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1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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3 WASHINGTON UTILITIES AND)
4 TRANSPORTATION COMMISSION,) DOCKET NO. UG-940034
5)
6 vs. Complainant,)
7) DOCKET NO. UG-940814
8)
9 WASHINGTON NATURAL GAS) VOLUME 7
10 COMPANY,)
11 Respondent.) PAGES 872 - 888
12 -----)

13 A hearing in the above matter was held on
14 February 3, 1995, at 1:30 p.m. at 900 Fourth
15 Avenue, Seattle, Washington before Commissioners
16 RICHARD HEMSTAD, WILLIAM R. GILLIS and Administrative
17 Law Judge LISA ANDERL.

18 The parties were present as follows:

19 WASHINGTON NATURAL GAS COMPANY, by DAVID
20 S. JOHNSON, Attorney at Law, 815 Mercer Street,
21 Seattle, Washington 98109.

22 WASHINGTON UTILITIES AND TRANSPORTATION
23 COMMISSION STAFF, by ANNE EGELER, Assistant Attorney
24 General, 1400 South Evergreen Park Drive Southwest,
25 Olympia, Washington 98504.

FOR THE PUBLIC, DONALD TROTTER, Assistant
Attorney General, 900 Fourth Avenue, Suite 2000,
Seattle, Washington 98164.

Cheryl Macdonald, CSR
Court Reporter

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I N D E X

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WITNESSES:
DANIEL AUER

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EXAM
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EXHIBITS:
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MARKED

ADMITTED
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1 PROCEEDINGS

2 JUDGE ANDERL: Let's be on the record. The
3 Washington Utilities and Transportation Commission has
4 set for hearing at this time and place a hearing for
5 the purpose of taking public testimony in consolidated
6 dockets UG-940034 and UG-940814. My name is Lisa
7 Anderl. I'm the administrative law judge presiding.
8 To my right is Commissioner Richard Hemstad and to his
9 right is Commissioner William Gillis.

10 Let me go ahead and take appearances now,
11 beginning with the company.

12 MR. JOHNSON: David S. Johnson representing
13 Washington Natural Gas Company.

14 JUDGE ANDERL: For Commission staff.

15 MS. EGELER: Anne Egeler, assistant
16 attorney general appearing for Commission staff.

17 JUDGE ANDERL: For public counsel.

18 MR. TROTTER: Donald T. Trotter, assistant
19 attorney general for the public counsel section.

20 JUDGE ANDERL: Thank you. Mr. Trotter,
21 would you like to just go ahead and make a preliminary
22 statement for the members of the public who are here.

23 MR. TROTTER: Welcome. We appreciate you
24 coming. Also there's other people that need to be
25 introduced. The administrative law judge is Lisa

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1 Anderl and sitting to her right is Commissioner Dick
2 Hemstad and to his right is Commissioner Bill Gillis,
3 and there's also a chairman of the Commission, Sharon
4 Nelson, and she could not be here today, but they're
5 the ones where the buck stops there in terms of where
6 the decision making occurs, and this case -- this is
7 the last day of hearings in the case, and we've heard
8 from the parties and all the experts from the parties,
9 and there are several parties to this proceeding.
10 Obviously, the company, the staff, public counsel and
11 then there's also Seattle Steam Company, a large user
12 of natural gas offering steam service here in Seattle;
13 PERCC, an organization of commercial customers; and
14 then also the Northwest Industrial Gas Users which is
15 a group of large industrial users of natural gas, both
16 firm customers and interruptible customers. So the
17 Commission has heard from those people, but who they
18 haven't heard from are some of the smaller use
19 customers and often those are the people that appear
20 at these types of hearings to give their comments on
21 the proceeding.

22 This case was initiated last June by a
23 tariff filing by the company. As you may know, they
24 received a rate increase last June overall revenues of
25 around \$18 million and this phase of the case is to

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1 look into rate design, primarily transportation rates
2 was the focus and the case has gone forward on that
3 basis, but as part of that, they are looking at rate
4 design and rate spread for all customer classes
5 including residential and small commercial customers.

6 The increases that the company is seeking
7 to implement if their filing is accepted in total
8 would be an increase of about 5.7 percent to
9 residential customers and commercial industrial rates
10 would go up by about 1.84 percent. Large volume
11 customers will go down by 13.2 percent and
12 transportation customer rates are proposed to be
13 decreased by about 55 percent. And that's sort of
14 phase 1, and in the future proceedings similar changes
15 could be effected, again if the company's case is
16 accepted in total.

17 It's important to note that this isn't a
18 general rate increase in terms of the company's cost
19 of business increasing. Theoretically the revenues
20 stay constant and it's just who pays the costs, what
21 costs are shifted to what other classes, and that's
22 what results in a rate increase, although we have
23 raised an issue in the case that for customer classes
24 that are growing in number it could end up giving more
25 money to the company. That's an issue the Commission

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1 will have to decide. One of our other recommendations
2 is given the past rate increases that the Commission
3 has approved for this company that it may make sense
4 to defer implementation until the next rate case which
5 is apparently anticipated this spring.

6 Our presentation to the Commission showed
7 that the residential class was paying its fair share
8 and there didn't need to be a rate increase to that
9 class as a result of a cost of service study. The
10 staff is somewhere between public counsel and the
11 company, the industrial users are on the other side of
12 the company on that scale. And again, none of these
13 positions have been accepted as yet, and it will be up
14 to the Commission to decide who if anyone is correct.

15 There's a second docket in this case and
16 that involves compressed natural gas. Sometimes if
17 you're driving down the highway you may see a vehicle
18 that says "compressed natural gas fuel" or words to
19 that effect, and the company offers compressed natural
20 gas to customers, generally large fleets, for those
21 companies that want to use compressed natural gas
22 instead of gasoline or diesel. And the issue here is
23 at what price should the company be allowed to offer
24 that. Is the company subsidizing that venture, and if
25 so what should be done about it. The company's case

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1 suggests that they are not being subsidized -- that
2 effort is not being subsidized by other customer
3 classes and the staff is taking the position that
4 there is a subsidy and according to state law there
5 can't be, and the company should offer it, if
6 at all, through a separate subsidiary to avoid anti-
7 competitive and subsidy impacts. So that's another
8 docket that you may be interested in testifying about.

9 The judge has told you the process. You
10 will be asked to take the stand and go under oath and
11 I will ask you some preliminary questions and then ask
12 you to state your position regarding the filing.

13 With respect to a decision in this case, I
14 think the period for decision ends sometime in May.

15 JUDGE ANDERL: May 12, I believe.

16 MR. TROTTER: So we could expect an order
17 sometime at least by then. And the Commission has a
18 whole series of options available to it, and it's not
19 very easy for me to identify everybody's position on
20 every issue. It's a very complicated case but if you
21 have any specific questions about it, my file is
22 downstairs and to the extent I can show you
23 nonconfidential information, I will.

24 So we welcome both of you to attend and
25 look forward to hearing your testimony.

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1 JUDGE ANDERL: Thank you, Mr. Trotter.
2 Sir, you indicated that you would be testifying today
3 so why don't we go ahead and take you first.

4 MR. TROTTER: I would call Mr. Dan Auer, A
5 U E R.
6 Whereupon,

7 DANIEL AUER,
8 having been first duly sworn, was called as a witness
9 herein and was examined and testified as follows:

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11 DIRECT EXAMINATION

12 BY MR. TROTTER:

13 Q. Could you please state your name for the
14 record?

15 A. My name is Dan Auer, A U E R.

16 Q. So I spelled it correctly?

17 A. Yes.

18 Q. What's your business address?

19 A. My business address is 14440 41st Avenue
20 South, Seattle, Washington, 98168.

21 Q. And are you appearing on your own behalf or
22 on behalf of an organization?

23 A. On behalf of an organization and a whole
24 bunch of people. My job is to save energy for low
25 income households.

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1 Q. Who is your employer?

2 A. I work for King County Housing Authority.

3 Q. And you're a weatherization specialist?

4 A. That's what I do.

5 Q. And please proceed to give your statement
6 to the Commission.

7 A. I just heard about this a while ago so I'm
8 not versed in cost allocation methodology and all of
9 that kind of thing but the gist of what I heard was
10 the rates were going to go up for the residential
11 customers, and I wanted to come in and say that rates
12 have gone up for residential customers in the recent
13 past, and the people that I work with have a real hard
14 time paying their utility bills.

15 I just got ahold of the state plan the
16 other day, and I count there are 23,700 low income
17 households in Washington Natural Gas territory. They
18 pay on an average of 12 to 13 percent of their annual
19 income for energy, which is about three times your
20 non low income household. A rate increase is a
21 significant impact for a low income household. It may
22 be 5 percent, and it doesn't sound like much but to a
23 low income household it can make a big difference.
24 And basically that's what I wanted to say. This is a
25 big deal to my customers.

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1 Q. What was the percentage of their income
2 that you quoted?

3 A. The national average, there's a study that
4 just came out is about 12 to 13 percent is the
5 average. Some households pay as much as 30 percent of
6 their household income on energy but the average is
7 about 12 percent. The non low income average is about
8 3 percent, 3 or 4 percent.

9 JUDGE ANDERL: Thank you. Commissioners,
10 do you have any questions for this witness?

11

12 EXAMINATION

13 BY COMMISSIONER HEMSTAD:

14 Q. One of the problems the industry is
15 addressing is increasing competitive environment
16 for gas, particularly for large customers, and you
17 tend to have options including leaving the system if
18 they can get gas elsewhere at a lower rate. And the
19 problems that poses is that the infrastructure is left
20 for the remaining people within the system to pay for.
21 At least that's how the issue is posed. And the
22 appearance of competition changes the former monopoly
23 where prices could be allocated however ultimately the
24 regulators thought was advanced whatever interests
25 seem to be. That's now much more difficult to do and

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1 that's at least the issue posed. Do you think this
2 Commission should be moving prices then more towards
3 cost of the services to be provided to the various
4 customer classes? I say that in the context of one of
5 the consequences of that may be increase in rates for
6 residential customers and decreases for industrial
7 customers.

8 A. Well, as I see it this retail wheeling
9 that's brought to the retail level is people can shop
10 for different suppliers, right?

11 Q. Well, that's a way of phrasing it.

12 A. Certainly the people with the most clout as
13 far as buying gas will get the best deal. But this
14 issue that's going on right now is about the cost of
15 delivering that gas, and I was thinking about that
16 because this is a development of thought that's going
17 on in the industry right now that I've been following
18 a lot. There are fixed costs associated with the
19 delivery of this gas. Whether you buy this gas from
20 Washington Natural or you buy it from some gas
21 supplier in Utah it's still going to go through the
22 same pipes to get to your house unless you have the
23 wherewithal to lay a new pipe to Utah and I don't
24 think anybody is going to do that.

25 These are -- the cost of service is a fixed

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1 cost that I don't think will be part of the
2 competitive world that some people predict in the next
3 three or four years. The competitive world is going
4 to be about strictly the cost of gas, as I understand
5 it. I know that a large impetus for this comes from
6 large buyers of gas because they feel they can get a
7 better deal and it's -- I don't see any sort of
8 logical connection between the shift of the costs of
9 delivering the gas, how come that gets cheaper and
10 then the cost of gas gets cheaper? I don't know. If
11 this situation comes to fruition, industrial people
12 will be in a pretty good spot. I mean, if it's
13 cheaper to get it and what you get is cheaper, that
14 seems real good, but the residential people it will be
15 more expensive to get it to you and maybe not cheaper.
16 They could lose -- it could be a lose-lose situation
17 for residential people and a win-win situation for
18 large consumers of gas. But I don't know why the cost
19 of service would go down for industrial people now. I
20 don't know enough about cost allocation kinds of
21 things, but what I hear about the cost of gas seems to
22 coincide with what's going on here as far as proposed.

23 COMMISSIONER HEMSTAD: Thank you.

24 JUDGE ANDERL: Commissioner Gillis.

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EXAMINATION

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2 BY COMMISSIONER GILLIS:

3 Q. I think you probably know a lot more about
4 some of the other programs that are -- government
5 programs, nonprofit programs that are available to --
6 has helped the low income, moderate income houses than
7 I would. Could you describe that for us a little bit,
8 what's happened there?

9 A. There's a lot of stuff happening
10 particularly from the government perspective. I
11 handle money from the Department of Energy and Health
12 and Human Services that is made available to
13 weatherize low income households to make their energy
14 bills affordable. Some of the money I have comes from
15 Health and Human Services and the lion's share of the
16 money from Health and Human Services goes into a
17 program called Energy Assistance where if you're a low
18 income household and can't pay your utility bills you
19 go to those folks and they will pay your utility
20 bills.

21 I'm not aware of how much money from Energy
22 Assistance has gone for Washington Natural Gas, I
23 don't know how much of that it is, but I know that's
24 under considerable pressure by the federal
25 congressional branch as well as the administrative

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1 branch to cut that funding, so I know that there will
2 be less money available next year for just paying the
3 utility bills, and it's anticipated there's going to
4 be less money available from the federal government to
5 weatherize these homes, but on the other hand, I've
6 been working with Washington Natural Gas on a low
7 income weatherization program that they fund, and we
8 put it together with the monies that I have so that we
9 can do more homes. They've been -- maybe one of these
10 days it will actually get filed and we can shove ahead
11 and start doing homes. Right now it's a pilot to do
12 200 homes, and there are 23,700 homes in the district.
13 There's tremendous demand for this kind of work, and
14 outside of those resources available I'm not aware. I
15 know that some churches and things like that, if you
16 can't afford to pay your utility bill they will come
17 forward and pay those kinds of things, but as far as
18 organized efforts the only thing I am aware of is the
19 Energy Assistance program. I'm not aware of what the
20 gas company does, and I would be surprised if there
21 was some sort of cut rate for low income houses. I
22 don't know. I don't know enough about their rate
23 structure.

24 Q. Part of the determination is what are the
25 costs of serving different classes of customers, the

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1 commercial classes, the large industrial, residential
2 customers. As Commissioner Hemstad was alluding to,
3 what's your feeling on if you were in our shoes and do
4 you think it's appropriate for one customer class to
5 subsidize another customer class, say the large
6 customers should be paying a little bit more if it
7 would lower the residential rate or not? What's your
8 thought on that?

9 A. Well, my feeling is that they're a utility.
10 Washington Natural Gas is here to provide gas service
11 to everybody in its territory that wants gas. Gas is
12 a heat source, it's how people heat their homes. And
13 they're obligated to serve those people. Now,
14 commercial processes and industrial processes can
15 choose gas as a fuel of choice, but the obligation I
16 think as a utility that they have is to serve the
17 residential base. There's a lot of problems with
18 serving that base because it goes way up and goes way
19 down and it goes way up and it goes way down and
20 that's not how you like to do business, and you can't
21 turn this thing on and off, and it's important to
22 bring other customers into the picture so that you
23 have a place to sell gas when your residential base
24 does go up.

25 Should one subsidize the other? I don't

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1 look upon it as a subsidization. It's more a matter
2 of, at this point, as far as the pipes in the ground,
3 that's a utility. There's an obligation to serve, you
4 know. That's how I would look upon it. And if they
5 can achieve -- if they can make money displacing and
6 selling gas where these people don't need it and
7 utilize that pipe space, those people should -- they
8 should recover those costs in that, in that regard.
9 It isn't a matter of subsidizing as much as good
10 business in getting them where you can.

11 COMMISSIONER GILLIS: Appreciate that.

12 JUDGE ANDERL: Does either the company or
13 Commission staff have any questions for this witness?

14 MR. JOHNSON: No.

15 MS. EGELER: No questions.

16 JUDGE ANDERL: Thank you, Mr. Auer, for
17 your testimony. You may step down.

18 Anyone else here from the public who wishes
19 to offer testimony today?

20 I hear no response and it is five minutes
21 of 2. We've been convened for about 20, 25 minutes.

22 MR. TROTTER: First of all, I need to offer
23 my ratepayer letter exhibit if that could be marked
24 for identification.

25 JUDGE ANDERL: I think I gave it Exhibit

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1 No. 151 on Wednesday. That is the exhibit number for
2 identification. And are you offering it?

3 MR. TROTTER: I would offer its admission.
4 It contains both the letters I received from the
5 Commission file, ratepayer letters and letters that
6 were sent to public counsel on these dockets.

7 JUDGE ANDERL: Is there any objection?

8 MR. JOHNSON: None.

9 JUDGE ANDERL: Hearing no objection,
10 Exhibit No. 151 will be admitted as identified.
11 Anything else?

12 (Admitted Exhibit 151.)

13 MR. TROTTER: I would like to request that
14 we maybe just wait another five minutes just so we've
15 waited a full half hour, if there's no objection.

16 JUDGE ANDERL: Sure. Let's take five
17 minutes off the record.

18 (Recess.)

19 JUDGE ANDERL: Let's be back on the record.
20 It is a minute after 2 now. Is there anything else to
21 come before us today?

22 MR. TROTTER: No.

23 JUDGE ANDERL: I hear nothing. Then we'll
24 stand adjourned. Thank you all.

25 (Hearing adjourned at 2:02 p.m.)