

CHAD M. STOKES
TOMMY A. BROOKS

cstokes@cablehuston.com
tbrooks@cablehuston.com

December 7, 2012

VIA EMAIL FILING TO RECORDS CENTER

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation
Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

**Re: Commission Investigation into the Need to Enhance the Safety of Natural
Gas Distribution Systems - UG-120715
NWIGU's Comment on Draft Interpretive and Policy Statement**

Dear Mr. Danner:

These comments are being provided on behalf of the Northwest Industrial Gas Users ("NWIGU") in the above-captioned matter.

As the Draft Interpretive and Policy Statement ("Draft Policy") recognizes, "It is in the public interest for all gas companies to take a proactive approach to replacing pipe that presents an elevated risk of failure." Indeed, it is incumbent upon local distribution companies ("LDCs") to operate a safe system. NWIGU therefore supports the portion of the Commission's Draft Policy that requires LDCs to have an actual plan for the replacement of unsafe pipe. It remains unclear, however, why LDCs need an additional financial incentive to pursue investments for making their systems safe. Financial incentives already exist because LDCs are allowed a return of and a return on all of their prudent investments.

NWIGU does not believe that the Cost Recovery Mechanism ("CRM") proposed in the Draft Policy can or should happen outside of a general rate case. The general rate case provides the Commission the opportunity to determine what an LDC's authorized rate of return and capital structure should be. It also allows the Commission to determine the appropriate cost allocation among customer classes based on well-established cost-causation principles. Those determinations are made based on the LDC's test year investments along with any appropriate pro forma adjustments.

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The Draft Policy would apply the prior general rate case determinations to the CRM process and allow an LDC to recover investments even though that rate case would not have taken those investments into account when determining what level of return was reasonable. For LDCs such as Cascade and NW Natural that have not had a general rate case in years, there is no way for the Commission to determine if the authorized return is still reasonable in today's markets, and the LDCs may be able to over-earn as a result of the CRM process. Just as troubling, the proposed CRM would allow the LDC to allocate the costs of pipeline safety investments without any consideration of which customer class caused those costs to be incurred.

NWIGU remains concerned that the CRM results in a severe form of single-issue ratemaking. Not only would the CRM segregate a single cost component for different rate treatment, it would guarantee that the utility would earn a return on a rate base component. Such a result is a marked departure from this Commission's well-established ratemaking principles. If the Commission pursues this policy, it should modify it to require an LDC to establish an appropriate rate of return and capital structure specific to the investment being made and that reflects the reduced risk in making that investment.

NWIGU also remains concerned that a CRM, if approved, would create poor precedent that opens the door to other single-issue ratemaking proposals. This Commission generally requires that single-issue ratemaking be based on extraordinary financial circumstances. In contrast, the CRM is being proposed as an *incentive* to go beyond the status quo. If the Commission approves an application for a CRM, it should make specific findings to identify an important public policy that only the CRM can achieve and to distinguish the CRM from other future proposals that do not share such importance.

NWIGU urges the Commission to clarify two components of the Draft Policy. First, as NWIGU has stated in earlier comments, there is no "Oregon model" on which the Commission can craft a proposed recovery mechanism. The System Integrity Program NW Natural has in Oregon is specific to that utility and is not available for other Oregon LDCs. Moreover, that mechanism was created through a stipulation process, which included an eight-year rate moratorium. Although some mechanics of the CRM may be similar to NW Natural's program in Oregon, it is not that same. Second, the Commission should clarify ambiguous language in the Draft Policy indicating that if a general rate case is filed within the four year life of the CRM, "the process will commence within the framework of that general rate case." The intent of this language is not clear on its face. It could mean that a general rate case clears the table and that a new CRM must be applied for and approved for the recovery of any future pipeline safety investments following that rate case. Or, the language could simply mean that the existing CRM is updated with the relevant components from the general rate case. The exact impact of a rate case needs to be spelled out.

Finally, NWIGU believes that, before adopting the Draft Policy, the Commission should consider the effect of other efforts that may impact the kind of investments an LDC should be able to include in a request for recovery through the CRM. Specifically, there is at least one proposal for an LDC to file an "expedited" rate case that would revise rates based on the LDC's Commission Basis Report. Such a filing would capture any investments the company would

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have made in pipeline safety the prior year and, therefore, would encompass the same types of investment that could be recovered through the CRM. The Commission clearly could not authorize double-recovery of the same investment.

In support of these comments, NWIGU incorporates the comments it has previously submitted in this docket.

Very truly yours,

A handwritten signature in blue ink, appearing to be 'M. Stokes', with a long horizontal flourish extending to the right.

Chad M. Stokes
Tommy A. Brooks

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