

Docket No. UG-181053 - Vol. III

Washington Utilities and Transportation
Commission v. Northwest Natural Gas

August 14, 2019



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email: info@buellrealtime.com



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1 BEFORE THE WASHINGTON
 2 UTILITIES AND TRANSPORTATION COMMISSION
 3 _____
 4 WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,) DOCKET UG-181053
 5)
 6 Complainant,)
 7 vs.)
 8 NORTHWEST NATURAL GAS COMPANY, d/b/a NW NATURAL,)
 9)
 10 Respondent.)
 11 _____
 12 SETTLEMENT AND EVIDENTIARY HEARING, VOLUME III
 13 Pages 20-127
 14 CHAIRMAN DANNER, COMMISSIONERS RENDAHL & BALASBAS
 15 ADMINISTRATIVE LAW JUDGES RAYNE PEARSON & NELLI
 16 DOROSHKIN
 17 _____
 18 August 14, 2019
 19 9:00 a.m.
 20 Washington Utilities and Transportation Commission
 21 621 Woodland Square Loop Southeast
 22 Lacey, Washington 98503
 23 REPORTED BY: TAYLER GARLINGHOUSE, CCR 3358
 24 Buell Realtime Reporting, LLC
 25 1325 Fourth Avenue, Suite 1840
 Seattle, Washington 98101
 (206) 287-9066 | Seattle
 (360) 534-9066 | Olympia
 (800) 846-6989 | National
 www.buellrealtime.com

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1 APPEARANCES
 2 COMMISSIONERS:
 3 CHAIRMAN DANNER
 4 ANNE RENDAHL
 5 JAY BALASBAS
 6 Utilities and Transportation
 7 Commission
 8 621 Woodland Square Loop Southeast
 9 Lacey, Washington 98503
 10 (360) 664-1160
 11 ADMINISTRATIVE LAW JUDGES:
 12 NELLI DOROSHKIN
 13 RAYNE PEARSON
 14 Utilities and Transportation
 15 Commission
 16 621 Woodland Square Loop Southeast
 17 Lacey, Washington 98503
 18 (360) 664-1160
 19 nelli.doroshkin@utc.wa.gov
 20 rayne.pearson@utc.wa.gov
 21 FOR NORTHWEST NATURAL:
 22 LISA RACKNER
 23 JOCELYN PEASE
 24 McDowell Rackner & Gibson
 25 419 SW 11th Avenue, Suite 400
 Portland, Oregon 97205
 (503) 595-3922
 lisa@mrg-law.com
 jocelyn@mrg-law.com
 ERIC NELSEN
 NW Natural
 220 NW Second Avenue
 Portland, Oregon 97209
 (503) 721-2476
 eric.nelsen@nwnatural.com

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1 APPEARANCES (Cont.)
 2 COMMISSION STAFF:
 3 JENNIFER CAMERON-RULKOWSKI
 4 Office of the Attorney General
 5 621 Woodland Square Loop Southeast
 6 Lacey, Washington 98503
 7 (360) 664-1186
 8 jcameron@utc.wa.gov
 9 FOR PUBLIC COUNSEL:
 10 NINA SUETAKE
 11 Office of the Attorney General
 12 800 - 5th Avenue, Suite 2000
 13 Seattle, Washington 98104
 14 (206) 430-2422
 15 ninas@atg.wa.gov
 16 FOR THE ENERGY PROJECT:
 17 SIMON FITCH
 18 Attorney at Law
 19 321 High School Road NE
 20 Suite D3, No. 383
 21 Bainbridge Island, Washington 98110
 22 (206) 689-8197
 23 simon@fitchlaw.com
 24 FOR AWEC:
 25 CHAD STOKES
 Cable Huston, LLP
 1455 SW Broadway, Suite 1500
 Portland, Oregon 97201
 (503) 224-3092
 cstokes@cablehuston.com

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1 APPEARANCES (Cont.)
 2 WITNESSES:
 3 KYLE WALKER
 4 JING LIU
 5 SCOTT RUBIN
 6 SHAWN COLLINS
 7 ZACHARY KRANITZ
 8 KRISTEN HILLSTEAD
 9 SARAH LAYCOCK
 10 BRADLEY MULLINS
 11 * * * * *
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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

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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 ffitich 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

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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

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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

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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

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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

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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.

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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.

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EXAMINATION OF WALKER / NELSEN

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 EXAMINATION
 24 BY MR. NELSEN:
 25 Q. Good morning, Mr. Walker.

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EXAMINATION OF WALKER / NELSEN

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.**

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EXAMINATION OF WALKER / NELSEN

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.

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EXAMINATION OF WALKER / SUETAKE

1 JUDGE DOROSHKIN: Ms. Gafken, please
 2 proceed. Or Suetake, sorry.
 3 MS. SUETAKE: Thank you, Your Honor.
 4
 5 EXAMINATION
 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.**

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EXAMINATION OF WALKER / SUETAKE

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**

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EXAMINATION OF WALKER / SUETAKE

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

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EXAMINATION OF WALKER / SUETAKE

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

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EXAMINATION OF WALKER / SUETAKE

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.

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EXAMINATION OF WALKER / SUETAKE

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

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EXAMINATION OF WALKER / SUETAKE

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.

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EXAMINATION OF WALKER / SUETAKE

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

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EXAMINATION OF WALKER / SUETAKE

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

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EXAMINATION OF WALKER / SUETAKE

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**

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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.**

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EXAMINATION OF WALKER / SUETAKE

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?

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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,

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EXAMINATION OF WALKER / SUETAKE

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**

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EXAMINATION OF WALKER / SUETAKE

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**

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EXAMINATION OF WALKER / SUETAKE

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**

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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.

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EXAMINATION OF WALKER / SUETAKE

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.**

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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

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EXAMINATION OF WALKER / SUETAKE

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

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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

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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?**

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EXAMINATION OF WALKER / SUETAKE

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,

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EXAMINATION OF LIU / CAMERON-RULKOWSKI

1 was examined and testified

2 as follows:

3

4 JUDGE DOROSHKIN: Please sit.

5

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.**

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EXAMINATION OF LIU / SUETAKE

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 **EXAMINATION**
 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**

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EXAMINATION OF LIU / SUETAKE

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?

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EXAMINATION OF LIU / SUETAKE

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 --**

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EXAMINATION OF LIU / SUETAKE

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?

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EXAMINATION OF LIU / SUETAKE

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 **servicing those customers.**
 23 Q. Would you agree that the Company is projecting
 24 significant customer growth over the next five years?
 25 **A. Yes.**

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EXAMINATION OF LIU / SUETAKE

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

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EXAMINATION OF LIU / SUETAKE

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

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EXAMINATION OF LIU / SUETAKE

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 --

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EXAMINATION OF LIU / SUETAKE

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**

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EXAMINATION OF LIU / SUETAKE

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

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EXAMINATION OF LIU / SUETAKE

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

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EXAMINATION OF LIU / SUETAKE

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.

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EXAMINATION OF RUBIN / SUETAKE

1 Ms. Suetake?

2

E X A M I N A T I O N

3

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?

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EXAMINATION OF RUBIN / PEASE

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

E X A M I N A T I O N

8

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.**

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EXAMINATION OF RUBIN / PEASE

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

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EXAMINATION OF RUBIN / PEASE

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?

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EXAMINATION OF RUBIN / PEASE

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

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EXAMINATION OF RUBIN / PEASE

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

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EXAMINATION OF RUBIN / PEASE

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

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EXAMINATION OF RUBIN / PEASE

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

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EXAMINATION OF RUBIN / PEASE

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?

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EXAMINATION OF RUBIN / PEASE

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

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EXAMINATION OF RUBIN / PEASE

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

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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

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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 EXAMINATION
 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

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EXAMINATION OF RUBIN / SUETAKE

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.**

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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

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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

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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.

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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

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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

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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 --

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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

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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

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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

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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

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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,

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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

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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

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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

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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

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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 prudence?
 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 CERTIFICATE
 2
 3 STATE OF WASHINGTON
 4 COUNTY OF THURSTON
 5
 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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