. Additionally, the Parties
4 had numerous discussions during which clarifying information was provided.

5 **Q. Did the Parties engage in settlement discussions?**

6 A. Yes. The Parties met on the established settlement conference date, April 22, 2019,
7 for the purpose of narrowing or resolving the contested issues in this proceeding.
8 Those discussions, as well as follow-up discussions, led to the Decoupling
9 Agreement presented below, as well as to the separate All-Party Joint Settlement
10 Agreement presented in separate joint testimony.

11 **Q. Do the Parties support the Decoupling Agreement?**

12 A. Yes. The Parties support the Decoupling Agreement.

13 **Q. Please briefly summarize the Decoupling Agreement.**

14 A. The Company proposed a decoupling mechanism in its original request, as set forth
15 in the Direct Testimony and Exhibits of Kyle T. Walker, Exhs. KTW-1T through
16 KTW-3, and proposed Tariff Adjustment Schedule 300 (Decoupling Mechanism).
17 The impact of the proposed decoupling mechanism on customers and the Company
18 is discussed in Mr. Walker's Direct Testimony, Exh. KTW-1T on page 10.
19 Through the Decoupling Agreement, the Parties agree that the Commission should
20 approve and authorize the implementation of the Company's proposed decoupling
21 mechanism with certain specific revisions and clarifications.

1 **Q. What is the proposed effective date of the Agreement?**

2 A. The Parties have requested implementation of the Decoupling Agreement on
3 November 1, 2019, which represents a change to the original filing. As filed, NW
4 Natural's decoupling mechanism would have become effective on December 1,
5 2019, based upon a 10-month suspension by the Commission from the stated
6 effective date of February 1, 2019. This proposed effective date of November 1,
7 2019, for early implementation, is an integral part of the Decoupling Agreement
8 and was one of the trade-offs among the many concessions made on a variety of
9 issues by the Parties.

III. ELEMENTS OF THE DECOUPLING AGREEMENT

10 **Q. Please describe the scope of the Decoupling Agreement and its key aspects.**

11 A. In the Decoupling Agreement, the Parties agree that the Commission should
12 approve and authorize the implementation of the Company's proposed decoupling
13 mechanism with the following specific revisions and clarifications:

- 14 1. The Company shall calculate "Actual Revenue" with tariff rates and billing
15 determinants, rather than with the Company's proposed weighted average
16 group rate.
- 17 2. The Company shall request reauthorization within five years after the
18 effective date of the decoupling mechanism tariff. Such reauthorization
19 may, or may not be, requested as part of a general rate case filing.
- 20 3. The Company shall include residential customers on Rate Schedule 3 and
21 combine them with commercial customers on Rate Schedule 3.

1 **Q. Why did the Parties agree that residential customers on Rate Schedule 3 are**
2 **included in the decoupling mechanism and why is it appropriate to combine**
3 **those customers with commercial customers on Rate Schedule 3?**

4 A. In its initial filing, the Company inadvertently omitted residential customers on
5 Rate Schedule 3 from its decoupling mechanism. Residential customers on Rate
6 Schedule 3 get billed as commercial customers and only get flagged as residential
7 customers for safety-related notices, so it is appropriate to combine all customers
8 under Rate Schedule 3. Generally, residential customers on Rate Schedule 3 are
9 apartment buildings or condominiums that have one meter for many living units
10 and get billed to the building owner or manager.

11 **Q. What is the effect of the Company separately decoupling commercial**
12 **customers on Rate Schedule 1 and Rate Schedule 3?**

13 A. Separately decoupling commercial customers on Rate Schedule 1 and Rate
14 Schedule 3 recognizes that commercial customers under Rate Schedule 1 typically
15 have relatively different usage patterns than do commercial customers under Rate
16 Schedule 3. Decoupling them under separate revenue per customer schedules will
17 provide better alignment if the two groups of customers deviate in composition
18 from their current, test year, status.

19 **Q. What is the treatment of industrial customers under the Decoupling**
20 **Agreement?**

21 A. Similar to the Company's filed case, industrial customer classes were not included
22 in decoupling. The inclusion of this provision in the Decoupling Agreement
23 represents a compromise of the Parties.

1 **Q. Why are industrial customers not included in the decoupling mechanism?**

2 A. The Company did not include industrial customers in its decoupling mechanism in
3 its filed case because the proposal only applied to customers on the residential and
4 commercial rate schedules that are currently eligible to participate in the
5 Company's energy efficiency programs; and industrial customers are not eligible.
6 The Decoupling Agreement clarifies and emphasizes the Parties' compromise that
7 industrial customers will remain outside the Company's decoupling mechanism.

**IV. THE DECOUPLING AGREEMENT SATISFIES THE PARTIES'
INTERESTS AND IS CONSISTENT WITH THE PUBLIC INTEREST**

8 **Q. What are the legal standards that must be satisfied with respect to any**
9 **settlement?**

10 A. The Commission's charge is to regulate in the public interest. RCW 80.01.040(3).
11 The Commission's settlement approval standards are set forth in
12 WAC 480-07-750(2), providing that "[t]he Commission will approve a settlement
13 if it is lawful, supported by an appropriate record, and consistent with the public
14 interest in light of all the information available to the commission." The settlement,
15 if approved, must result in rates that are fair, just, reasonable, and sufficient.¹ As
16 such, the Commission must not only assure fair rates to a company's customers,
17 but also provide a company with rates that will be sufficient to cover its prudently
18 incurred costs and an opportunity to recover a reasonable return on its investment.
19 The Agreement in this case represents the Parties' best efforts to arrive at an end
20 result that satisfies these requirements.

¹ RCW § 80.28.010(1).

A. Statement of NW Natural (Kyle T. Walker)

1 **Q. Please generally describe the concept of decoupling.**

2 A. Decoupling is a regulatory mechanism by which a utility's revenue is decoupled
3 from its sales volumes. A decoupling mechanism eliminates the throughput
4 incentive and aligns the utility with conservation efforts. The throughput incentive
5 is a utility's incentive to increase revenue by increasing gas sales. Conservation
6 efforts reduce customer consumption and their bills alike. A decoupling
7 mechanism mitigates the variations in a utility's revenues that otherwise occur
8 because of variations in usage. To the extent a utility's rates are set to recover a
9 part of its fixed costs on a volumetric basis, a decoupling mechanism provides the
10 utility a better opportunity to recover its fixed costs.

11 **Q. Does the decoupling mechanism set forth in the Decoupling Agreement meet**
12 **the criteria for approval set forth in the Commission's applicable policy**
13 **statement?**

14 A. Yes. For the reasons discussed in Mr. Walker's Direct Testimony, Exh. KTW-1T,
15 pages 11-18, the decoupling mechanism set forth in the Decoupling Agreement,
16 which incorporates slight revisions to and clarifications of the decoupling
17 mechanism initially filed by the Company, meets the criteria for approval set forth
18 in the Commission's *Report and Policy Statement on Regulatory Mechanisms,*
19 *Including Decoupling, to Encourage Utilities to Meet or Exceed Their*

1 *Conservation Targets* (“Policy Statement”).²

2 **Q. Please explain why the Decoupling Agreement satisfies the interests and**
3 **concerns of NW Natural.**

4 A. In the Decoupling Agreement, the Parties agree that the Commission should
5 approve and authorize the implementation of the Company’s proposed decoupling
6 mechanism with several specific revisions and clarifications. The decoupling
7 mechanism that the Company proposed in its initial filing, as well as the decoupling
8 mechanism that the Parties support in the Decoupling Agreement, are nearly
9 identical to the decoupling mechanisms currently in place for the other Washington
10 natural gas utilities, namely Cascade, Avista and PSE. Decoupling will benefit the
11 Company and its customers by serving the following important purposes:

- 12 • Allowing the Company to recover the costs incurred to serve customers;
- 13 • Breaking the link between usage and cost recovery, thereby removing a
14 disincentive for the Company to invest in energy efficiency and provide
15 customers with access to conservation programs; and
- 16 • Balancing risk between the Company and customers by offering rate and cost
17 recovery stabilization to both.

18 **Q. Please explain why NW Natural believes the Decoupling Agreement is in the**
19 **public interest.**

20 A. The Decoupling Agreement strikes a reasonable balance between the interests of

² *In the Matter of the Washington Utilities and Transportation Commission’s Investigation into Energy Conservation Incentives*, Docket U-100522 (Nov. 4, 2010).

1 NW Natural and its customers. Overall, the Agreement reflects a compromise
2 among the Parties, each with differing interests, and achieves a fair and reasonable
3 outcome. NW Natural believes that the Decoupling Agreement is consistent with
4 the public interest.

5 **Q. Does this complete your testimony on behalf of NW Natural?**

6 A. Yes.

B. Statement of Staff (Jing Liu)

7 **Q. Ms. Liu, do you recommend the Commission approve the proposed decoupling**
8 **mechanism, as modified by the Decoupling Agreement?**

9 A. Yes. I explain the reasons supporting this conclusion in my separately filed
10 testimony, Exh. JL-1T.

C. Statement of AWEC (Bradley G. Mullins)

11 **Q. Please explain why the Decoupling Agreement satisfies the interests and**
12 **concerns of AWEC.**

13 A. AWEC is entering into this Decoupling Agreement because it part of the overall
14 settlement in this proceeding and specifically because it is not applicable to industrial
15 customers. Accordingly, AWEC did not comment on the policy behind or
16 mechanics of the mechanism.

17 **Q. Please explain why AWEC believes the Decoupling Agreement is in the public**
18 **interest.**

19 A. The Decoupling Agreement, which excludes industrial customers, reflects a
20 settlement among the Parties, each with differing interests, and results in a fair,
21 balanced and reasonable outcome. AWEC believes that the Decoupling Agreement

1 coupled with the overall settlement in this proceeding is consistent with the public
2 interest.

3 **Q. Does this complete your testimony on behalf of AWEC?**

4 A. Yes.

D. Statement of The Energy Project (Shawn Collins)

5 **Q. Mr. Collins, please state on whose behalf you are testifying.**

6 A. I am testifying for TEP, an intervenor in this proceeding, on behalf of the
7 Community Action Partnership (CAP) organizations that provide low-income
8 energy efficiency and bill payment assistance for customers in NW Natural's
9 service territory. These agencies include Clark County Community Action
10 Agency, the Washington Gorge Action Program, and Community Action Council
11 of Lewis, Mason, and Thurston Counties who recently began providing Low
12 Income Weatherization services in Klickitat and Skamania Counties.

13 **Q. Please explain The Energy Project's support for the Decoupling Agreement.**

14 A. TEP has joined the Decoupling Settlement as part of its agreement for settlement
15 purposes to an overall package which includes the Joint Settlement, and subject to
16 the provisions of paragraph 12 (No Precedent). TEP recognizes that decoupling has
17 been approved for use by Washington utilities. The regulatory focus has shifted
18 from whether to adopt decoupling at all, to the question of whether specific
19 decoupling programs are appropriately designed consistent with Commission
20 guidance and are operating properly. For settlement purposes, TEP has agreed to
21 the adoption of decoupling for NW Natural with the understanding that certain
22 clarifications and specific revisions have been agreed to by the Company, and that

1 this approval would not be open-ended. NW Natural is required to request
2 reauthorization after five years at which time there will be an opportunity to review
3 the performance of the mechanism. With these considerations as context, The
4 Energy Project has joined the Decoupling Agreement.

5 **Q. Does this complete your testimony on behalf of TEP?**

6 A. Yes.

V. CONCLUSION

7 **Q. What is the effect of the Decoupling Agreement reached by the Parties?**

8 A. The Agreement represents a negotiated compromise among the Parties. Thus, the
9 Parties have agreed that no particular Party shall be deemed to have approved the
10 facts, principles, methods, or theories employed by any other in arriving at these
11 stipulated provisions. In addition, the Parties have the right to withdraw from the
12 Decoupling Agreement if the Commission makes any additional material
13 conditions or rejects any material part of the Decoupling Agreement.

14 **Q. In conclusion, why is the Decoupling Agreement “in the public interest?”**

15 A. The Decoupling Agreement should be approved for the following reasons:

16 (1) The Decoupling Agreement strikes a reasonable balance between the
17 interests of the Company and its customers. As such, it represents a reasonable
18 compromise among differing interests and points of view.

19 (2) The Company’s original filing in this case, including its decoupling
20 proposal, has been subjected to great scrutiny through the discovery process.

21 (3) All the Parties have been afforded ample opportunity to participate
22 meaningfully in the settlement process and the exchange of information. All Parties

1 participated fully and comprehensively in the settlement conference and
2 negotiations, leading to the Decoupling Agreement presented now for the
3 Commission's consideration.

4 (4) Any settlement, including the Decoupling Agreement, reflects a
5 compromise and is the result of the give-and-take inherent in negotiations. In this
6 case, the result of the Parties' extensive settlement negotiations produces the
7 Decoupling Agreement, supported by sound analysis and sufficient evidence, for
8 the Commission's consideration. All the Parties agree that Commission approval
9 of the Decoupling Agreement would be "in the public interest" and would satisfy
10 the requirement that rates be fair, just, reasonable, and sufficient.

11 **Q. What action do the Parties recommend the Commission take with respect to**
12 **the Decoupling Agreement?**

13 A. The Parties recommend that the Commission find that the Decoupling Agreement
14 is in the public interest and would produce rates for the Company that are fair, just,
15 reasonable, and sufficient. Accordingly, the Parties recommend that the
16 Commission adopt the Decoupling Agreement in its entirety.

17 **Q. Does this conclude the Parties' Joint Testimony in support of the Decoupling**
18 **Agreement?**

19 A. Yes.