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October 19, 2004

VIA HAND DELIVERY

Carole J. Washburn
Secretary
Washington Utilities and Transportation Commission
PO Box 47250
1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

**Re: WUTC v. Avista Corporation d/b/a Avista Utilities
Docket No. UG-041515**

Dear Ms. Washburn:

Enclosed please find an original and 9 copies of the testimony of Paula E. Pyron on behalf of the Northwest Industrial Gas Users in support of a Settlement in the above-captioned proceeding. Electronic copies were sent to the records center on October 19, 2004.

Thank you for your assistance.

Very truly yours,



Edward A. Finklea

EAF/ljs
Enclosures
cc: Service List

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Washington Utilities and Transportation Commission,)	Docket No	UG-041515
)		
Plaintiff,)		
)		
v.)		
)		
Avista Corporation d/b/a Avista Utilities.)		
)		
Respondent.)		
)		

**DIRECT TESTIMONY OF
PAULA E. PYRON
ON BEHALF OF
THE NORTHWEST INDUSTRIAL GAS USERS**

October 20, 2004

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BEFORE THE
WASHINGTON UTILITY AND TRANSPORTATION COMMISSION
Docket No. UG-041515
DIRECT TESTIMONY OF PAULA E. PYRON
ON BEHALF OF THE NORTHWEST INDUSTRIAL GAS USERS

INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Paula E. Pyron. I am the executive director of the Northwest Industrial Gas Users (“NWIGU”) and am appearing in this proceeding on behalf of the NWIGU. My business address is 4113 Wolf Berry Court, Lake Oswego, Oregon 97035-1827. My qualifications are shown in Exhibit _____.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe and support the Settlement Agreement among Staff, Avista Corporation (the “Company”), and the NWIGU (collectively the “Signing Parties”) in Docket No. UG-041515.

Q. PLEASE EXPLAIN THE BACKGROUND BEHIND THIS SETTLEMENT.

A. The Settlement Agreement is the product of settlement discussions, open to all parties to the UG-041515 Docket. The Settlement Agreement among the Signing Parties executed on October 14, 2004, resolves all issues associated with the Company’s natural gas rate case filed on August 20, 2004. The resolution includes a stipulated overall rate of return, calculation of an agreed revenue deficiency as the basis for a revenue requirement increase that is significantly less than the level originally sought by the Company, as well as resolving all remaining revenue requirement, rate spread, and rate design issues. In summary, the settlement reduces Avista's increase to \$5.377 million (down by \$3.2

1 million from that originally sought by the Company) with the increase spread on an equal
2 percent of margin basis to all schedules except Schedule 148 (banded rate special
3 contracts). The increase takes effect November 1, 2004, if approved, as opposed to the
4 June 2005 timeline that otherwise would apply if the rate case were fully litigated for the
5 maximum suspension period and not resolved through settlement.

6 **Q. PLEASE DESCRIBE THE PROCESSING OF AVISTA'S GENERAL RATE**
7 **CASE SINCE IT WAS FILED.**

8 A. On August 20, 2004, Avista filed a general rate case seeking to increase natural gas rates
9 by \$8.6 million (a 6.2% increase). The Commission suspended the case on September 8,
10 2004, and thereby opened an investigation of Avista's books, accounts, practices,
11 activities, property and operations. At a prehearing conference held on September 23,
12 2004, NWIGU and the Energy Project/Opportunity Council were granted permission to
13 intervene and formal discovery procedures were invoked under the Commission's rules
14 of procedure, along with the issuance of a standard protective order requested by the
15 Company. Following that conference, the Staff conducted an on-site audit of the
16 Company's books and records and notified all other parties to the case of its audit
17 completion by October 1, 2004. In addition to the opportunity for formal discovery,
18 Avista's willingness to respond to informal requests facilitated the parties' discussions
19 and analysis. The parties' discussions culminated in a settlement conference of all parties
20 on October 5, 2004 with notification to the presiding administrative law judge at an
21 October 11, 2004 status conference that settlement had been reached on all issues by the
22 Signing Parties who then filed the Settlement Agreement with the Commission on
23 October 15, 2004.

24 **Q. WHAT IS THE BASIS OF THE SETTLEMENT AGREEMENT RELATING TO**
25 **THE COST OF CAPITAL COMPONENTS?**

1 A. The Signing Parties agree upon an adjustment to the revenue requirement that produces
2 an overall rate of return of 8.68%. With respect to the individual cost of capital
3 components, the Signing Parties have agreed that the overall adjustment does not
4 represent any particular outcome on any particular issue or individual component.

5 **Q. DOES NWIGU SUPPORT THE RATE OF RETURN RESULT REFLECTED IN**
6 **THE SETTLEMENT AGREEMENT?**

7 A. Yes, as the agreement by the Company to this overall rate of return represents a
8 significant reduction from the Company's case filing, in which it requested an overall rate
9 of return of 9.86%, a return on common equity of 11.50%, with common equity at
10 46.72% of the capital structure. While the individual capital cost components are not
11 expressly agreed upon as part of the Settlement Agreement, the effect of the Settlement
12 Agreement is a significant reduction from the increase sought by the Company in its
13 initial filing. NWIGU recommends the Commission adopt the Settlement Agreement
14 because the best interests of Avista's customers are served by the underlying fair
15 compromise of the individual cost of capital components that result in the stated overall
16 rate of return that is applied in the Settlement Agreement. While the Signing Parties may
17 each hold different positions on the individual cost of capital adjustments included in the
18 Settlement Agreement, NWIGU has based its assessment upon the Staff's full and
19 complete audit of the Company's books and records, the use of the Company's actual
20 cost of debt, including short-term debt, actual cost of preferred equity, and actual capital
21 structure for the December 31, 2003 test period, coupled with a rate of return on equity
22 that NWIGU would support in litigation.

23 **Q. ON WHAT BASIS DOES NWIGU SUPPORT THE OVERALL RATE**
24 **INCREASE PROPOSED IN THIS SETTLEMENT AGREEMENT?**

1 A. As detailed in Attachment A, the overall Settlement Agreement rate increase was derived
2 for purposes of settlement by applying an agreed value for an overall rate of return level
3 to the Commission basis adjustments using the Commission's basis report, including an
4 agreed level for adjustments from the Staff audit and with elimination of any additional
5 proforma adjustments by the Company, resulting in a \$5.377 million increase in
6 revenues. NWIGU supports the Settlement Agreement increase of \$5.377 million as a
7 compromise, which it submits as being in the best interest of Avista's customers as all
8 proforma adjustments previously sought by the Company are eliminated and the resulting
9 agreed revenue requirement increase is itself a compromise following a full Staff audit of
10 the Company's books and records. In recommending Commission approval of this
11 Settlement Agreement, neither NWIGU nor any of the Signing Parties are seeking
12 Commission approval of any new process or ratemaking method as part of the Settlement
13 Agreement. In this case, the Signing Parties found a reasonable method for analytical
14 compromise among themselves for purposes of this Settlement Agreement but are only
15 seeking the Commission's approval of the resulting increase itself as providing fair, just
16 and reasonable rates under the circumstances of this settlement. In recommending this
17 Settlement Agreement to the Commission, NWIGU supports its outcome as reasonable at
18 this time given the overall compromised level of increase and lack of proforma
19 adjustments being pursued by the Company.

20 **Q. ON AN OVERALL BASIS, DOES NWIGU BELIEVE THAT THE**
21 **SETTLEMENT PRODUCES A REVENUE REQUIREMENT THAT IS JUST**
22 **AND REASONABLE AT THIS TIME?**

23 A. Yes. That is why we support the Settlement Agreement.

24 **Q. WHAT IS THE BASIS OF THE SETTLEMENT AGREEMENT RELATING TO**
25 **THE RATE DESIGN AND RATE SPREAD?**

1 A. The Signing Parties agreed to spread the increased revenue requirement on an equal
2 percent of margin increase basis to all rate schedules, with the exception of special
3 contract customers on banded rate schedule 148. The resulting increases are applied to
4 the existing rate schedule structures in Avista's Washington tariffs, with the exception of
5 a basic charge increase from \$5 to \$5.50 per month for Schedule 101 as proposed by the
6 Company in its original filing. The proposed rate increases are detailed in Attachment B
7 to the Settlement Agreement reflecting current Purchase Gas Adjustment Schedule 156,
8 but excluding all other rate adjustments including the Company's pending September
9 30, 2004, purchased gas adjustment filing in Docket UG-041786 ("PGA"). Accordingly
10 if the Commission approves this Settlement Agreement and the PGA, the billing rates
11 for Avista's customers on November 1, 2004, will be the net result of the application of
12 the compliance tariffs in Attachment C of the Settlement Agreement and the PGA.

13 **Q. WHAT OTHER TERMS DOES THE SETTLEMENT AGREEMENT ADDRESS?**

14 A. Each of the Signing Parties agrees to the allocation of underground storage and related
15 pipeline transportation costs for storage (i.e., TF-2 transportation service on Northwest
16 Pipeline Corporation), Plymouth liquefied natural gas costs (LNG) and Gas Technology
17 Institute or Gas Research Institute (GRI/GTI) contributions reflected in the Company's
18 pending PGA and agrees that the Company, in its next general rate case filing, will
19 allocate all applicable underground storage costs and GRI/GTI contributions in a manner
20 consistent with the allocation method used in the PGA filing, unless the Company
21 performs a study related to underground storage costs supporting a different allocation
22 methodology. The allocations made in the PGA reflect a 20% use of underground
23 storage for system balancing applicable to all Avista sales and transportation customers,
24 except special contracts. This change in allocation method by Avista makes it consistent
25 with the cost allocations used by other natural gas utilities in Washington.

1 **Q. WHAT IS THE EFFECT OF THE SETTLEMENT AGREEMENT?**

2 A. The Settlement Agreement represents a negotiated compromise among the Signing
3 Parties. Thus, the Signing Parties have agreed that no particular party shall be deemed
4 to have approved the facts, principles, methods, or theories employed by any other in
5 arriving at these stipulated provisions, and that the terms incorporated should not be
6 viewed as precedent setting in subsequent proceedings except as expressly provided. In
7 addition, the Signing Parties have the right to withdraw from the Settlement Agreement
8 if the Commission adds any additional material conditions or rejects any material part of
9 the Settlement Agreement.

10 **Q. DOES THE SETTLEMENT AGREEMENT REPRESENT A COMPLETE**
11 **RESOLUTION OF ALL ISSUES IN THIS DOCKET?**

12 A. Yes.

13 **Q. WHAT DOES NWIGU RECOMMEND REGARDING THE SETTLEMENT**
14 **AGREEMENT?**

15 A. NWIGU recommends that the Commission adopt the Settlement Agreement in its
16 entirety.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes, at this time.

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BEFORE THE
WASHINGTON UTILITY AND TRANSPORTATION COMMISSION
Docket No. UG-041515

PAULA E. PYRON
STATEMENT OF QUALIFICATIONS

Paula Pyron is the Executive Director of the Northwest Industrial Gas Users (“NWIGU”), a nonprofit association of 32 large end-users of natural gas with facilities in Oregon, Washington and Idaho. The association represents its members’ interests in distributor and pipeline rate cases, tariff filings and regulatory policy issues in the three states and at the Federal Energy Regulatory Commission. Ms. Pyron accepted this representation of NWIGU effective September 2000.

Ms. Pyron has been a lawyer since 1983, hailing from the oil patch in Tulsa, Oklahoma for the first several years of her business-focused practice with the law firm of Boesche, McDermott & Eskridge. She began private practice in Portland, Oregon in 1991 with an emphasis in energy regulation and contract negotiation. She represented Northwest Industrial Gas Users from 1991 to 1999 as an outside counsel, most recently as a partner at Energy Advocates LLP, and prior to that firm’s founding was a partner at Ball Janik LLP. Until her recent engagement as NWIGU’s executive director, since April 1999 she managed the legal department in Portland as Assistant General Counsel for PG&E Gas Transmission, Northwest Corporation.

PAULA E. PYRON STATEMENT OF QUALIFICATIONS

1 Ms. Pyron is admitted to practice in the state bars of Oregon and Oklahoma and
2 numerous federal courts. She is a 1983 graduate of the University of Tulsa, College of
3 Law and has a BS in Economics, *summa cum laude* from the University of Texas at
4 Dallas. She has testified on energy regulatory and legislative matters in Oregon and
5 Washington with state regulatory commissions and legislative committees. She has
6 appeared on numerous occasions before the Washington Utilities and Transportation
7 Commission (WUTC), the Oregon Public Utility Commission and the Idaho Public
8 Utility Commission as executive director of NWIGU. She testified before the Oregon
9 Public Utility Commission in Docket UM 1148, and this is her first testimony before the
10 WUTC in a natural gas general rate case proceeding.

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PAULA E. PYRON STATEMENT OF QUALIFICATIONS