

CASE: UM 1722
WITNESS: LORI KOHO

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Opening Testimony

February 8, 2016

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Lori Koho. My business address is 201 High Street SE Suite 100,
3 Salem, Oregon 97308.

4 **Q. Please describe your educational background and work experience.**

5 A. My Witness Qualification Statement is found in Exhibit Staff/101.

6 **Q. What is the purpose of your testimony?**

7 A. I explain the policy reasons underlying Staff's opposition to the request by NW
8 Natural Gas Company (NW Natural), Avista , and Cascade Gas Company
9 (together the "Joint Utilities") to create special cost recovery mechanisms for
10 costs related to system safety improvements.

11 **Q. Did you prepare an exhibit for this docket?**

12 A. Yes. I prepared Exhibit Staff/101, which is my witness qualification statement.

13 **Q. Did you conduct discovery in this case?**

14 A. Yes. Staff sent 20 data request to NW Natural and sent 15 data requests to
15 both Avista and Cascade.

16 **Q. How is your testimony organized?**

17 A. This docket concerns two different requests. First, NW Natural asks for
18 authority to extend its cost recovery mechanism associated with its System
19 Integrity Program (SIP). The SIP allows NW Natural to update its rate base on
20 an annual basis to reflect certain system safety investments. Second, the Joint
21 Utilities ask the Commission to adopt an annual cost recovery mechanism for
22 each Joint Utility "that provide[s] for annual recovery of utility investments

1 designed to enhance the safety and reliability of their systems.”¹ I address the
2 Joint Utilities second request and recommend that the Commission reject it.

3 **Q. Why do the Utilities ask for special recovery mechanisms for safety-**
4 **related investments?**

5 A. The Joint Utilities explain that the “fundamental purpose of a safety investment
6 recovery mechanism is to promote timely utility investments designed to
7 enhance the safety and reliability of natural gas pipelines.”² They note that a
8 mechanism that allows them to recover investments on an annual basis
9 removes regulatory lag and “eliminate[s] barriers to investment thereby
10 protecting customers from harm and enhancing service to gas customers.”³

11 **Q. What are Staff’s concerns with the Joint Utilities’ request?**

12 A. Staff has several concerns. First, Staff is concerned with the purpose
13 underlying the Joint Utilities’ annual recovery mechanism proposal – to
14 eliminate a barrier to investment, or put another way, to incent investment.
15 Staff does not agree that the Joint Utilities need a cost recovery mechanism to
16 incent investment in safety. The Joint Utilities should already have robust
17 integrity management programs.

18 **Q. Why should the utilities already have robust integrity management**
19 **programs?**

20 A. Such programs are required under federal law. In 2004, pursuant to
21 requirements in federal legislation, the U.S. Department of Transportation

¹ Opening Testimony of Joint Utilities 1.

² Opening Testimony of Joint Utilities 5.

³ Opening Testimony of Joint Utilities 5.

1 Pipeline and Hazardous Materials and Safety Administration (PHMSA) adopted
2 the Transmission Integrity Management Program (TIMP) setting out rigorous
3 requirements for assessment of transmission pipeline integrity.⁴ In 2010
4 PHMSA adopted similar requirements for distribution pipeline operation in the
5 Distribution Integrity Management Program (DIMP).⁵ Under DIMP, the Joint
6 Utilities must perform initial assessments of the portions of their distribution
7 systems subject to the requirements and conduct periodic assessments in the
8 time intervals specified in the regulations.⁶ NW Natural was required to do the
9 same for TIMP. Neither Cascade nor Avista have transmission facilities, so
10 they are not subject to TIMP.

11 **Q. Do the requirements imposed by these programs warrant special cost**
12 **recovery mechanisms?**

13 A. Staff does not think so. After TIMP and DIMP were adopted, each pipeline
14 operator was required to evaluate and identify risk associated with its
15 transmission and distribution pipeline and determine and implement measures
16 designed to reduce the risk of failure. And, each pipeline operator is required
17 to re-evaluate its pipeline at certain designated intervals so long as the utility
18 performs a complete evaluation every five years.

19 TIMP has been in effect for 11 years and DIMP has been in effect for five
20 years, during which time, the Joint Utilities should have been conducting the

⁴ 49 C.F.R. §§ 192.901, *et seq.*

⁵ 49 C.F.R. § 192.1001, *et seq.*

⁶ 49 C.F.R. § 192.1007.

1 required evaluation of risks in the distribution systems and implementing
2 measures to reduce risk.⁷

3 Staff believes that the Joint Utilities' continued implementation of their integrity
4 management programs are normal operations in the ordinary course of
5 business, and the associated costs are normal costs in the ordinary course of
6 business. Staff disagrees with the Joint Utilities that such costs should be
7 subject to an extraordinary ratemaking mechanism.

8 Staff agrees that there could be instances in which the utilities make specific
9 capital investments that are beyond what is expected of utilities in the ordinary
10 cost of business. Staff's analysis of the Joint Utilities' projected costs shows
11 that it is difficult to distinguish planned capital investments outside the ordinary
12 course of business, and that currently no cost recovery mechanism appears
13 warranted.

14 However if PHSMA or another government entity adopted regulations requiring
15 certain capital investments, Staff may support a mechanism to recover those
16 investments, as it did for NW Natural's Bare Steel Replacement Program.

17 **Q. What are the downsides to a special cost recovery mechanism?**

18 A. Cost tracking mechanisms reduce a pipeline's incentive for innovation,
19 efficiency and cost minimization, and shift the risk embedded in the return on
20 equity from the Joint Utilities to its ratepayers. Further, a cost tracking
21 mechanism is essentially a single-issue rate case, in which the utility is allowed
22 to annually recover costs related to one type of expenditure. In a general rate

⁷ See 49 C.F.R. § 192.1007(b)-(d);

1 case, the Commission considers costs and earnings in the aggregate, where
2 potential changes in one or more items of expense or revenue may be offset by
3 increases and decreases in other such items. A mechanism such as that
4 proposed by the Joint Utilities considers changes in safety or other
5 infrastructure investment in isolation, ignoring the totality of circumstances.

6 **Q. What is the Joint Utilities' proposal for the design of the mechanisms?**

7 A. The Joint Utilities assert that the mechanisms should be tailored to each utility,
8 but that the mechanisms should:

- 9 1. allow recovery costs of a facilities replacement or improvement
10 plan; intended to advance the safety and/or reliability of existing
11 facilities;
- 12 2. implement federal, state, or local laws or regulations, or public
13 policies adopted to promote the safe and efficient operation of
14 natural gas systems;
- 15 3. prioritize costs based on updated risk assessments;
- 16 4. recover capital costs that are significant and not offset by
17 associated revenues;
- 18 5. allow recovery of significant one-time or ongoing O&M expense
19 not included in rates;
- 20 6. include an earnings test and prudence review; and

1 7. be subject to review at appropriate intervals and adjusted if
2 necessary.⁸

3 **Q. Do you have concerns with the proposed elements of the cost recovery**
4 **mechanism?**

5 A. Yes. TIMP and DIMP have been effective for several years. Under these
6 programs, pipeline operators must continually evaluate risk and prioritize
7 projects. By now, the Joint Utilities should have robust integrity management
8 programs that perform the assessment and prioritization functions ingrained in
9 their corporate culture. Accordingly, a cost recovery mechanism that is
10 intended to incent utilities to “prioritize costs based on updated risks
11 assessments,” should not be needed.

12 Also, the costs eligible for recovery are too vaguely defined and too broad. The
13 Joint Utilities would like to recover costs for facilities replacement or an
14 improvement plan that is intended to advance the safety and/or reliability of
15 existing facilities and that is required to “implement federal, state, or local laws
16 or regulations, or public policies adopted to promote the safe and efficient
17 operation of natural gas systems.” Staff believes that this broad category would
18 allow utilities to recover capital investments to maintain their distribution
19 systems, which are not extraordinary costs.

20 Staff is also concerned by the Joint Utilities’ proposal to include “significant one-
21 time or ongoing O&M expense not included in rates” in the recovery
22 mechanism. O&M expense can be forecasted and is not subject to the same

⁸ Opening Testimony of Joint Utilities 3.

1 ratemaking restrictions as capital investment. O&M costs should not be
2 recovered through a special cost recovery mechanism.

3 **Q. What is Staff's objection to allowing the Joint Utilities to recover in a**
4 **special recovery mechanism "capital costs that are significant, and that**
5 **are not offset by associated revenues"?**

6 A. Staff believes it would be difficult to isolate significant capital investment that is
7 incremental to investment that the Joint Utilities should expect to do in the
8 ordinary course of business. Staff believes the Joint Utilities should recover
9 such costs, but does not think a special cost-recovery mechanism is warranted.
10 As noted above, PHSMA or another agency may adopt rules in the future that
11 require incremental investments. If this occurs, a special cost recovery
12 mechanism for costs for those investments may be warranted.

13 **Q. The Joint Utilities rely on a Federal Energy Regulatory Commission**
14 **(FERC) Policy Statement in which FERC states that it will depart from**
15 **previous practice and consider special rate recovery mechanisms for**
16 **investments in pipeline safety and reliability. Has Staff considered the**
17 **Policy Statement?**

18 A. Yes, and juxtaposed with the Joint Utilities' proposal, FERC's Policy Statement
19 supports Staff's recommendations in this docket. In April 2015, FERC issued a
20 Policy Statement that it would allow establish mechanisms for pipelines to
21 recovery certain capital expenditures to modernize system infrastructure
22 through a surcharge mechanism subject to conditions intended to ensure that
23 the resulting rates are just and reasonable and protect natural gas customers

1 from excessive costs.⁹ Under the Policy Statement, the Commission would
2 only approve a surcharge mechanism when (1) the pipeline's rates have
3 recently been subject to review to ensure they reasonably reflect the pipeline's
4 costs; (2) the only eligible costs are capital investments to comply with safety or
5 environmental regulations or other capital costs shown to be necessary for the
6 safe, reliable, or efficient operation of the pipeline and are specifically identified
7 by project at the time the mechanism is created; (3) the mechanism is designed
8 to protect captive customers if the pipeline loses shippers; (4) the mechanism is
9 subject to periodic review to ensure the rates remain reasonable; and (5) the
10 pipeline has worked collaboratively with shippers to seek shipper support.¹⁰

11 As noted above, the costs eligible for recovery under a cost recovery
12 mechanism under the Joint Utilities' proposal differ from those eligible for
13 recovery under FERC's Policy Statement. Under FERC's Policy Statement,
14 one-time capital investments identified at the time the surcharge is adopted are
15 eligible for recovery. The Joint Utilities' proposal does not include this
16 requirement. Instead, the Joint Utilities propose that to recover "costs a
17 facilities replacement or improvement plan intended to advance the safety
18 and/or reliability of existing facilities," explaining that a plan "is intended to refer
19 to a comprehensive plan that may include numerous smaller projects, each

⁹ *Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, 151 FERC 61,047 (2015 WL 1752866).

¹⁰ *Id.*

1 designed to respond to one of the myriad safety and/or reliability laws,
2 regulations, or policies.¹¹

3 Unlike FERC, the Joint Utilities also propose to include O&M costs, not just
4 capital investment.

5 **Q. FERC notes that it issued its Policy Statement regarding criteria for**
6 **surcharge mechanisms in anticipation of new regulations that would**
7 **likely require that pipelines “make significant capital investments to**
8 **modernize their systems.” Why shouldn’t the Commission do the same?**

9 A. FERC establishes rates for dozens of pipeline operators. The Commission
10 establishes rates for three natural gas utilities that own distribution systems. To
11 the extent it is appropriate to establish a special cost recovery mechanism for
12 any of the Joint Utilities for recovery of capital investments needed to comply
13 with new regulatory requirements, the Commission can do so on a case-by-
14 case basis.

15 Furthermore, FERC regulates pipelines that still have significant cast iron,
16 wrought iron and bare steel pipeline, which are considered “highest-risk,”
17 whereas the Commission does not. In 2011, following major natural gas
18 pipeline incidents, DOT and PHMSA issued a “Call to Action” to accelerate the
19 repair, rehabilitation, and replacement of the highest-risk pipeline infrastructure
20 – including pipelines constructed of cast and wrought iron as well as bare steel.
21 The three gas utilities operating in Oregon have no cast or wrought iron pipe
22 and less than five miles of bare steel pipeline among the three of them. In

¹¹ Opening Testimony of Joint Utilities/100, p 12

1 2001, Staff supported NW Natural's request for a special cost recovery
2 mechanism to accelerate the replacement of its remaining bare steel pipeline.
3 The cost recovery mechanism was in effect for longer than a decade and NW
4 Natural has completed the replacement.

5 **Q. Do the policies outlined in FERC's Policy Statement lead Staff to**
6 **conclude that cost recovery mechanisms like that proposed by the Joint**
7 **Utilities are warranted?**

8 A. Not at this time because it appears that such mechanisms are premature. Staff
9 does not believe the Joint Utilities are currently preparing to make investments
10 of the type that warrant special cost recovery. Notably, FERC issued its Policy
11 Statement in part to anticipate new investment precipitated by new regulations
12 that may be issued by PHSMA. These regulations have not yet been issued.
13 The investment that is contemplated by the Joint Utilities for the next few years
14 is generally what should be expected in the ordinary course of business. To
15 the extent the Joint Utilities could establish that portions of the investment are
16 beyond what is expected in the ordinary course of business, the amounts at
17 issue are not sufficient to warrant special cost recovery.

18 **Q. If the Commission disagrees with Staff and authorizes the Joint Utilities**
19 **to implement special cost recovery mechanisms, does Staff support the**
20 **mechanism design that the Joint Utilities propose in their testimony?**

21 A. Staff supports the Joint Utilities' proposal to include an earnings review and
22 make the mechanisms subject to periodic review. But, Staff does not support
23 other criteria proposed by the Joint Utilities.

1 If the Commission issues an order describing the conditions for a special rate
2 recovery mechanism, Staff recommends that any mechanism should be:

- 3 (1) established in a general rate case or within three years of the
4 final order in its most recent general rate case so that the
5 Commission can ensure that base rates are reasonable;
- 6 (2) limited to costs for capital investments identified at the time the
7 mechanism is established that are needed to comply with
8 federal regulations or that are necessary for the safety of the
9 system, that are not O&M, or normal capital or other
10 expenditures to maintain the pipeline's system in the ordinary
11 course of business;
- 12 (3) include a cost recovery cap or caps, set at the time the cost
13 recovery mechanism is established, to limit the maximum
14 amount of costs a utility can recover for the identified
15 investments;
- 16 (4) be subject to periodic review, along with the general costs and
17 rates of the utility, to ensure the utility's rates remain
18 reasonable;
- 19 (5) include an earnings test so that the utility is allowed to recover
20 costs only to the extent the recovery will not cause the utility to
21 earn above its authorized rate of return;
- 22 (6) include a depreciation review test that limits annual amounts
23 available for recovery to the incremental costs that exceed the

1 company's total annual depreciation on its Oregon-allocated
2 rate base; and

3 (7) be limited to a period of no longer than three years.

4 **Q. Please explain the reasoning for the cost recovery mechanism elements**
5 **that you list above.**

6 A. Most of these elements are borrowed from those announced by FERC in its
7 2015 Policy Statement. FERC specified that the mechanism could be
8 established only if the pipeline's base rates had been recently reviewed, either
9 by means of a general section 4 rate proceeding or through a collaborative
10 effort between the pipeline and its customers.¹² FERC also specified that the
11 cost recovery mechanism must be subject to periodic review to ensure that the
12 surcharge and base rates remain reasonable.¹³ Staff believes the first criteria
13 is appropriate to ensure that at the time the surcharge is established, the gas
14 utilities' overall rates are reasonable and appropriately reflect the utility's costs.
15 Similarly, a provision requiring periodic review of the mechanism and the
16 utility's rates will help to ensure that the utility's overall earnings are reasonable
17 and allow the Commission to consider whether to continue the mechanism
18 even if the utility is over recovering for costs in other areas. Staff recommends
19 that the mechanisms extend no longer than three years, to make sure rates
20 remain reasonable.

¹² 151 FERC 61,047 (2015 WL 1752866 at 10-11).

¹³ 151 FERC 61,047 (2015 WL 1752866 at 18).

1 Second, FERC determined that to obtain a cost recovery mechanism, pipeline
2 operators would have to specifically identify the capital investments, including
3 the facilities to be modified or replaced, for which they wanted cost recovery.¹⁴
4 FERC noted that requiring pipeline operators to include this level of specificity
5 in their requests would help ensure the amounts subject to recovery are for
6 eligible project investments rather than investments that are expected of an
7 operator in the ordinary course of business. FERC also required that pipeline
8 operators provide an estimate of the investments in order to set an upper limit
9 (cap) on the costs eligible for recovery under the surcharge.¹⁵

10 Staff is concerned about the ability of the Joint Utilities to separate costs
11 incurred in the ordinary course of business from extraordinary costs that are
12 eligible for a special recovery mechanism and believes that requiring the
13 utilities to specifically identify the projects and facilities will facilitate this
14 determination. Also, identifying the investments with specificity, in advance, will
15 help to ensure the utilities are conducting the appropriate risk assessment and
16 planning for their systems. And, establishing an upper limit on the costs that
17 are subject to recovery provides ratepayer protection and an incentive to
18 manage costs.

19 The fifth and sixth criteria that Staff suggests (earnings test and depreciation
20 test) are not included in FERC's five criteria. Staff believes these criteria are
21 appropriate to protect ratepayers, however. The Commission generally applies

¹⁴ 151 FERC 51,047 (2015 WL 1752866 at 12-16).

¹⁵ 151 FERC 51,047 (2015 WL 1752866 at 15).

1 an earnings test prior to allowing cost recovery under special mechanisms such
2 as deferrals or adjustment clauses.

3 To further protect ratepayers, Staff suggests a test comparing the annual costs
4 subject to recovery under the mechanism to the annual amount of depreciation
5 for the utility's Oregon-allocated rate base. NW Natural asserts that a special
6 recovery mechanism is warranted for safety investments so that the utilities can
7 avoid regulatory lag.¹⁶ However, regulatory lag works both ways. Staff
8 recommends that the Commission examine both the utility's accumulated
9 depreciation on its rate base and the cost of investments to be added before
10 authorizing the utility to recover capital investment between general rate cases.

11 **Q. Does this conclude your testimony?**

12 A. Yes.

13

¹⁶ NWN/100, Thompson/9.

**CASE: UM 1722
WITNESS: LORI KOHO**

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualifications Statement

February 8, 2016

WITNESS QUALIFICATIONS STATEMENT

NAME: Lori Koho

EMPLOYER: Public Utility Commission of Oregon

TITLE: Administrator
Utility Safety, Reliability and Security Division

ADDRESS: 201 High Street SE. Suite 100
Salem, OR. 97301

EDUCATION: M.S. Chemical Engineering, Washington State University

EXPERIENCE: I have been employed by the Public Utility Commission since 2006. I have been the administrator of the Safety, Reliability, and Security Division since September of 2012. My previous responsibilities at the Commission included Manager of Natural Gas Rates & Planning, and as a senior utility analyst, I was lead staff for the Energy Trust, avoided costs, energy efficiency and low-income programs.

CASE: UM 1722
WITNESS: Judy Johnson

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 200

Opening Testimony

February 8, 2016

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Judy Johnson. My business address is 201 High Street SE Suite
3 100, Salem, Oregon 97308.

4 **Q. Please describe your educational background and work experience.**

5 A. My Witness Qualification Statement is found in Exhibit Staff/201.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to address NW Natural Gas Company's (NW
8 Natural or NWN) request to extend their System Integrity Program cost
9 recovery mechanism for three additional years.

10 **Q. Did you prepare an exhibit for this docket?**

11 A. Yes. I prepared Exhibit Staff/201, which is my witness qualification statement.

12 **Q. Did you conduct discovery in this docket.**

13 A. Yes. Staff issued 20 data requests to NW Natural, and also issued data
14 requests to Cascade Natural Gas Company and Avista Utilities.

15 **Q. Please provide some history of NW Natural's SIP.**

16 A. NW Natural's cost recovery mechanism for its "System Integrity Program" (SIP)
17 originated with NW Natural's Bare Steel Replacement Program in 2001. In
18 2001, Staff was concerned with bare steel pipes in NW Natural's system, some
19 of which dated back to 1940. NW Natural and Staff entered into a stipulation
20 intended to allow NWN to halve the time frame necessary to replace the bare
21 steel. At the time of the 2001 stipulation, NW Natural was investing about \$3
22 million annually in bare steel replacement activities. The 2001 stipulation
23 allowed NW Natural to invest as much as \$6 million in its bare steel

1 replacement activities, with the incremental \$3 million considered as
2 accelerated bare steel replacement costs.¹

3 NW Natural's cost recovery mechanism for the Bare Steel Replacement
4 Program was subsequently expanded to allow recovery of other investment,
5 including investment for NW Natural's Transportation Integrity Management
6 Program (TIMP), and its Distribution Integrity Program (DIMP). In 2004,
7 pursuant to requirements in federal legislation, the U.S. Department of
8 Transportation Pipeline and Hazardous Materials and Safety Administration
9 (PHMSA) adopted the Transmission Integrity Management Program (TIMP)
10 setting out rigorous requirements for assessment of transmission pipeline
11 integrity.² PHMSA adopted similar requirements for distribution pipeline
12 operation in the Distribution Integrity Management Program (DIMP) in response
13 to federal legislation adopted in 2006.³

14 The Commission adopted an additional safety cost recovery mechanism to
15 allow recovery of the incremental requirements for NW Natural's integrity
16 management program related to its transmission pipelines adopted in
17 compliance with TIMP.⁴ In 2009, NW Natural, Staff, the Northwest Industrial
18 Gas Users (NWIGU) and the Citizens' Utility Board of Oregon (CUB) entered
19 into a stipulation under which NWN was allowed to recover costs for the three

¹ Order No. 01-843.

² 49 C.F.R. §§ 192.901, *et seq.*

³ 49 C.F.R. § 192.1001, *et seq.*

⁴ Order No. 04-390.

1 programs (together NW Natural's "SIP") that exceeded certain amounts in
2 rates, up to a soft cap of \$12 million.⁵

3 In 2012, as part of NW Natural's general rate case, CUB, Staff, NW Natural and
4 NWIGU entered into a second stipulation relating to NWN's SIP, which the
5 Commission adopted in Order No. 12-408. Under the 2012 stipulation:

- 6 (1) NW Natural's SIP would remain in place for two years
7 after the effective date of the rate case, after which date it
8 would sunset;
- 9 (2) for the remaining two years of the program, the company
10 would make an annual filing specifying projects and
11 expenses that are proposed to be tracked into rates
12 through the SIP for that year;
- 13 (3) the soft cap on recovery and other previously agreed to
14 limitations on recovery would stay in place;
- 15 (4) the Bare Steel stipulation would continue to remain in
16 effect until 2021; and,
- 17 (5) NWN would retain the right to ask the Commission to
18 continue the SIP past the sunset date.⁶

19 On May 1, 2013, Staff, NWIGU, CUB and NW Natural entered into a third
20 stipulation related to NW Natural's SIP that extended NW Natural's SIP cost
21 recovery mechanism through November 2014, with some modifications.

⁵ Order No. 09-067.

⁶ Order No. 12-408 at 9-10.

1 Because NW Natural planned to be finished with bare steel replacement by the
2 end of 2015, the stipulating parties agreed that bare steel replacement costs
3 would not be included in the SIP after 2015.⁷

4 The stipulating parties' testimony in support of the 2013 stipulation noted that
5 extending the SIP recovery mechanism would facilitate NW Natural's timely
6 completion of the South of Monmouth Bare Steel Replacement Project, a 12-
7 mile long corridor of bare steel. The stipulating parties noted that completion of
8 that project will increase the safety of the company's distribution system by
9 accelerating the removal of bare steel.⁸

10 **Q. What costs does NW Natural propose to recover through the SIP recovery**
11 **mechanism if it is extended for three years as NW Natural requests?**

12 A. NW Natural proposed to recover costs incurred in implementing its SIP. NW
13 Natural states that it intends to spend almost identical amounts in 2015, 2016,
14 and 2017 for activities such as "Automated Shutoff Valve" and "Remote Control
15 Valve" installation and replacement of pipe that is susceptible to corrosion leaks
16 (failures), and preparing for and addressing consequences of natural forces.⁹
17 NW Natural will also spend almost identical amounts in both 2016 and 2017 to
18 replace portions of pipe for which Maximum Allowable Operating Pressure
19 (MOAP) cannot be verified and will spend similar amounts in 2015, 2016, and
20 2017 to prepare its pipe for and to conduct in-line inspections.¹⁰ Finally, NW

⁷ Order No. 13-179.

⁸ Order No. 13-179 at 3.

⁹ NWN/200, Karney/4.

¹⁰ NWN/200, Karney/6-8.

1 Natural plans to spend \$500,000 in both 2016 and 2017 for “emergency
2 response.”¹¹

3 NW Natural also proposes to modify the amounts eligible for recovery. Under
4 NW Natural’s proposal, Schedule 177 would allow for the recovery of up to \$8
5 million of capital costs after the first \$1 million spent for SIP in a PGA year.

6 Thus, the new threshold would be \$1 million and the new cap would be \$8
7 million.¹²

8 **Q. Does Staff support continuing NW Natural’s SIP?**

9 A. No.

10 **Q. If Staff previously supported a cost recovery mechanism for NW Natural’s
11 SIP, why does Staff not support NW Natural’s request in this docket?**

12 A. Staff’s support of NW Natural’s SIP recovery mechanism has been based
13 primarily on Staff’s interest in facilitating NW Natural’s Bare Steel Replacement
14 Project, which has now concluded. In 2004 and 2009, Staff supported
15 expanding the SIP recovery mechanism to address incremental costs
16 associated with implementing requirements of new federal programs, TIMP and
17 DIMP. However, these programs are no longer new.

18 As discussed in the testimony of Staff witness Koho, costs associated with NW
19 Natural’s distribution integrity management programs are no longer incremental
20 costs, but normal costs NW Natural must expect to incur in the ordinary course
21 of business. Staff disagrees that it is appropriate to create a cost recovery

¹¹ NWN/200, Karney/4.

¹² NWN/100, Thompson/7.

1 mechanism that would likely capture ordinary operational costs, such as costs
2 to systematically replace pipe susceptible to corrosion, conduct tests required
3 by federal regulations, or to prepare its system for natural forces.

4 Further, Staff notes that the capital investments at issue are relatively modest
5 compared to NW Natural's existing rate base. Any loss of opportunity to earn a
6 return on this investment due to regulatory lag should be compared to the effect
7 of regulatory lag on the reduction in interest expense and return required as
8 plant depreciates and net plant becomes smaller between rate cases for
9 existing plant. While NW Natural is not allowed to add new investment to rate
10 base between rate cases, it also does not have to remove depreciated
11 investment between rate cases. Under the cost recovery mechanism proposed
12 by NW Natural, NW Natural will update rate base to add new investment, but
13 will not update rate base by removing investment that has been depreciated
14 since the last general rate case.

15 **Q. What is Staff's recommendation if the Commission decides to continue**
16 **the SIP?**

17 If the Commission decides to authorize continuation of the SIP, Staff
18 recommends that the Commission include the elements outlined in Staff
19 witness Koho's testimony. First Staff recommends that the Commission limit
20 cost recovery to capital investment (no O&M) needed to comply with federal or
21 state regulations or that are necessary for the safety of the system and that are
22 not normal capital investments in the ordinary course of business. Second,
23 cost recovery should be limited to specific projects identified at the time the

1 surcharge is created and for which NW Natural has described the investment,
2 the facilities at issue, and how the proposed investment relates to a specific
3 state or federal regulation or why it is needed for the safety. Third, Staff
4 recommends that the Commission limit any mechanism to one year. That
5 provides NWN with the opportunity to file to re-establish base rates to
6 incorporate the investment. Finally, Staff recommends that the Commission
7 include the other safeguards detailed in Staff witness Koho's testimony, which
8 are that the mechanism must (1) be established in a general rate case or within
9 three years of a general rate case, (2) be subject to periodic review, (3) include
10 an earnings test, and (4) include a depreciation comparison test.

11 **Q. Does this conclude your testimony?**

12 A. Yes.

13

14

CASE: UM 1722
WITNESS: Judy Johnson

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 201

Witness Qualifications Statement

February 8, 2016

WITNESS QUALIFICATIONS STATEMENT

NAME: Judy A. Johnson

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TITLE: Senior Economist
Energy Rates, Finance and Audit Division

ADDRESS: 201 High Street SE., Suite 100
Salem, OR. 97301

EDUCATION: MBA with an emphasis in Statistics from
Eastern Washington University
Cheney, Washington

BA in Accounting from
Eastern Washington University
Cheney, Washington

EXPERIENCE: 3/95-Present I have been employed by the Oregon Public Utility
Commission since March of 1995. My current
position is as a Senior Economist in Energy, Rates,
Finance, and Audit.

6/77-2/95 I was employed by Avista Corporation, an electric
and natural gas utility located in Spokane,
Washington. The majority of my employment was
spent in the Rates and Regulatory Affairs
Department as a Senior Rate Analyst. I have
prepared testimony and exhibits in numerous
electric and natural gas rate cases, primarily in the
area of results of operations and cost of service.