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 1 BEFORE THE WASHINGTON

 2 UTILITIES AND TRANSPORTATION COMMISSION

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 4 WASHINGTON UTILITIES AND )DOCKET UG-181053

 TRANSPORTATION COMMISSION, )

 5 )

 Complainant, )

 6 )

 vs. )

 7 )

 NORTHWEST NATURAL GAS )

 8 COMPANY, d/b/a NW NATURAL, )

 )

 9 )

 Respondent. )

10

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11

 SETTLEMENT AND EVIDENTIARY HEARING, VOLUME III

12

 Pages 20-127

13

 CHAIRMAN DANNER, COMMISSIONERS RENDAHL & BALASBAS

14 ADMINISTRATIVE LAW JUDGES RAYNE PEARSON & NELLI

 DOROSHKIN

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16

 August 14, 2019

17

 9:00 a.m.

18

19 Washington Utilities and Transportation Commission

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 1 A P P E A R A N C E S (Cont.)

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 SCOTT RUBIN

 5 SHAWN COLLINS

 ZACHARY KRAVITZ

 6 KRISTEN HILLSTEAD

 SARAH LAYCOCK

 7 BRADLEY MULLINS

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 1 LACEY, WASHINGTON; AUGUST 14, 2019

 2 9:00 A.M.

 3 --o0o--

 4 P R O C E E D I N G S

 5

 6 JUDGE DOROSHKIN: Let's be on the record.

 7 Good morning, everyone. My name is Nelli Doroshkin and

 8 sitting to my left is Rayne Pearson. We are

 9 administrative law judges with the Commission.

10 We are here today for the evidentiary and

11 settlement hearing in Docket UG-181053, which is

12 Northwest Natural Gas Company's general rate case.

13 We will begin by taking short form

14 appearances beginning with Northwest Natural.

15 MS. RACKNER: Lisa Rackner on behalf of

16 Northwest Natural. I am also...

17 JUDGE DOROSHKIN: Yes, there should be a

18 green light. There we go.

19 MS. RACKNER: All right. Lisa Rackner on

20 behalf of Northwest Natural from the law firm of

21 McDowell Rackner Gibson. I'm also here with co-counsel

22 today, Jocelyn Pease, who will be participating in the

23 case as well.

24 JUDGE DOROSHKIN: Okay. And then Staff?

25 MS. RACKNER: Excuse me, Your Honor. We

0033

 1 also have --

 2 MR. NELSEN: Sorry. Good morning, Your

 3 Honor. Eric Nelsen, senior regulatory attorney with

 4 Northwest Natural.

 5 JUDGE DOROSHKIN: Okay. Now Staff.

 6 MS. CAMERON-RULKOWSKI: Jennifer

 7 Cameron-Rulkowski, Assistant Attorney General, appearing

 8 on behalf of Staff.

 9 JUDGE DOROSHKIN: All right. Public

10 Counsel?

11 MS. SUETAKE: Good morning, Your Honor.

12 Nina Suetake, Assistant Attorney General, on behalf of

13 Public Counsel.

14 JUDGE DOROSHKIN: AWEC?

15 MR. STOKES: Good morning. Chad Stokes for

16 the Alliance of Western Energy Consumers.

17 JUDGE DOROSHKIN: And The Energy Project?

18 MR. FFITCH: Good morning, Your Honors.

19 Simon ffitch on behalf of The Energy Project.

20 JUDGE DOROSHKIN: All right. We will

21 address exhibits before the Commissioners join us.

22 Staff does have a preliminary matter. Does this concern

23 exhibits?

24 MS. CAMERON-RULKOWSKI: Your Honor, we will

25 not be filing a correction, but we noted that some

0034

 1 documents that the parties filed in the docket contain

 2 an incorrect form of the company name in the caption.

 3 And we recognize that the correct company name is NW

 4 Natural Gas Company, doing business as NW Natural. I

 5 would further note that documents that the Commission

 6 filed are captioned correctly, so we did not lead you

 7 astray.

 8 JUDGE DOROSHKIN: Okay. So then we will

 9 consider exhibits now. Yesterday Northwest Natural

10 filed revisions to Exhibits KTW-4T and KTW-11 as well as

11 related work papers. The Company filed a motion for

12 leave to make an out of time errata filing, notifying me

13 by phone that Public Counsel has no objection to the

14 filing. So that motion is granted.

15 MS. SUETAKE: Your Honor, Public Counsel

16 does not have an objection to the filing, but we do ask

17 that we have an opportunity to either supplement or

18 revise our testimony based on the new numbers. We

19 haven't had a chance to be able to go through our

20 testimony to see if we quoted any of the previous

21 numbers.

22 JUDGE DOROSHKIN: And that 's fine. You can

23 do that. When will you be able to supplement your

24 testimony?

25 MS. SUETAKE: By end of business day Friday

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 1 if it's necessary.

 2 JUDGE DOROSHKIN: Okay.

 3 MS. SUETAKE: I can let you know if we don't

 4 need to. Thank you.

 5 JUDGE DOROSHKIN: If you could just let me

 6 know by email, that's fine.

 7 MS. SUETAKE: Okay. Thank you.

 8 JUDGE DOROSHKIN: Then as to the filed

 9 exhibits, do the parties stipulate to the admission of

10 all prefiled exhibits and testimony including settlement

11 testimony as revised and cross-examination exhibits that

12 were filed?

13 MS. RACKNER: Yes, we do.

14 MR. FFITCH: Yes for The Energy Project,

15 Your Honor.

16 MS. SUETAKE: Yes for Public Counsel.

17 MR. STOKES: Yes for AWEC as well.

18 MS. CAMERON-RULKOWSKI: Yes for Commission

19 Staff.

20 JUDGE DOROSHKIN: All right. And then once

21 we hear from Public Counsel, we'll provide -- we will

22 make the exhibit list part of the record in the

23 proceeding.

24 Is there anything else that needs to be

25 addressed before the Commissioners join us? Then we

0036

 1 will take a brief recess after which Judge Pearson and I

 2 will be joined by the Commissioners. Once we are joined

 3 by the Commissioners, we will address the contested

 4 issue allowing first for opening statements as noted in

 5 the email. And then taking a brief recess after

 6 cross-examination before the Commissioners ask questions

 7 on the topic to all three witnesses. After that, we

 8 will gather the settlement panel and ask questions

 9 regarding the all-party partial settlement.

10 So we are off the record.

11 (Recess taken from 9:07 a.m.

12 until 9:12 a.m.)

13 JUDGE DOROSHKIN: All right. We are back on

14 the record following a short recess. Judge Pearson and

15 I are joined now by Chairman Danner, Commissioner

16 Rendahl, and Commissioner Balasbas. The parties have

17 stipulated to the admission of all the prefiled

18 exhibits, including cross-examination exhibits, and we

19 have copies of the exhibits with the latest revisions up

20 here.

21 So with the Commissioners here, we will take

22 short appearances again.

23 MS. RACKNER: Good morning, Commission --

24 Good morning, Commissioners. Lisa Rackner with the law

25 firm of McDowell Rackner and Gibson. With me here today

0037

 1 from my law firm also is Jocelyn Pease, who will be

 2 participating in the case.

 3 MR. NELSEN: Good morning. Eric Nelsen,

 4 senior regulatory attorney, Northwest Natural.

 5 MR. FFITCH: Good morning, Commissioners.

 6 Simon ffitch on behalf of The Energy Project.

 7 MR. STOKES: Good morning. Chad Stokes for

 8 the Alliance of Western Energy Consumers.

 9 MS. SUETAKE: Good morning. Nina Suetake on

10 behalf of Public Counsel.

11 MS. CAMERON-RULKOWSKI: Good morning,

12 Commissioners and ALJs. Jennifer Cameron-Rulkowski,

13 Assistant Attorney General, appearing on behalf of

14 Commission Staff.

15 JUDGE DOROSHKIN: So the parties have

16 prepared an agreed order of witnesses, which we will

17 follow. We have received a one hour and 50-minute

18 estimate for the parties' cross-examinations after which

19 we will take a break. Following the break, the

20 Commissioners will present the questions to the three

21 witnesses on the contested issue. And after that, we

22 will invite the witnesses for the all-party settlement

23 agreement, and we will have questions from the bench on

24 the all-party settlement agreement.

25 So first, we will hear an opening statement

0038

 1 from the parties on the multiparty agreement on

 2 decoupling, then we'll hear the opening statement from

 3 Public Counsel opposing the decoupling agreement. Will

 4 the Company be presenting the open statement?

 5 MS. CAMERON-RULKOWSKI: I will be presenting

 6 the opening statement.

 7 Good morning. And as -- as you likely know,

 8 the parties reached two settlements in this case and

 9 the -- one -- one of the settlements is an all-party

10 settlement, and then we were able to reach a settlement

11 on the one issue that was not part of that settlement,

12 which is decoupling. And the only party that was not

13 able to join that settlement was Public Counsel. And so

14 I'm speaking for the settlement parties.

15 Northwest Natural is the only IOU in

16 Washington that doesn't have a decoupling program. In

17 its rate case filing, Northwest Natural proposed a full

18 decoupling program that is similar to the decoupling

19 programs of other utilities in the state. The

20 decoupling settlement itself is relatively brief because

21 the settling parties accepted much of the program that

22 the Company proposed in its direct testimony.

23 In fact, as I understand Public Counsel's

24 position, Public Counsel opposes just one particular

25 aspect of the proposed program, which is using the

0039

 1 revenue per customer methodology for determining the

 2 Company's allowed revenue in the decoupling mechanism.

 3 An important part of the proposed decoupling

 4 program is the earning sharing mechanism and also the

 5 soft cap, both of which serve to protect customers. If

 6 the Company exceeds its authorized return, it will share

 7 50 percent of the earnings with the decoupled customers.

 8 And under the soft cap, any decoupling surcharge that

 9 would result in a rate increase of 5 percent or more

10 will be cut off and set into rates the next year.

11 The settlement makes several adjustments to

12 the Company's proposed program and confirms that

13 industrial customers are not part of the decoupling

14 mechanism. Another important settlement term to note is

15 that the decoupling program will expire unless Northwest

16 Natural requests reauthorization within five years.

17 The other details of the program and the

18 settlement are set forth in the joint testimony of the

19 settling parties as well as the testimonies of Kyle

20 Walker of Northwest Natural and Jing Liu of Commission

21 Staff.

22 JUDGE DOROSHKIN: Public Counsel?

23 MS. SUETAKE: Thank you, and good morning

24 again. Commissioners, ALJs, as you know, Washington has

25 a strong history of supporting environmental goals.

0040

 1 Decoupling is intended to remove disincentives and

 2 barriers for our utilities from engaging in energy

 3 conservation.

 4 Now, over the next six years, Northwest

 5 Natural expects to grow in customers by over 18,000

 6 customers. The additional annual revenue from these new

 7 customers will reach almost $6 million by year 2024.

 8 But the Company argues that it requires the revenue per

 9 customer methodology that Public Counsel's opposing to

10 be fully compensated for the cost of these new

11 customers. Decoupling, however, is not intended to

12 fully compensate a company for customer growth, nor is

13 this the expressed policy of the Commission.

14 As you well know, if a company at any time

15 feels like it is not adequately compensated, they can

16 file a rate case, and nothing in the decoupling

17 multiparty settlement agreement requires that the

18 Company stay out for any extended period of time for --

19 to file a rate case.

20 In light of the Company's significant growth

21 projection, Public Counsel has concluded that at this

22 time for this company under these specific growth

23 conditions, the revenue per customer methodology would

24 not result in just and reasonable rates for all

25 customers.

0041

 1 Rate class decoupling, which we propose in

 2 our testimony, will insulate the Company from potential

 3 downturns in consumption, while still providing some

 4 return on the incremental investment made to serve new

 5 customers. For these reasons, Public Counsel -- Public

 6 Counsel opposes the multiparty decoupling settlement.

 7 JUDGE DOROSHKIN: We will call our first

 8 witness, Kyle Walker. Mr. Walker, actually, if you

 9 could -- Mr. Walker, if you could stand and be sworn in.

10

11 KYLE WALKER, witness herein, having been

12 first duly sworn on oath,

13 was examined and testified

14 as follows:

15

16 JUDGE DOROSHKIN: Thank you. You may sit.

17 And please turn your microphone on so there's a green

18 light. Thank you.

19 Ms. Rackner?

20 MR. NELSEN: Yes, Mr. Nelsen will be putting

21 the witness on.

22

23 E X A M I N A T I O N

24 BY MR. NELSEN:

25 Q. Good morning, Mr. Walker.

0042

 1 A. Good morning.

 2 Q. For the record, please state your full name.

 3 A. Kyle Thomas Walker.

 4 Q. And by whom are you employed and in what

 5 capacity?

 6 A. My employer is Northwest Natural Gas, and I am

 7 the rates and regulatory manager with the company.

 8 Q. Mr. Walker, you pre-filed direct testimony in

 9 support of the Company's rate case application

10 consisting of 20 pages and two associated exhibits,

11 KTW-2 and 3; am I correct?

12 A. That's correct.

13 Q. Mr. Walker, you also were a member of the panel

14 of witnesses who pre-filed joint testimony in support of

15 the partial multiparty settlement agreement on

16 decoupling; is that correct?

17 A. That's correct.

18 Q. And then, Mr. Walker, you also filed rebuttal

19 testimony in support of the partial multiparty

20 settlement agreement on decoupling; is that correct?

21 A. That's correct.

22 Q. And there were exhibits associated with your

23 rebuttal, Exhibits KTW-5 through KTW-11; is that

24 correct?

25 A. Correct.

0043

 1 Q. Mr. Walker, yesterday the Company made an errata

 2 filing, the Northwest Natural Gas Company's motion for

 3 leave to make errata filing identifying certain

 4 corrections to errors that appeared in your Exhibit

 5 KTW-11, your testimony, rebuttal testimony, KTW-4T, and

 6 your associated work papers; is that correct?

 7 A. That's correct.

 8 Q. For the record, can you please describe the

 9 nature of the errors that have been corrected through

10 the revised versions of those documents?

11 A. Yes, the current letter of the errata filing

12 went into quite a bit of detail on, you know, the

13 individual errors that were -- that were found yesterday

14 as -- as I was preparing for the hearing. What I found

15 was there was inconsistencies between the decoupling

16 agreement and what this exhibit originally was filed

17 with my -- with my testimony. There was individual

18 cells that were pointing towards incorrect data as well

19 as there were a few formulas that were incorrect. After

20 correcting those errors, the new revised exhibit is

21 consistent with the decoupling agreement.

22 Q. Thank you, Mr. Walker.

23 MR. NELSEN: Mr. Walker is available for

24 cross-examination and questions from Your Honors and the

25 Commissioners.

0044

 1 JUDGE DOROSHKIN: Ms. Gafken, please

 2 proceed. Or Suetake, sorry.

 3 MS. SUETAKE: Thank you, Your Honor.

 4

 5 E X A M I N A T I O N

 6 BY MS. SUETAKE:

 7 Q. Good morning, Mr. Walker.

 8 A. Good morning.

 9 Q. My name is Nina Suetake, and I am here on behalf

10 of Public Counsel.

11 If you could please turn to your rebuttal

12 testimony, Exhibit 4 on page 4. On line 16 through 19,

13 you state that the per customer decoupling is, quote,

14 consistent with the Commission's policy goal of

15 eliminating the throughput incentive; do you see that?

16 A. Yes.

17 Q. What do you mean specifically by "the throughput

18 incentive"?

19 A. The throughput incentive to me is to align the

20 Company with conservation efforts. Therefore, it

21 removes any type of disincentive that the Company has to

22 gain revenues with usage. My understanding of the --

23 the Commission policy statement is it's consistent to

24 remove that incentive to where usage isn't tied to the

25 Company's revenues.

0045

 1 Q. In your opinion, is decoupling designed to

 2 remove any incentive the Company may have to increase

 3 its sales?

 4 A. Yes, for the applicable customers under the

 5 mechanism.

 6 Q. Now, is the Company projecting that its total

 7 gas sales to residential customers will increase over

 8 the next five to six years?

 9 A. Yes.

10 Q. And is it correct that the Company expects that

11 sales to existing customers will decline over the next

12 five years?

13 A. Yes, I -- I think the Company does take the

14 position that conservation, especially with our current

15 mechanisms or our current schedules under Schedule G,

16 our energy efficiency tariffs, that they are effective

17 and existing customers have been reducing usage over

18 time.

19 Q. With the increase in the residential customer

20 base that you're expecting, even though it's coupled to

21 that declining use for existing customers, is it correct

22 still that the combination of these two factors will

23 still result in an overall increase in residential sales

24 over the next five years? Sorry.

25 A. So, yes, the -- the Company does expect an

0046

 1 increase in sales primarily driven by customer

 2 additions.

 3 Q. If we can turn now to your exhibit that's now

 4 the revised Exhibit 11, we're going to spend some time

 5 with this exhibit. Towards the middle of the page,

 6 there's a line for total residential usage in therms; do

 7 you see that?

 8 A. Yes.

 9 Q. And this shows that you project total

10 residential gas usage of about 53.2 million therms this

11 year; is that correct?

12 A. That's correct.

13 Q. And you project that by 2024, total residential

14 usage will be about 62.3 million therms; is that right?

15 A. That's correct, but it assumes that new customer

16 use is 522 therms, which was suggested from Mr. Rubin's

17 testimony.

18 Q. Okay. And so would you agree, subject to check,

19 that that's about a 9.1 million therm difference?

20 A. Subject to check, but I -- I do feel that it's

21 important that we assume the 522 from Mr. Rubin's

22 testimony to make our arguments in the rebuttal

23 testimony that I filed about a month ago.

24 Q. Is this level of consumption that you're showing

25 here for total residential usage based on normal weather

0047

 1 conditions?

 2 A. Yes, for existing customers it is

 3 weather-normalized; however, for new customers, I would

 4 say no, it is not weather-normalized.

 5 Q. Okay. So this is a more general question.

 6 Is it correct that excluding the cost of gas,

 7 the Company's approximate average revenue per therm for

 8 residential sales under the all-party settlement is

 9 46.53 cents per therm?

10 A. Can you point me to that?

11 Q. I can point you to your own exhibit. Your

12 Exhibit 10, towards the bottom where it says base rate

13 settlement number.

14 A. Yes, I refer to that as your base margin on the

15 volumetric side.

16 Q. That's great. Thank you.

17 Then if the Company increases residential sales

18 by 9.1 million therms over the next -- up to 2024 at a

19 base rate of 46.53 cents per therm, would you agree,

20 subject to check, that's about a $4.2 million annual

21 increase?

22 A. Yes, subject to check.

23 Q. And then in addition to this $4.2 million annual

24 revenue, the Company would receive the revenues from the

25 customer charge; is that correct, from each new

0048

 1 customer?

 2 A. Yes, that would be the -- the $8 per month.

 3 Q. Okay. And at $8 per month, that would be $96

 4 per year for each residential customer; is that correct?

 5 A. That's correct.

 6 Q. According to your Exhibit 11, is it correct that

 7 you project about 18,000 customers between -- an

 8 additional 18,000 customers between 2019 and 2024?

 9 A. Yes, that's correct.

10 Q. And would you agree, subject to check, that the

11 additional 18,000 customers at a $96 per year revenue

12 from the customer charge is about $1.7 million annually

13 in 2024?

14 A. Yes, subject to check.

15 Q. Okay. So then if we add $4.2 million in

16 additional revenue from gas sales to the $1.7 million

17 revenue from the customer charge, would you agree that

18 would result in about $5.9 million more from residential

19 revenues in 2024 as compared to 2019?

20 A. Yes, but I also think it's important to look at

21 the cost side of adding new customers.

22 Q. We'll get there, hang on. Just stick to the

23 question, please. Thank you.

24 Before we go any further with this exhibit, I

25 want to make sure we understand some of these labels.

0049

 1 Towards the middle of the page, there's a line labeled

 2 total residential usage and therms that we were talking

 3 about. Does this -- do you see that?

 4 A. Yes.

 5 Q. Does this represent total residential customer

 6 consumption each year assuming that each existing

 7 customer as of 2018 uses an average of about 678 therms

 8 per year and then customers added after 2018 use an

 9 average of about, as you said, 522 therms per year?

10 A. Correct.

11 Q. Okay. So there is a difference between the 2018

12 and the 2019?

13 A. Yes, for every new forecasted addition, we

14 assume that they would use 522, which, again, was taken

15 from Mr. Rubin's testimony.

16 Q. Okay. Thank you.

17 And below this line, there is a heading that

18 says decoupled actual usage; do you see that?

19 A. Yes.

20 Q. Does that line and the figures below it

21 represent what usage would be if all residential

22 customers, both existing and new, used an average of 678

23 therms per year?

24 A. Yes, that's correct.

25 Q. Okay. Then a few lines below that, do you see

0050

 1 the line entitled total actual usage?

 2 A. Yes.

 3 Q. Is that total usage assuming all residential

 4 customers use 678 therms per year?

 5 A. Yes. I think it would have been better

 6 clarified if I would have titled it total decoupled

 7 actual usage. So, again, that would assume that every

 8 customer would use the UPT that was calculated in the

 9 rate case of 678.

10 Q. On this revised exhibit, is it correct that the

11 difference between total residential usage and total

12 actual usage is the number of therms by which the

13 Company's sales would fall short and be subject to the

14 reconciliation of the decoupling writer?

15 A. Yes, the difference between those two sections

16 would be subject to the decoupling mechanism.

17 Q. Okay. So if we looked at 2019 and compared

18 total actual usage to total residential usage, would you

19 agree, subject to check, that the difference is about

20 231,000 therms?

21 A. Yes.

22 JUDGE DOROSHKIN: Those using the conference

23 line, please mute your own individual lines.

24 Please continue.

25 MS. SUETAKE: Okay. Thank you.

0051

 1 BY MS. SUETAKE:

 2 Q. And just to continue with this table, so then is

 3 it correct that if we multiply -- if we multiply that

 4 approximately 231,000 therms by that base rate, then we

 5 get the $107,841, which is shown on the decoupling

 6 balance?

 7 A. That's correct.

 8 Q. Okay. And then finally, the total customer

 9 bill, the line that says total customer bill, does this

10 represent the average monthly bill including the cost of

11 gas?

12 A. Yes, it does.

13 Q. And for these calculations, did you use a cost

14 of gas of 32.092 cents per therm?

15 A. Perhaps. I used the cost of gas that is

16 currently on the -- the Company's tariff.

17 Q. Okay. Would you agree, subject to check, that

18 if we were to exclude the cost of gas, the average

19 monthly bill would be about $33.80 approximately in each

20 year?

21 A. Subject to check.

22 Q. Okay. If you can look, again, at the decoupling

23 balance line, is it correct that this shows that

24 adopting the decoupling mechanism contained in the -- in

25 the multiparty agreement would result in additional

0052

 1 revenues to the Company of 1.37 million in 2027 -- or

 2 2024? Sorry.

 3 A. Yes, assuming new customers use 522 therms per

 4 year, 2024 the decoupling balance would be 1.37 million.

 5 Q. And are those revenues -- and those revenues are

 6 in addition to the 5.9 million in additional revenues

 7 the Company would receive from just adding the new

 8 customers, right? From their annual revenue?

 9 A. That's correct.

10 Q. And just to be clear, all of these figures

11 assume normal weather conditions, correct? Or rather,

12 you didn't assume any warmer than average or colder than

13 average, correct?

14 A. That's correct. It also assumes that the 522

15 for new customers is weather normalized, which I don't

16 believe it is.

17 Q. Okay. If we can now turn to your -- back to

18 your rebuttal testimony, and if we can go to page 11;

19 are you there?

20 A. Yes.

21 Q. Okay. Thank you.

22 Now, on lines 12 and 13, you state that

23 there's -- there are incremental operations and

24 maintenance expenses associated with adding new

25 customers. One of the categories you list as one of

0053

 1 these cost components are meter reading; do you see

 2 that?

 3 A. Yes.

 4 Q. Now, if you add one residential customer, do you

 5 need to add any personnel vehicles or con -- or sorry,

 6 computer systems to read the meter for that one

 7 additional customer?

 8 A. I am unable to answer that because the Company

 9 doesn't look at individual add customer. The Company

10 generally takes on about a thousand customers a month,

11 and when we look at cost, we do this on a monthly basis

12 as we close the accounting books. So we tend to take a

13 methodology of looking at the total cost and dividing it

14 by the total number of customers outstanding. It is

15 very difficult for us to isolate one single customer

16 when you're adding so many to the system in any given

17 month.

18 Q. Okay. Then similarly, if you look at payment

19 processing, which is also one of the cost categories

20 that you list, if you add one residential customer, do

21 your payment processing costs change?

22 A. Yes, but I would say the same -- kind of echo

23 the same answer as before, is we add so many customers

24 every month, that we really look at the total cost and

25 divide it by the total number of customers to get a, you

0054

 1 know, O & M per customer amount.

 2 Q. Okay. And then if you look -- there's another

 3 one -- category that you list as billing. For billing

 4 costs, does incremental billing expense depend on

 5 whether the new customers receives their bill

 6 electronically or by mail?

 7 A. Yes, I think the cost would increase either way,

 8 and there are customers that use electronic or, you

 9 know, physical mail.

10 Q. You say that the cost would increase for both

11 electronic billing and mail billing, could you clarify?

12 A. Again, I -- I think it's very hard to isolate an

13 individual customer. I look at this now kind of in

14 theory. Theory, yes, cost would go up, but, again, we

15 look at it in total. We -- we use incremental O & M as

16 kind of the methodology I explained as looking at the

17 total cost over a given time period and dividing it by

18 the total customers. And what we've seen over the last

19 three to five years, is that O & M per customer is

20 actually very consistent between about $50 and $55 per

21 customer.

22 Q. Let me clarify. Is there a difference in the

23 cost incurred by the Company if you bill electronically

24 versus if you bill by mail?

25 A. Yes, I think that's reasonable.

0055

 1 Q. Do you know approximately what percentage of new

 2 customers sign up for electronic billing?

 3 A. No, I don't.

 4 Q. On page 12, lines -- on page 12, if you look at

 5 lines about 6 through 13, is it correct that you show --

 6 you state that incremental costs for meter reading, bill

 7 processing, et cetera is only 3 cents per customer?

 8 A. No. What I'm equating to here is the amount of

 9 administration and general expenses that fall into the

10 categories that we con- -- that we consider an

11 incremental category for O & M. If you -- if you

12 isolate how many costs kind of share both sides, both A

13 and G and the Company's incremental O & M accounts, then

14 only 3 cents per customer would be shared between those

15 two buckets, if you will.

16 Q. Okay. If we can -- sorry, if we can go back to

17 page 11. On line 10, you state that providing service

18 to new customers include the following cost components

19 of -- components apart from capital costs. On line 14

20 through 15, you list the category of costs as other

21 costs; do you see that?

22 A. Yes.

23 Q. And you include depreciation; is that correct?

24 A. Yes.

25 Q. Do you consider depreciation a capital cost?

0056

 1 A. No.

 2 Q. And then is it correct that as one of these

 3 other costs, you also include income tax?

 4 A. Yes, that's correct.

 5 Q. You go on to state that Public Counsel's

 6 analysis does not include incremental O & M expenses

 7 such as the ones we just mentioned above including

 8 income tax, correct?

 9 A. I do go on to explain that Public Counsel does

10 not include incremental O & M expense, property taxes,

11 and revenue-sensitive items, but I do not see income

12 taxes.

13 Q. Okay. Then would you agree with me that

14 Mr. Rubin's testimony included depreciation expense and

15 income taxes in the 15 percent factor to use to estimate

16 the revenue requirement effect of incremental capital

17 investment?

18 A. Do you have Mr. Rubin's --

19 Q. Sure, if you would like to turn to Mr. Rubin's

20 testimony.

21 A. I do not have Mr. Rubin's testimony in my

22 packet.

23 MS. SUETAKE: Counsel. This is my copy, so

24 I'll need it back.

25 MR. NELSEN: Your Honors and Commissioners,

0057

 1 may I approach?

 2 JUDGE DOROSHKIN: Yes.

 3 BY MS. SUETAKE:

 4 Q. If you could turn to page 23, lines 15 through

 5 17, do you now see that Mr. Rubin's testimony includes a

 6 15 percent factor which also includes depreciation

 7 expense and income tax?

 8 A. Yes, I believe it starts on line 15, page 23

 9 where it states, (as read) Without getting extremely

10 precise, we can estimate that a reasonable return on

11 that investment, including taxes and depreciation, would

12 be about 15 percent annually. Yes, I do see that.

13 Q. Thank you.

14 Now, if you could turn to the top of the

15 construction overheads, in your rebuttal on page -- if

16 we could turn to page 5, you discuss construction

17 overhead starting at the bottom of page 17 -- or line 17

18 and then through the next two lines; do you see that?

19 A. Yes.

20 Q. First, is the construction associated with

21 adding new customers being performed by company crews,

22 outside consultants, or a combination of those?

23 A. The overhead that's included in my analysis

24 would be overhead that's associated with

25 nondirectly-assigned cost to the project. So to the

0058

 1 extent that these crews were directly assigning their

 2 costs to the project, it would not be included in the 38

 3 percent allocation that I have in my analysis.

 4 Q. So do you know whether the construction

 5 associated with that adding new customers is being

 6 performed by Company crews, outside contractors, or

 7 combination?

 8 A. So it really depends on what types of activity

 9 the employees are doing. So for instance, if it's a

10 field employee that's physically putting, you know, pipe

11 in the ground, they would be directly assigning, you

12 know, their overhead amounts too, so essentially their

13 wages to the project. So those would not be included in

14 the 38 percent.

15 Now, the Company does studies every year on

16 what -- what's an appropriate level for construction

17 overhead, and they take into account what's been

18 directly assigned to projects and what is not directly

19 assigned to projects. So the 38 percent represents what

20 is not directly assigned to projects.

21 Q. And that 38 percent doesn't change over the next

22 six years?

23 A. The Company's construction overhead does change

24 year to year. I consulted with our plant accounting

25 team and they suggested that 38 percent is a pretty

0059

 1 consistent level that they've seen over the last several

 2 years to justify using that for this analysis.

 3 Q. So then are you projecting that the Company will

 4 add employees to perform construction work associated

 5 with the oncoming customer growth?

 6 A. You know, in my current position at Northwest

 7 Natural, I -- I'm not exposed to new hires, especially

 8 in the -- in the field area. So I -- I really don't

 9 know.

10 Q. All right. So and then you don't know if the 38

11 percent accounts for any new employees to perform

12 customer growth or construction work for customer

13 growth?

14 A. I do know that the Company performs studies

15 about construction overhead that our outside auditors,

16 PricewaterhouseCoopers, audits every year on the correct

17 allocation of that study and the -- the construction

18 overhead that's then used as the capital gross-up for

19 our balance sheets.

20 Q. Okay. Then for work performed by Company crews

21 or other in-house personnel such as engineers, what are

22 the construction-related overheads?

23 A. Yeah, I actually think engineers is a good

24 example of, the engineering team gets heavily involved

25 whenever there's new customer additions when it comes to

0060

 1 design work or permitting work, and that's an area that

 2 would be included in our construction allocation of the

 3 38 percent.

 4 Q. So the construction-related overheads for the

 5 engineers and in-house Company crews is that 38 percent?

 6 A. No, I wouldn't go as far as saying the in-house

 7 Company crews. Again, it really depends on what

 8 activity they're doing. If they're out on the field

 9 directly putting pipe into the ground, they generally

10 would charge their wages directly to the project. And

11 in that case, it would not be included in the 38

12 percent.

13 Q. Okay. Then for -- similarly for work -- work

14 performed by outside contractors, do you know what the

15 Company's associated overheads are for those -- or do

16 you know if the Company's associated overheads are being

17 capitalized?

18 A. Generally speaking, when we hire an outside

19 company to perform work for us out in the field, they

20 would directly charge to the project. So it would not

21 be included in the 38 percent.

22 Q. Let's see if I can walk you through an example

23 here of an example of a construction overhead. In --

24 let's talk about employee benefits for employees

25 involved in a construction project.

0061

 1 For an existing employee, the Company is

 2 currently providing benefits to that employee, correct?

 3 A. Correct.

 4 Q. And the actual dollars spent by the Company,

 5 those total benefits received by the employee, those

 6 costs will not change if the employee is involved in

 7 construction operations or some combination of those,

 8 correct? They are an employee of the Company?

 9 Let me rephrase -- is that -- did that confuse

10 you?

11 A. Yeah, if you could please rephrase, that would

12 help.

13 Q. Sure.

14 The benefits provided to the Company -- the cost

15 of the benefits provided to an employee by the Company

16 are not dependent on the type of work that that employee

17 performs, correct?

18 A. It actually may depend whether they're in the

19 union or in the nonunion portion of the Company.

20 Q. Okay. But for all -- take one of those. Let's

21 say union employee -- or nonunion employee, are their

22 benefits dependent on the projects they work on?

23 A. Not to my knowledge. Then again, you know, I

24 don't work in the human resources department, but not to

25 my knowledge.

0062

 1 Q. Okay. Then are you familiar, then, with the

 2 accounting treatment of those benefit cost -- costs of

 3 benefits?

 4 A. Yes.

 5 Q. If the bene- -- if the employee changes the type

 6 of work they're involved in, construction or operations,

 7 is it correct that the benefits they receive do not

 8 change, but the accounting treatment of those benefits

 9 could change?

10 A. So yes, I think it would be really rare to see

11 an employee move from, say, a nonunion position to a

12 union position. It very well could happen. In that

13 case, maybe the benefits would change slightly. I'm not

14 as familiar with our -- our union agreements. However,

15 the accounting, depending again on what activity is

16 being done by the employee, if they're doing an activity

17 that would be, again, directly charged to a project,

18 then the accounting would change if their previous

19 position was not doing that activity.

20 Q. And that's true whether or not they are in union

21 or -- I'm not trying to compare union against nonunion,

22 but for any given employee, like you said, it could --

23 the accounting treatment could change?

24 A. Yes, I think that's reasonable.

25 Q. Okay. Is it correct that in this rate case you

0063

 1 have projected total costs for benefits for the Company

 2 and that those have been allocated between capital and

 3 expenses?

 4 A. Yes.

 5 Q. Okay. So I'm going to walk you through a short

 6 hypothetical.

 7 Assume a Company employee whose benefits cost --

 8 whose benefits cost $10,000 per year. If you -- if the

 9 employee currently spends 50 percent of their time in

10 operations and 50 percent of the time on capital work,

11 do you have that in your head?

12 A. (Witness nodding head.)

13 Q. Okay. So is it correct that $5,000 of the

14 employee's benefits costs would be expensed and the

15 other 5,000 would be capitalized?

16 A. No, it's not. Again, the Company performs

17 studies on construction overhead to determine what the

18 allocation would be. So I don't know exactly what it

19 would be. Again, I'm not in that area of the business,

20 but it is something that our plant accountants do a deep

21 dive-in every year as well as our external auditors, you

22 know, audit their work to ensure that financial

23 statements are fair and accurate.

24 Q. So earlier -- if I recall correctly, earlier you

25 said that it depends -- sometimes those costs are booked

0064

 1 to specific projects; is that correct?

 2 A. Correct.

 3 Q. Okay. So if 50 percent of this -- of this

 4 hypothetical's employee's project were capital-related

 5 work, would their benefits also be accounted as -- for

 6 as capital?

 7 A. So what we're talking about is an individual

 8 employee. When we perform these studies, we're looking

 9 at all employees and all activity. So it's very hard to

10 isolate one individual and say that, you know, their

11 benefits or wages are split in a certain way. We're

12 going to be looking at the entire Company, in the

13 activity that the entire Company does over a given year.

14 Q. So when you say you look at it over the entire

15 year, employees' costs that are booked to specific

16 projects are still accounted for; is that correct?

17 A. Yes, that's correct.

18 Q. Okay. We're going to try this again.

19 Using that same employee, that $10,000 in

20 benefits costs, if you assume that because of customer

21 growth work that employee's work changes to 75 percent

22 work on capital projects and 25 percent is on operations

23 and expense, do you follow?

24 A. Mm-hmm.

25 Q. So with 75 percent capitalized and 25 percent

0065

 1 expensed -- easy math, that's why I picked 10,000 --

 2 7500 is capitalized and 2500 is expensed under this

 3 hypo. Compared to the first example where the employee

 4 split their time equally of 50 percent, 50/50, there's

 5 an incremental capitalized cost of $2500 under this

 6 hypo, correct?

 7 A. In your hypothetical, yes.

 8 Q. And then incremental reduction of 25 percent in

 9 the amount of operation expense associated with its

10 employee, correct?

11 A. Correct.

12 Q. Okay. So you've mentioned the 38 percent

13 construction overheads, does this calculation of 38

14 percent -- 38 percent -- sorry, your calculations of the

15 incremental cost of construction overheads as 38 percent

16 to capital costs, correct?

17 A. 38 percent was the suggested amount that I used

18 from our plant accounting team.

19 Q. Okay. Did you also include an offset --

20 offsetting negative adjustment to operations expenses to

21 reflect the fact that overheads that have expensed may

22 now be being capitalized? Like in the future or any

23 kind of projections of changes?

24 A. Just to clarify the question, are you asking

25 could that happen or did it happen?

0066

 1 Q. First, did it happen?

 2 A. Not that I'm aware of, but, again, I'm not in

 3 that area of the business.

 4 Q. Okay. Could it happen? Would an offsetting

 5 negative adjustment be made?

 6 A. From my 15 years of work experience in various

 7 capacities, sometimes the accountants put entries in

 8 incorrectly and they have to reverse those entries.

 9 That can happen anywhere in the accounting records.

10 Q. But it's not a thing that is a normal practice?

11 A. You wouldn't expect it to be normal, but I mean,

12 things happen and it gets caught in review and in audits

13 and they get corrected.

14 MS. SUETAKE: Okay. Thank you. Those are

15 all my questions.

16 JUDGE DOROSHKIN: Does the Company have any

17 redirect?

18 MR. NELSEN: One moment, Your Honor. No

19 redirect, Your Honor.

20 JUDGE DOROSHKIN: Okay. Mr. Walker, then,

21 you are excused, and we will call Jing Liu. Ms. Liu, if

22 you could please stand.

23

24 JING LIU, witness herein, having been

25 first duly sworn on oath,

0067

 1 was examined and testified

 2 as follows:

 3

 4 JUDGE DOROSHKIN: Please sit.

 5

 6 E X A M I N A T I O N

 7 BY MS. CAMERON-RULKOWSKI:

 8 Q. Good morning, Ms. Liu. Please state your name

 9 and spell your last name.

10 A. My name is Jing Liu. First name is J-i-n-g,

11 last name is L-i-u.

12 Q. Where are you employed?

13 A. I am a regulatory analyst in energy regulation

14 of the UTC regulatory affairs.

15 Q. Are you the same Jing Liu who filed joint

16 testimony on behalf of Commission Staff on June 6th in

17 support of the multiparty settlement on decoupling in

18 this proceeding?

19 A. Yes.

20 Q. And now I'm going to ask you to direct your

21 attention to Exhibit JT-4T. Is this the testimony that

22 you are sponsoring on behalf of Staff with the other

23 settling parties in support of a multiparty settlement

24 on decoupling?

25 A. Yes.

0068

 1 Q. And now please direct your attention to Exhibits

 2 JL-1T through JL-4 and Exhibits JL-5T through JL-10R.

 3 Are these the testimonies and the exhibits supporting

 4 the multiparty settlement on decoupling that you

 5 prepared on behalf of Commission Staff?

 6 A. Yes.

 7 MS. CAMERON-RULKOWSKI: Thank you. Ms. Liu

 8 is available for cross-examination and questions from

 9 the bench.

10 JUDGE DOROSHKIN: Okay. Ms. Suetake, please

11 proceed.

12 MS. SUETAKE: Thank you.

13

14 E X A M I N A T I O N

15 BY MS. SUETAKE:

16 Q. Good morning, Ms. Liu.

17 A. Morning.

18 Q. I'm Nina Suetake of Public Counsel.

19 Before we get into too much detail about the

20 testimony, could you please tell us what in your opinion

21 is the purpose of revenue decoupling?

22 A. Well, revenue decoupling is a regulatory tool

23 that the Commission used to remove the Company's

24 throughput incentive. By "throughput incentive," I mean

25 the incentive the Company to -- to try to sell more

0069

 1 energy to gain more revenue. And also, it help the

 2 utilities to have a better opportunity to earn their

 3 authorized rate of return to better recover the fixed

 4 cost.

 5 Q. Thank you.

 6 If we could please turn to your rebuttal

 7 testimony starting on page 3. Are you there?

 8 A. Yes.

 9 Q. On lines 10 through 12, you state that rate

10 class decoupling as proposed by Public Counsel, quote,

11 is likely to provide the -- is likely to provide the

12 Company with revenues insufficient to cover the

13 incremental costs of serving new customers.

14 Did I read that correctly?

15 A. Yes, that's correct.

16 Q. Okay. In your opinion, is it one of the policy

17 reasons supporting revenue decoupling that existing

18 customers should fully compensate the utility for the

19 incremental cost of serving new customers?

20 A. Could you rephrase that?

21 Q. Sure, no problem.

22 In your opinion, is one of the policy reasons

23 supporting decoupling the idea that existing customers

24 should fully compensate the utility for the incremental

25 cost of serving new customers?

0070

 1 A. I would say yes because the -- the rates we

 2 authorized that have to be sufficient, so that include

 3 the current rate year, you know, the immediate rate year

 4 and the future rate years.

 5 Q. In your preparation for this case, did you come

 6 across any Commission orders that indicate that this is

 7 one of the express purposes of decoupling?

 8 A. Not verbatim, but I -- I read the -- the

 9 Commission's policy statement on decoupling. To me,

10 it's pretty clear.

11 Q. If we can turn to page 4 of your rebuttal

12 testimony. On lines 5 through 7 -- I'm sorry, I have

13 the wrong citation. If you would give me a quick

14 moment. We'll try this without an actual citation.

15 First, is it correct that you state that you

16 feel that Public Counsel's proposal for decoupling would

17 leave the Company worse off than it is if it had no

18 decoupling mechanism at all?

19 A. Yes, that's my statement in the testimony.

20 Q. Thank you.

21 When you wrote that statement, was it based on

22 the assumption of normal weather conditions?

23 A. Yes.

24 Q. Did you evaluate the effect --

25 A. Oh, I would like to make a correction. So I --

0071

 1 so the analysis that I used in my rebuttal used the 522

 2 therms from Mr. Rubin's response testimony. And I

 3 believe that -- that therms is not weather normalized.

 4 So I just adopted his number for argument purposes. I

 5 do not, you know, necessarily agree that is the

 6 normalized usage for new customers. So there's a little

 7 bit correction there. But for existing customers'

 8 usage, yes, that's weather normalized.

 9 Q. Okay. Did you evaluate the effect of Public

10 Counsel's decoupling proposal under warmer than normal

11 weather conditions; that is, lower gas consumption than

12 projected by the Company?

13 A. Could you repeat the question?

14 Q. Sure.

15 Did you happen to evaluate the effect of Public

16 Counsel's decoupling proposal under a warmer than normal

17 weather condition?

18 A. Yes, I looked at it, yes.

19 Q. Okay. And under a normal than -- warmer than

20 normal condition, is it correct that it would result in

21 lower gas consumption than otherwise projected?

22 A. Yeah.

23 Q. Would you agree with me that a no decoupling

24 scenario would not offer any protection to the Company

25 if gas consumption is less than projected?

0072

 1 A. If without the decoupling, yes, you know, the

 2 Company is not protected. Their revenue could vary

 3 based on sales.

 4 Q. Okay. When you say that Public Counsel's

 5 proposal would leave the Company worse off than if there

 6 were no decoupling, is that because of the amount of

 7 customer growth the Company is projecting?

 8 A. Could you repeat the question, again? I'm --

 9 there are two parts. I'm trying to understand which

10 part you are --

11 Q. No problem, sure.

12 So do you recall saying that the Public

13 Counsel's proposal would leave the Company worse off

14 than if there were no decoupling?

15 A. Mm-hmm, yeah.

16 Q. Okay. Now, that worse off condition, is that

17 because of the amount of customer growth that the

18 Company is projecting?

19 A. The customer growth is part of the calculation,

20 but my statement is primarily based on the comparison of

21 the incremental revenue versus the incremental cost of

22 serving those customers.

23 Q. Would you agree that the Company is projecting

24 significant customer growth over the next five years?

25 A. Yes.

0073

 1 Q. And do you expect customer growth to generate

 2 additional revenues for the Company?

 3 A. Yes.

 4 Q. Could we turn to your rebuttal exhibit, No. 10,

 5 JL-10.

 6 A. I'm here.

 7 Q. Okay. In this exhibit, is it correct that you

 8 have estimated the additional revenues the Company would

 9 receive from the growth that we just talked about?

10 A. Yes.

11 Q. Were these estimates prepared using revenues of

12 $4 -- sorry, $411.55 per residential customer per year?

13 A. The revenue per customer is $410.

14 Q. Right, with your revised version, correct?

15 A. I think I did not change that number in my

16 revised version.

17 Q. Is this the same number that was in the answer

18 to your Exhibit JL-6?

19 A. JL-6, just give me a moment.

20 Q. No problem. It's at the very end of that

21 answer.

22 A. Could you give me the specific location of that

23 number?

24 Q. Do you see at the end of the answer to -- that's

25 given in JL-6, it says the revenue per year amounts do

0074

 1 225 and 411 for rate schedule one and two respectively?

 2 A. My JL-6 has some multiple --

 3 JUDGE DOROSHKIN: Page 205.

 4 A. -- data responses.

 5 BY MS. SUETAKE:

 6 Q. Sorry, it's in the narrative response.

 7 A. Narrative.

 8 Q. Sorry.

 9 A. So this narrative is -- is Mr. Walker's response

10 to Public Counsel's data request. I believe there's

11 some revisions after that.

12 Q. Okay. But you -- we'll say approximately

13 $410 --

14 A. Yeah.

15 Q. -- for the purposes of this question, then.

16 This approximately $410 per residential customer

17 per year in additional revenues, that estimate -- is it

18 correct that that estimate includes the customer charge

19 revenues of $96 per customer per year?

20 A. Yeah, I included that.

21 Q. Okay. And then the consumption revenues

22 excluding the cost of gas would be about $315 per year;

23 is that correct, per customer?

24 A. Could you point me to the numbers, please?

25 Q. We can move on if -- if you don't have that at

0075

 1 the top of your head. That's fine.

 2 Is it correct that in your proposed -- in the

 3 settlement proposed decoupling mechanism, it allows the

 4 Company to retain the $96 per customer per year in

 5 customer charge revenues?

 6 A. Yeah, that's correct.

 7 Q. Okay. And would you agree that Public Counsel's

 8 proposed mechanism also allows the Company to retain

 9 that $96 per customer per year?

10 A. Yes, I believe that under Mr. Rubin's proposal,

11 that's the only revenue that Public Counsel would like

12 the Company to retain.

13 Q. Is it correct that the revenue from that

14 customer charge, as it's retained by the Company, it is

15 not included in the decoupling reconciliations under

16 either of revenue customer approach or Public Counsel's

17 approach?

18 A. No, it's excluded.

19 Q. Okay. Could you show me -- and this is, sorry,

20 shifting gears -- that 522 therms that you said that you

21 took from Mr. Rubin's testimony, could you show me where

22 in your exhibits you assumed that new customers would

23 use 522 therms per year?

24 A. Which exhibit?

25 Q. That's -- I'm asking -- you've said you --

0076

 1 that's -- you've taken it from Mr. Rubin's testimony,

 2 I'm trying to understand where in your exhibits that

 3 you've provided that calculation is shown. It's a

 4 little hard -- let me expound.

 5 We get PDFs and those are the exhibits that

 6 we're going to be having in the record, so I just want

 7 to make sure it's clear that we can point to it

 8 somewhere in your exhibits. If it's not explicit, could

 9 you just show me what line it would be implicitly --

10 A. Yeah.

11 Q. -- included?

12 A. Just give me a minute --

13 Q. No problem.

14 A. -- to point to the table, because I took

15 Mr. Rubin's assumption of the lower usage per customer

16 for new customers, and then I also followed his

17 calculation of the revenue for those new customers, and

18 then I summarized the three scenarios. I presented a

19 table to compare the three scenarios with no decoupling,

20 revenue per customer decoupling, and fixed revenue

21 decoupling. And that table is in page -- on page 20 of

22 JL-5T, and so those numbers have the assumption of the

23 522 therms per customer for new customers.

24 Q. Okay. Hang on. Let me get there.

25 A. And I provided work paper to show the

0077

 1 calculation of those numbers.

 2 Q. Did you assume 522 therms for all new customers

 3 from 2019 through 2024?

 4 A. Yes.

 5 Q. And is that the same thing that you did for

 6 JL-10, because it just says year one, two, three, four,

 7 five?

 8 A. For JL-10, I -- I don't believe I need that

 9 usage per customer, because the cost per customer is

10 provided by Northwest Natural. The incremental revenue

11 is the revenue that we have from this settlement, so I

12 don't believe I need the usage --

13 Q. The --

14 A. -- information.

15 Q. So if you look at JL-10, incremental revenue

16 from new customers, you have a number of customers and

17 you just multiplied it by 410?

18 A. Yes. Yeah, that's the -- the decoupling

19 baseline, the authorized revenue per customer for

20 schedule two gas customers.

21 Q. Okay. If we could turn to actually page 20,

22 that table that we were just talking about of your

23 rebuttal testimony, table one. Are you there?

24 A. Yes, I'm here.

25 Q. Okay. In the year 2024, when all of those

0078

 1 18,000 customers, approximately 18,000 new customers,

 2 are on the system, you show the difference between no

 3 decoupling and revenue per customer proposal to be on

 4 this table; is that correct?

 5 A. Yes.

 6 Q. And that's a difference in 2024 of about 36.86

 7 million compared to 38.24 million?

 8 A. Correct.

 9 Q. And that would be approximately, subject to

10 check, 1.4 million in revenues, correct?

11 A. That's about right, yes.

12 Q. Okay. Are the figures in this table based on

13 normal weather conditions?

14 A. Again, that has two components. For the

15 existing customers, that's weather normalized usage of

16 678 therms. That's from the settlement agreement. Then

17 I adopted Mr. Rubin's assumption of 522 therms for each

18 new customer. Again, this is just for argument

19 purposes. I'm adopting his assumption and present the

20 revenue -- differences in revenue in the three

21 scenarios.

22 Q. Comparing, again, no decoupling to revenue per

23 customer decoupling, would you agree that under no

24 decoupling from -- compared to the base year to the 2024

25 year, the Company -- Company's revenues would increase

0079

 1 by about 6.3 million annually by 2024?

 2 A. That's correct.

 3 Q. Okay. As a proponent of the revenue per

 4 customer decoupling, are you saying that the Company

 5 requires an additional increase of almost $1.4 million

 6 in 2024 as compared to a no decoupling scenario?

 7 A. Yes, the total revenue would be, in this case,

 8 with -- under the revenue per customer decoupling, it

 9 would be 38 million.

10 MS. SUETAKE: Thank you. Those are all my

11 questions.

12 JUDGE DOROSHKIN: Ms. Cameron-Rulkowski, do

13 you have any redirect?

14 MS. CAMERON-RULKOWSKI: No, I do not. Thank

15 you.

16 JUDGE DOROSHKIN: Then, Ms. Liu, you are

17 excused.

18 MS. LIU: Thank you.

19 JUDGE DOROSHKIN: And we call Scott Rubin.

20

21 SCOTT RUBIN, witness herein, having been

22 first duly sworn on oath,

23 was examined and testified

24 as follows:

25 JUDGE DOROSHKIN: Please sit.

0080

 1 Ms. Suetake?

 2

 3 E X A M I N A T I O N

 4 BY MS. SUETAKE:

 5 Q. Good morning. Could you state your name and

 6 your place of employment, please?

 7 A. Scott Rubin, R-u-b-i-n. I am self-employed as

 8 an attorney and consultant.

 9 Q. And whose behalf are you appearing today?

10 A. Of Public Counsel unit of the Office of Attorney

11 General.

12 Q. And what is your occupation?

13 A. I'm an attorney and a consultant working

14 exclusively on issues involving the public utility

15 industry.

16 Q. And did you file testimony exhibits in this

17 docket on behalf of Public Counsel?

18 A. Yes, I did.

19 Q. Are they found in Exhibits SJR-1 through SJR-13?

20 A. Yes.

21 Q. Were -- was your testimony in exhibits prepared

22 by you or under your instruction and supervision?

23 A. Yes.

24 Q. Do you have any changes to your testimony or

25 exhibits?

0081

 1 A. No, I do not.

 2 MS. SUETAKE: Mr. Rubin is available for

 3 cross-examination.

 4 JUDGE DOROSHKIN: Ms. Pease, I believe it

 5 is, please proceed.

 6 MS. PEASE: Thank you.

 7

 8 E X A M I N A T I O N

 9 BY MS. PEASE:

10 Q. Good morning, Mr. Rubin.

11 A. Good morning.

12 Q. My name is Jocelyn Pease, and I'm here on behalf

13 of Northwest Natural.

14 I would like for you to turn to your testimony

15 at page 24, lines 1 through 4.

16 A. Yes, I have it.

17 Q. And it says here that per customer decoupling

18 would result in the Company receiving a windfall of

19 nearly $12 million; is that your statement?

20 A. Yes.

21 Q. And isn't it true that your calculation of the,

22 quote, windfall includes an estimated amount for the

23 required capital investment for the Company to add new

24 customers?

25 A. Yes.

0082

 1 Q. And isn't it true that you have calculated that

 2 amount to be $1,300?

 3 A. Approximately, yes.

 4 Q. Now I would like you to refer to Northwest

 5 Natural's response the Staff's data request No. 202,

 6 which is attached to your testimony as Exhibit SJR-10,

 7 and specifically to page 2 of that exhibit.

 8 A. Yes, I have that.

 9 Q. Could you please confirm that this page is

10 Northwest Natural's internal cost estimates of the

11 Company's capital costs to connect new customers?

12 A. This was an estimate that was provided. I

13 believe a revision -- excuse me, I believe the Company

14 provided a revision to this after my testimony was

15 filed.

16 Q. Thank you.

17 And isn't it true that you relied on at least

18 some of this information to derive your own estimate of

19 the capital investment to add new customers?

20 A. Yes.

21 Q. Now please turn to page 22 of your testimony.

22 A. Yes, I'm there.

23 Q. At lines 2 to 6, it says that in calculating the

24 likely cost to add a customer, you removed the costs

25 associated with significant extension projects; is that

0083

 1 your statement?

 2 A. Yes.

 3 Q. And is it accurate to say that those significant

 4 extension projects for which you removed costs are main

 5 extension projects?

 6 A. Yes.

 7 Q. And to be clear, you removed all costs

 8 associated with main extension projects; is that

 9 correct?

10 A. Yes, based on the information I had at the time,

11 which did not separate residential and nonresidential

12 projects.

13 Q. And so is it accurate to say, then, that your

14 estimate that the capital investment to add a new

15 customer contains no costs associated with main

16 extensions?

17 A. Yes.

18 Q. And still on page 22 of your testimony, at lines

19 2 to 6, you state that you removed costs associated with

20 main extensions that had a combination of residential

21 and nonresidential customers; is that correct?

22 A. Yes.

23 Q. And you recently referenced a corrected response

24 to a data request. Are you familiar with that corrected

25 response?

0084

 1 A. Yes.

 2 Q. And are you familiar with the Company's

 3 representation that the corrected response now

 4 appropriately excludes non -- cost for nonresidential

 5 customers?

 6 A. I'm familiar with that representation, yes.

 7 Q. So, Mr. Rubin, assuming that the adjustment was

 8 performed correctly, wouldn't you agree that this data

 9 no longer is -- no longer contains costs associated with

10 nonresidential customers?

11 A. That's the Company's representation, yes.

12 Q. And do you have Mr. Walker's rebuttal testimony

13 with you?

14 A. Yes, I do.

15 Q. Could you please turn to page 10 of Mr. Walker's

16 rebuttal testimony, lines 1 through 9.

17 A. Yes, I have that.

18 Q. And are you familiar with this testimony in

19 which Mr. Walker provided a revised calculation of the

20 capital cost to add new customers based on their revised

21 data provided in response to the data request No. 202?

22 A. That's what we were just discussing, yes.

23 Q. And assuming that the adjustment was performed

24 correctly, wouldn't you agree that Northwest Natural's

25 revised calculation no longer includes any costs

0085

 1 associated with nonresidential customers?

 2 A. As I said, that's the Company's representation.

 3 I agree -- I agree that that's what Mr. Walker says.

 4 Q. Okay. Now, let's refer back to your testimony

 5 at page 22, still lines 2 to 6. Are you there?

 6 A. Yes.

 7 Q. And you had also stated that you removed main

 8 extension costs that appeared to be backbone projects

 9 where just a few customers connected in the year of

10 completion; is that your statement?

11 A. Yes.

12 Q. And therefore, you believed that these main

13 extension projects resulted in extremely high cost per

14 customer; is that correct?

15 A. That was my understanding at the time, yes.

16 Q. Could you please turn to page 8 of Mr. Walker's

17 rebuttal testimony?

18 COMMISSIONER RENDAHL: I'm sorry, could you

19 repeat that page number?

20 MS. PEASE: Certainly. Page 8 of

21 Mr. Walker's rebuttal testimony.

22 A. Yes, I have that.

23 BY MS. PEASE:

24 Q. And referring to lines 13 to 14, are you

25 familiar with Mr. Walker's statement that it appears you

0086

 1 misapplied the Company's data in calculating the cost

 2 per customer for main extension?

 3 A. That's what he says, yes.

 4 Q. And specifically, that in calculating the cost

 5 per customer, that you would use a value for the number

 6 of orders to represent the number of customers for each

 7 project; is that correct?

 8 A. Well, again, that -- that's what he says, yes.

 9 Q. And, Mr. Rubin, is that what you did to derive

10 the estimate of the cost per customer?

11 A. I'm sorry, I -- we just mentioned I did not

12 include those projects in calculating the cost per

13 customer, so I'm -- I'm not sure what you're asking me,

14 I guess.

15 Q. Sure. Let's -- let's back up. Just one moment.

16 And so in Mr. Walker's rebuttal testimony, page

17 8, starting at line 13, Mr. Walker explains that it

18 appears that you had misapplied the data that was

19 provided in the data request 202; are you familiar with

20 that statement?

21 A. Yes.

22 Q. And Mr. Walker explains that it appears that in

23 calculating your estimate of the cost per customer, you

24 had used the data that Northwest Natural had provided in

25 a column called the number of orders. Is that -- are

0087

 1 you familiar with that part of Mr. Walker's testimony?

 2 A. Yes.

 3 Q. And so my question to you is, that when you were

 4 determining the number of customers to use as the

 5 denominator for your equation for the cost per customer,

 6 were you using the value of the number of orders?

 7 A. Yes.

 8 Q. Thank you.

 9 And so continuing -- continuing here in

10 Mr. Walker's rebuttal testimony, are you familiar with

11 Mr. Walker's statement that the number of orders for

12 main extension projects shown on the response to the

13 data request No. 202 represents the number of projects

14 completed and not the number of customers?

15 A. Yes.

16 Q. And are you familiar with Mr. Walker's statement

17 that if we look at just 2018, there were on average 16

18 customers per main extension project?

19 A. I see that in his testimony, yes.

20 Q. Thank you.

21 Now let's turn to your Exhibit SJR-11. And here

22 I'd like you to refer to the column for main line

23 expansion. Could you please confirm that this exhibit

24 shows, among other things, your calculations of the cost

25 per customer for the capital cost to add new residential

0088

 1 customers?

 2 A. I'm sorry, could you state that again?

 3 Q. Certainly.

 4 Could you please confirm that this exhibit

 5 shows, among other things, your calculation of the cost

 6 per customer for the capital cost to add new residential

 7 customers?

 8 A. Yes, based on the information I had when I

 9 prepared this testimony, that's correct.

10 Q. And assuming that Mr. Walker's representation is

11 correct and the value that you would use, the number of

12 orders is the number of projects and not the number of

13 customers, would you agree that the cost per customer

14 for main extensions would be less than what you had

15 calculated in this exhibit?

16 A. It would be less, but if his 16 customers per

17 project is accurate, the numbers would still be quite

18 high, but it would be less than what I showed here.

19 Q. And circling back to your estimate of $1,300 for

20 the cost to connect a new customer, Mr. Rubin, your

21 calculation does not include any O & M expense, does it?

22 A. Does not include any incremental O & M, that's

23 correct.

24 Q. And your calculation does not include any

25 amounts for construction overhead, does it?

0089

 1 A. It does not include the 38 percent matter that

 2 Mr. Walker included for construction overheads. As he

 3 stated just a few minutes ago, it does include

 4 construction overheads that are directly assigned to the

 5 project.

 6 Q. Now, Mr. Rubin, please turn to your testimony at

 7 page 31.

 8 A. Yes, I have that.

 9 Q. At lines 15 to 17, it says that if the

10 Commission decides to allow the Company to implement a

11 decoupling mechanism for residential customers, the

12 decoupling should occur on a total sales basis for the

13 residential class; is that your statement?

14 A. Yes.

15 Q. And your proposal is also termed "rate class

16 decoupling." Is that correct?

17 A. Yes.

18 Q. Now please turn to page 23 of your testimony at

19 lines 15 to 19.

20 A. I have that.

21 Q. And I would -- I want to refer back to your

22 estimated capital investment to add a new customer,

23 which is $1,300; is that correct?

24 A. Yes.

25 Q. You used that amount to derive an estimate for

0090

 1 what you believe would be a reasonable return on the

 2 Company's investment; is that correct?

 3 A. Reasonable return in the context of a general

 4 rate case like this one, yes.

 5 Q. And your estimate is that over a period of six

 6 years, a reasonable return would be $12.6 million; is

 7 that correct?

 8 A. Yes.

 9 Q. On the next page, page 24, lines 10 to 12, you

10 estimate that over the same six-year period, rate class

11 decoupling would provide the Company with a return of

12 approximately $6 million; is that correct?

13 A. I think to be more accurate, it would provide

14 the Company with additional revenues of $6 million.

15 Q. Okay. At -- at lines 13 to 14, your testimony

16 is that a return of almost $6 million over six years

17 would not provide the Company with a full return on its

18 investment; is that correct?

19 A. Yes.

20 Q. Now, Mr. Rubin, do you have a copy of what's

21 been marked as cross-Exhibit SJR-17X?

22 A. Yes, I do.

23 Q. And have you turned to that exhibit?

24 A. Yes.

25 Q. This exhibit is Public Counsel's response to

0091

 1 Staff's data request No. 1; is that correct?

 2 A. Yes.

 3 Q. And this response indicates that it was prepared

 4 by you, Mr. Rubin; is that correct?

 5 A. Yes, it is correct.

 6 Q. And if we look at the question posed here, it

 7 states that you were asked to list the states and

 8 utilities that have implemented rate class decoupling as

 9 you had proposed in this proceeding; is that correct?

10 A. Yes.

11 Q. So based on the response here, it appears that

12 you only know for certain that two Illinois gas

13 utilities have implemented rate class decoupling as you

14 have proposed in this case; is that correct?

15 A. I also discuss California, which -- and to my

16 understanding uses rate class decoupling, but there are

17 other rate adjustment mechanisms in California that

18 might compensate the utility to some extent for customer

19 growth and other things that occur between cases. But

20 in terms of the decoupling mechanism used in California,

21 my understanding is that's a rate class decoupling

22 mechanism.

23 Q. But would it be fair to say that you're not

24 certain whether it's -- for California -- those

25 California Utilities, it's the same as what you have

0092

 1 proposed in this case, which does not reflect customer

 2 growth between cases?

 3 A. California has different public policies than

 4 I'd say most states have, and they use many rate

 5 adjustment mechanisms between cases. If we're looking

 6 solely at decoupling, my understanding is the decoupling

 7 mechanisms in California are done on a rate class basis.

 8 Q. Okay.

 9 A. And the gas utilities I mentioned in Illinois,

10 are cases I was involved in -- or I had been involved in

11 for many years, and those are also rate class

12 decoupling.

13 MS. PEASE: Thank you. No further

14 questions.

15 JUDGE DOROSHKIN: And is there any redirect?

16 MS. SUETAKE: Yes, Your Honor.

17 JUDGE DOROSHKIN: Please proceed.

18

19 E X A M I N A T I O N

20 BY MS. SUETAKE:

21 Q. Mr. Rubin, do you recall the discussion about

22 page 22 of your testimony regarding items that you did

23 not include in your calculation?

24 A. Yes.

25 Q. Could you explain why you excluded those items

0093

 1 from your calculation?

 2 A. Sure. I'll -- I'll take three categories of

 3 items that appear to be in dispute. One is operating

 4 and maintenance costs, and I -- well, there are a couple

 5 of reasons. First, I have not seen evidence that there

 6 is an incremental operating and maintenance cost

 7 associated with adding new customers. You know, simply

 8 comparing average costs over a period of time doesn't

 9 really tell us whether there is some incremental

10 expenditure the Company has to make between rate cases

11 in order to serve a new customer.

12 The second category is construction overheads.

13 At this point, having reviewed the documents, having

14 listened to Mr. Walker's testimony today, I honestly

15 cannot say what those represent, and more importantly,

16 whether they are an incremental cost the Company incurs.

17 If the Company is not hiring new employees or purchasing

18 new trucks and so on in order to serve a new customer,

19 any calculation of overhead is simply reallocating a

20 cost the Company already incurs and presumably is

21 already included in rates.

22 So, again, I -- I have not seen anything to show

23 that there is an incremental overhead cost the Company

24 would incur between cases that it would need to be

25 compensated for.

0094

 1 And the third piece is obviously a little more

 2 complicated, the whole question of how we deal with main

 3 line extensions. The information I had when my

 4 testimony was prepared was -- was -- sorry, showed the

 5 mainline extensions as combined residential and

 6 nonresidential projects. So there was no way to

 7 separate those costs to try to determine the portion

 8 associated with residential customers.

 9 Second, there was a mistake that I made

10 obviously in assuming that the number of projects was

11 equal to the number of customers being served. So the

12 numbers appeared to be extremely high.

13 But even if we take the -- the correction that

14 Mr. Walker provided, to say no, that's not -- sorry, I

15 shouldn't call it a correction, a clarification that he

16 provided to show the number of customers being served.

17 For example, in 2018, I showed a residential cost of

18 $60,000. I now understand that's per project, and

19 Mr. Walker said, well, each project really serves 16

20 customers. So that means we're down to -- if I can do

21 the math in my head, probably around $4,000 per customer

22 to extend a main to serve the customer, which seems to

23 me to be an extremely high number.

24 The Company's imbedded investment for all

25 distribution costs, not just the main line, is about

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 1 $1800 per customer of rate base. So that would say the

 2 Company's -- just to extend the main to a -- to a new

 3 customer is two to three times the total investment

 4 that's being used to serve an existing customer. I'm

 5 not suggesting any type of imprudence on the part of the

 6 Company, what I'm suggesting is it sounds like those

 7 projects are designed to serve more customers than are

 8 coming on the minute the project goes into service. I

 9 don't know, but it -- it certainly raises more questions

10 in my mind than it answers.

11 So I did not include those costs. Even if we

12 include a portion of those costs, I was at $1300 per

13 customer essentially for the service line meter and

14 associated work and perhaps small extensions of existing

15 mains. Even if we add $500 per customer for a portion

16 of a mainline extension, that still gets you to the

17 average investment for an existing customer, which means

18 the existing rates should fully compensate the Company

19 for that. So there's no need for any type of special

20 recognition, if you will, as part of decoupling, which

21 is what per customer decoupling would provide.

22 So I hope that answers your question.

23 Q. Yes, thank you.

24 MS. SUETAKE: And that will be all of my

25 redirect.

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 1 JUDGE DOROSHKIN: Okay. Mr. Rubin, then,

 2 you are excused.

 3 MR. RUBIN: Thank you.

 4 JUDGE DOROSHKIN: So we will take a

 5 15-minute recess now until 11:00 a.m., and then when we

 6 return, we will have questions from the bench for the

 7 three witnesses on decoupling. And after that, we'll

 8 convey the settlement panel. So if the witnesses could

 9 sit now where the companies are when we return, and we

10 are in recess.

11 (Recess from 10:45 a.m.

12 until 11:05 a.m.)

13 JUDGE DOROSHKIN: We are back on the record.

14 And if the witnesses have not yet been sworn in, please

15 stand.

16 (Witnesses sworn.)

17 JUDGE DOROSHKIN: Please sit. We will now

18 direct questions from the bench to the witnesses on

19 decoupling.

20 COMMISSIONER BALASBAS: All right. Good

21 morning to you all. My first question is -- this is

22 to -- directed to Mr. Walker.

23 So, Mr. Walker, could you talk about

24 Northwest Natural's trend and about conservation

25 spending in the last ten, five to ten years?

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 1 MR. WALKER: Yes, let me turn to my initial

 2 testimony. I have a piece on that. Let me find it. So

 3 I'm looking at page 8 to my initial testimony, KTW-1T,

 4 there's a table towards the bottom of that page that

 5 does have therms saved, not necessarily dollars. But

 6 some background on our energy efficiency programs, they

 7 started from our last general rate case in about 2008,

 8 2009 time frame. It's focused on commercial and

 9 residential customers, which actually are the exact same

10 customers that we propose under the decoupling agreement

11 here.

12 But these are the therms saved. This is

13 information we received from the ETO reports since the

14 time of the inception of the program through the 2017

15 calendar year.

16 COMMISSIONER BALASBAS: And as a follow-up

17 to that, how would you say that the revenue decoupling

18 proposed in the multiparty settlement agreement relates

19 directly to Northwest Natural's conservation efforts?

20 MR. WALKER: Yeah, I mean, I think that with

21 existing customers and them taking advantage of our

22 Schedule G energy efficiency tariffs, the Company does

23 see their therm usage reducing through time. And the

24 decoupling mechanism would pick up the reduction in that

25 usage and bring it back up to our baseline of 678. So I

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 1 see that continuing on into the future with existing and

 2 I think even -- it's fair to say even new customers.

 3 COMMISSIONER RENDAHL: So, Mr. Walker, just

 4 to confirm, so different than other utilities in

 5 Washington, Northwest Natural uses the Energy Trust of

 6 Oregon to perform its energy conservation services,

 7 correct?

 8 MR. WALKER: That's correct.

 9 COMMISSIONER RENDAHL: Okay. And so does

10 Northwest Natural have decoupling for its operations in

11 Oregon?

12 MR. WALKER: Yes, we have a partial

13 decoupling mechanism in Oregon, but it's -- it's in a

14 combination with a separate program called WARM, which

15 essentially decouples weather. So between the two

16 mechanisms, a partial decoupling mechanism and our WARM

17 mechanism, together they're very much like a full

18 decoupling program.

19 COMMISSIONER RENDAHL: Okay. And does -- as

20 a company in Oregon, have you seen the cost of serving

21 new customers increase as well as in Washington?

22 MR. WALKER: Yes, it's very similar to

23 Washington. What we've generally seen is localized

24 governments and county governments have just been

25 increasing costs in the last three to five years. And

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 1 that goes with permitting, you know, flagging traffic,

 2 those types of costs have increased quite a bit in the

 3 last few years. So we've seen that both in Oregon and

 4 Washington.

 5 COMMISSIONER RENDAHL: Okay. I think one of

 6 my colleagues has a question about the costs, so I will

 7 turn to my colleague.

 8 CHAIRMAN DANNER: Well, thank you.

 9 My question is really, you know, Staff's

10 testimony said the data showed as the number of

11 customers grow, costs of serving those customers grows

12 even faster. And I guess, you know, you've mentioned

13 some of the things like permitting costs, but why aren't

14 we seeing more economies of scale? What's driving -- I

15 mean, what is the main driver that these costs are --

16 are -- is so expensive to serve the new customers?

17 MR. WALKER: Yeah, what basically our

18 analysis looked at was specifically the costs of those

19 new customers. So we're looking at main extensions,

20 service lines, meter sets, regulators and the cost to

21 get all of that in place. And it is generally -- it's

22 not -- I wouldn't say it's the direct cost of, you know,

23 the pipe itself or the labor to install it. It's more

24 kind of the overhead as far as the permitting and the

25 flagging costs. And depending on what type of

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 1 construction it is, if it's a conversion customer where

 2 you need to actually tear through the street in order to

 3 access a ditch, that tends to be a lot more expensive

 4 than it was even four or five years ago.

 5 CHAIRMAN DANNER: And so -- and do you see

 6 those costs continuing to go up or do you think they're

 7 going to stabilize or do you -- do you know?

 8 MR. WALKER: Honestly, I don't know. I

 9 haven't seen a forecast of, you know, per customer, you

10 know, added customer cost from our engineering team.

11 One of the exhibits that I responded -- or not the

12 exhibit, but a data request that I responded to, Staff

13 DR-202, and I believe it was included as an exhibit

14 to -- to one of our pieces of testimony, and on the

15 bottom of that -- that list, it does show what the

16 costs -- capital cost per customer was over the last six

17 years. And you can see just in the last three years,

18 it's about an $800 increase from 2016 to 2018. Those

19 are actual costs incurred.

20 COMMISSIONER RENDAHL: And so you're saying

21 those are the permitting costs primarily?

22 MR. WALKER: It's everything. That's just

23 one of the drivers that I was told by our engineering

24 team that has changed.

25 COMMISSIONER RENDAHL: Okay. So just one of

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 1 the things. So -- so in terms of some of the efforts

 2 that Northwest Natural is engaging in in terms of doing

 3 some of its main reinforcement work, maybe in some areas

 4 as well as main extension, so is both the main -- so

 5 when you talk about new customer cost, are you including

 6 some of those main reinforcement costs in there as well

 7 or is it just the new mains and the new connections to

 8 customers?

 9 MR. WALKER: Yeah, it is just the new mains.

10 It is not the system reinforcement.

11 CHAIRMAN DANNER: And -- excuse me. So are

12 you allocating those new mains entirely to new

13 customers? I mean, in some cases, aren't you dealing

14 with low pressure in existing service territories you're

15 addressing, so there -- there should be an allocation

16 back to those existing customers?

17 MR. WALKER: Yeah, so we flag those types of

18 projects as system reinforcement. So what we're talking

19 about in this decoupling mechanism and the costs

20 associated are truly the mains that would only exist if

21 a new customer was to come online. So anything that

22 deals with system reinforcement based on low pressures

23 would be categorized differently and are not included in

24 my figures.

25 CHAIRMAN DANNER: And so what happens if

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 1 something does both; you're putting in a new main, it's

 2 serving new customers, it's also helping the existing

 3 customers, how are you allocating that?

 4 MR. WALKER: Anything that comes through

 5 system reinforcement would just be added to rate base,

 6 and that would be discussed in a general rate case as

 7 far as getting that into rates.

 8 CHAIRMAN DANNER: Okay. Maybe I should

 9 direct this one to Ms. Liu, because in the policy -- you

10 mentioned the policy statement, but there was a footnote

11 44 that says, (as read) We recognize the revenue

12 associated with new customers is offset by the cost to

13 serve those customers. If the revenues and costs are

14 not in reasonable balance, we would consider excluding

15 all or some new customer revenue from the mechanism to

16 correct any demonstrated inequity.

17 Do you think that there is any reason to

18 apply this footnote to the facts that we have here?

19 MS. LIU: Based on the evidence that I saw,

20 I don't feel it's a concern. There are some innovative

21 ways to implement the decoupling. I have heard in some

22 states that they have utilities separately identify new

23 customers and exclude them from decoupling, but it begs

24 more questions and it makes things pretty complicated.

25 So my analysis, I have two analyses. One is based on

0103

 1 the historical trend of average O & M per customer, and

 2 the other one is the comparison of incremental costs

 3 versus incremental revenue.

 4 And in the revenue per customer approach, we

 5 assume the cost of serving each new customer remain the

 6 same as we determined in this rate case. The Company's

 7 evidence shows that incremental cost is likely to exceed

 8 the current level, the -- authorize the revenue per

 9 customer. So I feel comfortable going forward with the

10 recommendation on the revenue per customer. Now, if we

11 see different data, different evidences as in some other

12 utilities, the recommendation would be different.

13 COMMISSIONER RENDAHL: So, Ms. Liu, you've

14 based your analysis on a non-increasing new customer

15 cost, so the current cost not including the additional

16 cost that the Company has proposed?

17 MS. LIU: No, when we -- so here we used the

18 historical test year. So when we look at the Company's

19 expense and rate -- rate base, it's all test year with

20 very limited modifications. And when we look at the

21 load and number of customers, is all test year. When we

22 make the rates, volumetric rates in this rate case, we

23 do not consider the projection of all those elements.

24 We do not project cost in the rate per year, we do not

25 project the increase of number of customers, which is

0104

 1 likely, but we do not factor that in when we determine

 2 the volumetric rates. The usage per customer is likely

 3 to decline in the rate year, but we do not consider that

 4 when we make the rates.

 5 COMMISSIONER RENDAHL: But I guess I'm

 6 asking about the decoupling proposal. So are you

 7 factoring -- factoring in -- are you -- with the

 8 decoupling proposal will allow that cost per customer to

 9 grow, it'll -- it'll adjust over time?

10 MS. LIU: Oh, we -- we assume the cost per

11 customer is constant until the next general rate case.

12 COMMISSIONER RENDAHL: Okay. Thank you.

13 CHAIRMAN DANNER: Although I just heard

14 Mr. Walker say that costs have been going up

15 dramatically, is there any way to project that they

16 would go up dramatically over the next five years?

17 MS. LIU: If that happens, I think the

18 Company might file another rate case.

19 COMMISSIONER RENDAHL: I'm sorry, can you

20 speak up?

21 MS. LIU: Oh, I think it -- it could happen,

22 you know, like some other utilities argued about in our

23 state, and if that's the case, I believe the Company is

24 likely to file another rate case to reset the revenue

25 per customer benchmark.

0105

 1 COMMISSIONER RENDAHL: So, Ms. Liu, my

 2 colleague asked Mr. Walker, and I guess I'll ask you,

 3 related to the policy statement, how does revenue

 4 decoupling, as Staff has advocated, relate directly to

 5 Northwest Natural's conservation efforts, how will it

 6 promote the conservation?

 7 MS. LIU: Well, the conservation and the

 8 energy efficiency in general would reduce the usage per

 9 customer, and that has a negative impact on the

10 Company's revenue from volumetric charges. So the

11 decoupling mechanism using revenue per customer approach

12 would provide compensation for the cost of service. So

13 fundamentally when we -- when we -- when we try to use

14 the decoupling mechanism to mitigate the negative impact

15 of conservation of Company volumetric revenue, it is a

16 revenue sufficiency question to me.

17 COMMISSIONER RENDAHL: And in other matters

18 that we've had involving decoupling, the companies have

19 proposed to add some additional conservation, has -- can

20 you explain if -- I'm not going to get into settlement

21 discussions, but maybe why that isn't appropriate here?

22 MS. LIU: As the Company put more efforts to

23 improve their -- to further improve their conservation

24 programs, and in theory, more customers will benefit

25 from the conservation program, usage per customer in

0106

 1 theory would decline, everything else equal, and then

 2 the Company would get less revenue if without

 3 decoupling.

 4 And therefore, the authorized revenue from

 5 the GRC may not be sufficient over time. So the -- with

 6 revenue per customer decoupling, we provide compensation

 7 on the per customer basis for each customer because we

 8 believe there is clear correlation between the cost,

 9 total cost, and the growth in customers. Therefore, we

10 address the revenue sufficiency problem.

11 COMMISSIONER BALASBAS: So this question is

12 directed to Mr. Rubin. So, Mr. Rubin, in your

13 experience with other utilities and utility commissions

14 that have implemented rate class decoupling, have those

15 rate class decoupling mechanisms been constructed with a

16 similar approach to the calculations that you used in

17 Public Counsel's argument of only including some capital

18 costs and not others?

19 MR. RUBIN: Well, the -- excuse me, the

20 decoupling mechanism doesn't include capital costs at

21 all. It's -- when we're talking about capital costs,

22 it's just a way of trying to assess the overall

23 fairness, if you will, of the mechanisms. But the

24 mechanism itself is -- is based on sales and revenues.

25 Whether the utility is increasing capital investment or

0107

 1 decreasing capital investment is irrelevant to the

 2 decoupling mechanism itself.

 3 So in the other states where -- well, let me

 4 just focus on Illinois, because that's, I think, the --

 5 the best example in my experience of a state that uses

 6 rate class decoupling for gas utilities. I've been

 7 involved in -- I think I've been involved in those cases

 8 for ten or 15 years for all of the gas utilities in the

 9 state, and I don't recall anyone talking about whether

10 this would fully compensate the utility for investment

11 that occurs between rate cases. That was not the

12 purpose of decoupling. It was to insulate the utility

13 from some of the effects of changes in consumption,

14 whether it's due to increased conservation or weather

15 conditions.

16 But nobody that I can recall was looking at

17 that and saying, well, what would be the resulting rate

18 of return or how does that compare to the capital

19 investment the utility's making? That's -- that was --

20 that is not the purpose of decoupling. It's not to

21 perform some kind of a mini rate case true-up. It's to

22 say we don't want the utilities -- we don't want the

23 utility to have a disincentive to invest in

24 conservation. So we're going to make sure that if we

25 say your revenues should be -- just to use a number --

0108

 1 $10 million a year, that you will receive $10 million a

 2 year even if your sales fluctuate because of weather or

 3 conservation.

 4 COMMISSIONER BALASBAS: So what makes

 5 Northwest Natural different here in this circumstance

 6 why -- and why the Commission should implement rate

 7 class decoupling in this case versus the other

 8 decoupling mechanisms we've implemented for the other

 9 gas utilities?

10 MR. RUBIN: Sure, that's -- that's a great

11 question, and obviously I wasn't involved with any of

12 the other gas utilities in this state, so I don't know

13 what their specific circumstances were. But in my mind,

14 the distinguishing factor for Northwest Natural Gas is

15 the level of growth that's occurring, and to say that we

16 need to give the utility an incentive to reduce

17 consumption at the same time they're projecting that

18 their consumption will increase by nine or ten million

19 therms a year over the next five years seems -- I'll be

20 polite and say it's inconsistent.

21 This utility does not -- this utility is not

22 being operated as if it's concerned about not being able

23 to sell enough gas, and it's certainly not being

24 operated with any type of an incentive to reduce the

25 amount of gas being used. This utility is actively

0109

 1 expanding to sell more gas, and it's being very

 2 successful. So within the next five years, its gas

 3 sales will increase -- or are projected to increase by

 4 20 percent.

 5 So how does a conservation incentive fit in

 6 with that? And, you know, to do rate class decoupling,

 7 you're saying, well, if you really are successful in

 8 selling more gas, we'll give existing customers some of

 9 the benefit of that. And if existing customers use

10 less, this will offset some of the rate increase that

11 would occur otherwise. But when you do per customer

12 decoupling, not only aren't you giving any of those new

13 sales to existing customers to offset their more

14 efficient consumption, you're actually penalizing

15 existing customers, making them pay more because those

16 new customers on average will use less gas than existing

17 customers use.

18 And I go into the reasons for that in my

19 testimony. A lot of it is simply the appliances

20 available in the market. It's not like a customer

21 actively chooses to use less gas. They're buying a new

22 furnace or a new hot water heater, and it automatically

23 uses less gas than what was on the market ten or 15

24 years ago.

25 CHAIRMAN DANNER: So, you know, in my mind

0110

 1 when we were going through the debates the first time we

 2 had decoupling, the question is always, you know, who --

 3 who are you incentivizing to do what? I mean, obviously

 4 you want to remove the incentives -- the throughput

 5 incentive, but who are you rewarding? And if I put

 6 insulation in my house and my electric bill goes down,

 7 do I then have to make the Company whole for having done

 8 that and how much of is attributed to what the utility

 9 itself has done?

10 Now, that's why Commissioner Balasbas'

11 question about conservation efforts by the Company I

12 think is -- is a very relevant one, because the Company

13 is doing things, but have we really tracked whether

14 their conservation efforts are in any way correlated to

15 what we have here? And I guess I -- I'd like your

16 thoughts, Mr. Walker, on that question.

17 MR. WALKER: Yeah, the Company's absolutely

18 committed to energy conservation, and I think that's

19 shown in our strategic vision of the Company as a whole,

20 both Oregon and Washington. I know that there was some

21 new legislation that recently passed on energy

22 efficiency. I'm not going to claim to be the expert

23 there, but I know that the state is changing, and I

24 think as part of our agreements in this case that we're

25 going to -- we're going continue on with that

0111

 1 legislative change and we're going to -- we're going to

 2 conserve -- capture as much conservation that's out

 3 there that's reasonable. And I think the Company has

 4 been dedicated to that since 2008, and I think we're

 5 going to continue to do so.

 6 CHAIRMAN DANNER: But how much of what

 7 you're going to reap through decoupling is not

 8 attributable to your own actions but actions to your

 9 customers or society at large?

10 MR. WALKER: Yeah, I think that's really

11 hard to analyze. I mean, I think you have to make some

12 assumptions, and in my Exhibit 11 that was revised

13 yesterday, we did assume that new customers would come

14 on using quite a bit less than existing customers in the

15 case. So -- and that was something that we considered

16 kind of out of our hands and, for instance, new

17 appliances. And we took what -- you know, what is that

18 impact to customers, all customers, if that didn't

19 occur. And we found that the impact is relatively minor

20 because you are, you know, spreading that decoupling

21 amount not only over new customers, but all customers.

22 So the impact on a per customer level on a per bill

23 level is pretty minor.

24 That being said, I also don't want to lose

25 sight of the different protections we have in the

0112

 1 decoupling agreement. I can certainly name four

 2 protections, although we only state three in the

 3 agreement. The first one is if the Company comes in for

 4 a general rate case at any time, all of the revenue per

 5 customer amounts would be updated based on the existing

 6 usage for the customer base at that time.

 7 The second one is we have a five-year time

 8 horizon for the proposal. And at the end of that five

 9 years, the Commission, as well as interested parties,

10 can assess and reevaluate the program and if there's

11 changes that are needed. There's also the 5 percent cap

12 on customer rates. So in any given year, if decoupling

13 is pushing rates too high and they need to be capped,

14 then it would be kind of held on the balance sheet for

15 the next year.

16 And the last one is an earnings test. If

17 the Company does overearn beyond its rate of return,

18 then we would share back 50 percent with the customers.

19 CHAIRMAN DANNER: So, Mr. Rubin, you're not

20 opposed to decoupling, you're just opposed to revenue

21 per customer decoupling? Or do you feel that the issue

22 of addressing the throughput incentive is -- is met by

23 what you're proposing?

24 MR. RUBIN: I -- let me take that in pieces.

25 I understand the policy reasons to support decoupling,

0113

 1 and I'm not taking issue with that in this case. My

 2 concern for this particular company, given its

 3 circumstances at this time, the kind of growth that

 4 we've been talking about, is that per customer

 5 decoupling would not be appropriate. Rate class

 6 decoupling does address the throughput incentive

 7 absolutely.

 8 To use round numbers, the Company projects

 9 in the test year that it will sell about 52 and a half

10 million therms to residential customers and that then

11 becomes the baseline. So that the -- the mechanism I'm

12 proposing would ensure the Company that it would be --

13 it -- basically its sales would be reconciled to that

14 level of 52 and a half million therms. If the Company

15 grows as it projects, and if there is increased

16 conservation as the -- the new law seems to require over

17 the next few years and as will happen naturally because

18 of new appliances that -- that go into the customer

19 base, then that will, you know, offset some of that new

20 consumption from new customers.

21 But the company will be assured that it --

22 it would receive revenues for that 52 and a half million

23 therms a year. And in my mind, that is what decoupling

24 was meant to do. Say regardless of how much you sell,

25 these are the revenues you will receive. If you add

0114

 1 customers, that's going to provide some credit to

 2 existing customers. If customers use less gas, that's

 3 going to, you know, impose some cost on customers.

 4 What the Company's proposing, what the --

 5 sorry, what the other parties are proposing in their

 6 settlement, allows the Company's sales to grow

 7 significantly. You know, we heard the number this

 8 morning. It's over -- projected increase of over 9

 9 million therms a year by 2024. I don't understand how

10 that's consistent with trying to decouple the Company's

11 revenues from its sales level. You're fully

12 compensating the Company for all of that sales increase

13 because of -- just because of the mechanics of how per

14 customer decoupling works.

15 CHAIRMAN DANNER: Ms. Liu, do you want to

16 respond to that, especially about the lack of incentives

17 to decrease sales?

18 MS. LIU: Well, I think Mr. Rubin's

19 statement would be true if we assumed beyond this test

20 year there is no additional cost associated with serving

21 more new customers. I don't believe that it's true.

22 Just, again, referring back to my comparison of the

23 three scenarios, if we don't have decoupling, the

24 Company keep the revenue from -- from those new

25 customers. And -- and those revenue compensate for

0115

 1 their cost, which is not part of this revenue -- the

 2 revenue and the rate calculations in this GRC.

 3 So I don't believe Mr. Rubin's assumption

 4 about no -- no additional cost is -- is valid. And I

 5 think in -- with the fixed revenue decoupling, the

 6 Company will be much worse off if -- without decoupling.

 7 They are not really compensated adequately because --

 8 because the -- we're not matching costs. We're -- we're

 9 using the test year cost to try to match up with the

10 rate year customer growth. I don't think it's fair.

11 And besides, the -- while ratemaking is cost-based, so I

12 emphasize on the cost side.

13 JUDGE DOROSHKIN: One last question to

14 Mr. Walker. Is there a different or another ratemaking

15 mechanism that could address lost margin due to cost

16 associated with serving new customers rather than

17 decoupling?

18 MR. WALKER: Yes, I mean, I think there's

19 probably multiple different types of mechanisms that

20 could be potentially used that maybe are used throughout

21 the country. You know, the Company signed on to the

22 multiparty decoupling agreement and we're going to stand

23 behind that, so we feel like this is a very good

24 proposal.

25 JUDGE DOROSHKIN: Okay. That completes the

0116

 1 questions on decoupling, and we will dismiss Mr. Walker

 2 and Ms. Liu and Mr. Rubin and then call the witnesses

 3 for the settlement panel. The witnesses that have not

 4 been sworn in, if you could stand and raise your right

 5 hand.

 6 (Witnesses sworn.)

 7 JUDGE DOROSHKIN: Thank you. Before we

 8 begin with questions, I will ask the witnesses to

 9 introduce themselves just for the benefit of the

10 Commissioners. Why don't we start from the right.

11 Please briefly identify who you are representing.

12 MR. MULLINS: Brad Mullins representing the

13 Alliance of Western Energy Consumers.

14 MS. LAYCOCK: Sarah Laycock with Public

15 Counsel.

16 MS. HILLSTEAD: Kristen Hillstead,

17 Commission Staff.

18 MR. KRAVITZ: Good afternoon. Zach Kravitz,

19 director of rates and regulatory affairs for Northwest

20 Natural.

21 MR. COLLINS: Shawn Collins, director of The

22 Energy Project.

23 JUDGE DOROSHKIN: Okay. So the parties'

24 direct testimony on the all-party settlement agreement

25 has been admitted into the record, so we'll proceed with

0117

 1 the questions from the Commissioners.

 2 COMMISSIONER RENDAHL: I guess I'll start.

 3 And this is just related to the customer charge in the

 4 settlement agreement, which seems to specify for the

 5 residential customers what that change in the customer

 6 charge will be, but the settlement does not specify if

 7 there's a change or what those increases might be for

 8 the commercial, industrial, and residential heating

 9 dry-out schedules. So can the witnesses clarify for us

10 if there's a change in those customer charges and what

11 they might be because it's not clear to us.

12 MR. KRAVITZ: So yes, in -- on page 14 of

13 the joint testimony, lines 5 through 11, we do identify

14 the increases to the customer charges. So the

15 residential rate schedule 1 is increased to 550,

16 schedule 2 to eight, as you've identified, and then in

17 addition, there are increases to the following

18 schedules; commercial rate schedule 1 to $7, commercial

19 rate schedule 3 to $22; and industrial rate schedule 3

20 to $22; and the residential heating dry-out rate

21 schedule 27 to $9.

22 COMMISSIONER RENDAHL: Thank you. That's

23 helpful.

24 CHAIRMAN DANNER: So -- excuse me. In the

25 joint testimony, parties state that the cost recovered

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 1 through the ECRM will be collected from customers on an

 2 equal percent of margin basis. Can you clarify if the

 3 parties are intending to maintain rates spread in future

 4 annual filings or if the rate spread will be proposed in

 5 support in those annual filings?

 6 MR. KRAVITZ: It's my understanding that it

 7 will remain equal percent of margin through the annual

 8 filings at -- I don't want to speculate, but perhaps at

 9 the time of another rate case this issue could be

10 addressed again, but we would remain with equal percent

11 of margin on the annual filings.

12 CHAIRMAN DANNER: And also the settlement

13 states that amounts in excess of the 1 percent cap will

14 accrue interest at the cost of debt, and I just want to

15 clarify which cost of debt we're talking about;

16 short-term, long-term, or is it the weighted average?

17 MR. KRAVITZ: It's my understanding that it

18 would be the cost of long-term debt as set in the most

19 recently approved general rate case.

20 CHAIRMAN DANNER: Okay. Is that -- does

21 everyone agree with that?

22 (All witnesses nodding.)

23 CHAIRMAN DANNER: Okay.

24 COMMISSIONER RENDAHL: Nodding of heads of

25 the witnesses.

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 1 CHAIRMAN DANNER: Let the record show heads

 2 are nodding yes.

 3 Will interest be applied to the credit

 4 balances in the ECRM when third-party payments exceed

 5 the costs?

 6 MR. KRAVITZ: Sorry, I'm -- I'm thinking

 7 through that, because for the first ten years of the

 8 ECRM when -- if we were to have some incremental

 9 insurance proceeds or third-party proceeds come in is

10 the proposal that those would be treated the same way as

11 the insurance proceeds that the Company currently has

12 and it would be rolled into that ten-year amortization

13 of those insurance proceeds. And in the event that

14 insurance proceeds come after the ten-year period, we

15 would come back to the Commission with a proposal.

16 And so the -- there isn't necessarily

17 interest rate associated with any additional proceeds

18 that would come during that time period. I think that

19 would be something we would have to work with the

20 stakeholder and the Commission to determine the

21 appropriate interest rate.

22 CHAIRMAN DANNER: Okay. Walk that

23 through -- walk that through again.

24 MR. KRAVITZ: Okay. So the -- the

25 settlement states that insurance proceeds or third-party

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 1 proceeds that the -- the Company may receive during the

 2 ten-year -- ten and a half-year amortization of the

 3 insurance proceeds that we currently have, if we were to

 4 get more during that time period, those insurance

 5 proceeds would be credited or used as an offset on the

 6 same schedule for the ten years. And that if additional

 7 insurance proceeds come after that ten-year amortization

 8 period, the settlement requires that we make a proposal.

 9 And so we'd have to come back and talk to

10 obviously the Commission and our stakeholders to

11 determine the appropriate treatment of those insurance

12 proceeds, and then that may -- that could include

13 interests on those insurance proceeds.

14 JUDGE DOROSHKIN: And no interest is

15 accruing during the ten-year amortization period?

16 MR. KRAVITZ: That's correct, that's

17 correct. As -- as on the -- the opposite site expenses

18 are not accruing interest.

19 CHAIRMAN DANNER: Okay. I have one more

20 thing on the ECRM and that's just basically, is the

21 scope of the ECRM when we basically looking at the five

22 sites around the GASCO plant or is there anything else

23 in ECRM?

24 MR. KRAVITZ: That's -- that's all it is.

25 CHAIRMAN DANNER: Okay. And that's all it's

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 1 intended for if there was --

 2 MR. KRAVITZ: Correct, if there was --

 3 CHAIRMAN DANNER: -- something --

 4 MR. KRAVITZ: -- any expansion of that, you

 5 would know about it.

 6 COMMISSIONER RENDAHL: So if there were

 7 additional remediation requirements, that would be part

 8 of the -- you would bring that back to the Commission

 9 and discuss how this would work into the current ECRM?

10 MR. KRAVITZ: Yes.

11 COMMISSIONER RENDAHL: Okay.

12 CHAIRMAN DANNER: All right. That's all I

13 have on the ECRM.

14 COMMISSIONER BALASBAS: All right. These

15 next set of questions relate to the provisions of the

16 settlement related to the Tax Cuts and Jobs Act, and

17 these are the different pieces that are in the

18 settlement agreement. So I will direct this question to

19 whoever wants to answer them.

20 On the interim period overcollection amount

21 in the settlement has stated at $2.1 million, have the

22 parties discussed the mechanism that will true-up that

23 amount to the actual amount refunded through the

24 separate tariff schedule or will it be just $2.1

25 million?

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 1 MR. KRAVITZ: It will be $2.1 million. This

 2 was a compromised decision that is part of this

 3 settlement.

 4 COMMISSIONER BALASBAS: Okay. So you're

 5 saying, then, that there will be no true-up to that

 6 amount?

 7 MR. KRAVITZ: There will not be true-up.

 8 COMMISSIONER BALASBAS: Okay. And then

 9 related to plant-related excess deferred income taxes,

10 do the parties intend that the gross-up annual amortized

11 amount of 528,000 is what is refunded annually for the

12 next five years consistent with the Company's initial

13 proposal?

14 MR. KRAVITZ: Yes.

15 COMMISSIONER BALASBAS: All right. And so

16 then will -- will this -- will the Company then probably

17 sometime in 2023, 2024 propose a new schedule for the

18 next five years of refund amounts?

19 MR. KRAVITZ: It's what is intended at the

20 time of a rate case, this is probably -- this would be

21 looked at again.

22 COMMISSIONER BALASBAS: Okay. So for -- for

23 now, the plan is to just deal with the next five years

24 of plant-related EDIT refunds, and if there is in that

25 time an intervening rate case, there will be another --

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 1 an opportunity to look at that amount and change that

 2 amount if necessary?

 3 MR. KRAVITZ: If necessary, yes.

 4 COMMISSIONER BALASBAS: And then related to

 5 the nonplant excess deferred income tax, will setting

 6 the nonplant amount to zero translate as a loss to

 7 Northwest Natural's regulated books of accounting?

 8 MR. KRAVITZ: Yes, and that was part of the

 9 overall settlement to this case.

10 COMMISSIONER BALASBAS: Okay. All right.

11 Thank you. That's all I have on the Tax Cuts and Jobs

12 Act.

13 CHAIRMAN DANNER: So turning to conservation

14 expenses, when will the conservation expense for January

15 2018 through October 31st, 2019, be reviewed for

16 prudency?

17 MR. KRAVITZ: Well, I'm -- I'm going -- I

18 don't want to speculate, so it would be at the time that

19 we move into rates, the forecasted amount, and I'm not

20 sure the timing of when that filing occurs.

21 COMMISSIONER RENDAHL: So you're saying that

22 would be in the parties -- in the Company's conservation

23 filing to true-up the expenses, that Staff would review

24 that separately, so it's outside the rate case?

25 MR. KRAVITZ: That -- that would be outside

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 1 the rate case. It would be a separate filing, but there

 2 would be an opportunity for a prudence review as I think

 3 there is annually with the -- with filing.

 4 CHAIRMAN DANNER: Ms. Hillstead, is that

 5 your understanding?

 6 MS. HILLSTEAD: That would be my

 7 understanding too, yes.

 8 CHAIRMAN DANNER: Okay. What interest rate

 9 is going to be applied to the prior period deferred

10 balances?

11 MR. KRAVITZ: I believe it is at our cost of

12 capital.

13 COMMISSIONER RENDAHL: Do the other parties

14 have a different interpretation?

15 MR. MULLINS: No different interpretation.

16 CHAIRMAN DANNER: Okay. So -- yes,

17 Ms. Suetake?

18 MS. SUETAKE: I'm sorry. I don't have the

19 citation reference, but I believe that the Commission

20 has previously stated that conservation balances do not

21 accrue a return on, and this statement that -- statement

22 underneath says that treatment of interest on deferred

23 conservation balances may be modified. Was -- if I

24 recall -- am I --

25 MR. KRAVITZ: Yeah, I -- I --

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 1 CHAIRMAN DANNER: All right. So --

 2 MR. KRAVITZ: -- apologize.

 3 CHAIRMAN DANNER: Okay. So the question is

 4 out there, so I would ask you to see if you can take

 5 that up and then form...

 6 MR. KRAVITZ: Yes, and I do think there was

 7 a resolution of this by the parties. It was understood

 8 that the interest rate is not changing as a result of

 9 this settlement. It's currently set at FERC rate and

10 that's what we were intending to use. And in the event

11 that there's a subsequent docket that looks at some of

12 these issues, all parties would reserve the right to use

13 a different interest rate, but it was the understanding

14 of all parties that we would use that FERC rate for this

15 account.

16 CHAIRMAN DANNER: All right. If you

17 discover otherwise, please let us know.

18 My last question is about the low income

19 evaluation. What guidelines are you going to use for

20 that low income evaluation study as part of this

21 settlement?

22 MR. COLLINS: The expectation would be for

23 eligible populations for income weatherization and

24 energy assistance. So it's at 200 percent of federal

25 poverty level, and I think there would be a desire to

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 1 piggyback on any efforts with regard to Clean Energy

 2 Transformation Act, so we're not duplicating the efforts

 3 there. So 200 percent and below.

 4 CHAIRMAN DANNER: Okay. All right. That's

 5 all I have.

 6 JUDGE DOROSHKIN: Then that concludes the

 7 questions from the bench from the settlement panel.

 8 One housekeeping matter. For Public

 9 Counsel, when do you expect to file the public comment?

10 MS. SUETAKE: Your Honor, we were going to

11 discuss -- I was going to discuss that with Northwest

12 Natural to make sure whether or not there were any

13 public comments. We can have that by next week. Would

14 that be okay for the bench?

15 JUDGE DOROSHKIN: That's fine.

16 Is there anything else that needs to be

17 addressed? Well, then hearing nothing, we are

18 adjourned.

19 (Adjourned at 11:52 a.m.)

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 1 C E R T I F I C A T E

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 3 STATE OF WASHINGTON

 4 COUNTY OF THURSTON

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 6 I, Tayler Garlinghouse, a Certified Shorthand

 7 Reporter in and for the State of Washington, do hereby

 8 certify that the foregoing transcript is true and

 9 accurate to the best of my knowledge, skill and ability.

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13 Tayler Garlinghouse, CCR 3358

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