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Joint Utilities/100  
Witnesses: Thompson, Andrews, and Parvinen

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON  
**UG 286 & UM 1722**

In the Matters of

PUBLIC UTILITY COMMISSION OF  
OREGON,

Investigation into Recovery of Safety  
Costs by Natural Gas Utilities (UM 1722)

and

NORTHWEST NATURAL GAS  
COMPANY, dba NW NATURAL,

Request to Continue Schedule 177, the  
System Integrity Program Recovery  
Mechanism. (UG 286)

**JOINT OPENING TESTIMONY OF**  
**NORTHWEST NATURAL GAS COMPANY,**  
**AVISTA UTILITIES,**  
**AND**  
**CASCADE NATURAL GAS**  
**(“JOINT UTILITIES”)**

**December 1, 2015**

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## INTRODUCTION AND SUMMARY

3

**Q. Please state your names, positions and relevant history.**

4

A. My name is Mark Thompson. I am the Manager of Rates and Regulatory Affairs for Northwest Natural Gas Company, d/b/a NW Natural (“NW Natural”).

6

My name is Michael Parvinen. I am employed by Cascade Natural Gas

7

Corporation (“Cascade”) as the Director of Regulatory Affairs. In this capacity, I

8

am responsible for the management of all economic regulatory functions at the

9

Company.

10

My name is Liz Andrews. I am employed by Avista Utilities (“Avista”) as

11

Manager of Revenue Requirements.

12

**Q. What is the purpose of consolidated dockets UG 286 and UM 1722?**

13

A. These consolidated dockets have two purposes. *First*, the Commission will

14

decide whether to extend NW Natural’s existing cost recovery mechanism

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associated with its System Integrity Program (SIP). The SIP allows NW Natural

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to update its rate base on an annual basis to reflect certain system safety

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investments. *Second*, the Commission will investigate generally the recovery of

18

safety costs by natural gas utilities.

19

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

20

A. The Joint Utilities’ testimony addresses only the second issue related to the

21

recovery of investments made by utilities to enhance the safety and reliability of

22

their systems. In this testimony, we explain the policy objectives supporting

23

adoption of cost recovery mechanisms that provide for annual recovery of utility

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investments designed to enhance the safety and reliability of their systems. In

25

addition we will discuss the customer benefits that flow from these mechanisms

1 and we will propose guidelines for their review. For purposes of this testimony,  
2 we refer to this type of mechanism as a “safety investment recovery mechanism”  
3 or simply, “recovery mechanism.”

4 **Q. Please summarize your testimony.**

5 A. Over the past fourteen years, operators of natural gas pipelines have been  
6 required to respond to increasingly stringent laws and regulations designed to  
7 increase the safety and reliability of their systems. Beginning in 2002, Congress  
8 passed the Pipeline Safety Improvement Act, which required operators to identify  
9 transmission lines in high consequence areas (HCAs) and to implement written  
10 integrity management plans. In 2006 Congress passed the Pipeline Inspection,  
11 Protection, Enforcement and Safety Act, and in 2011 Congress passed the  
12 Pipeline Safety, Regulatory Certainty, and Job Creation Act. In addition, the  
13 Pipeline and Hazardous Materials Safety Administration (PHMSA) has developed  
14 detailed regulations implementing these laws, and is in the process of a myriad of  
15 additional rulemakings.

16 While these statutes and regulations generally require pipeline operators  
17 to assess and improve their systems, operators are, in certain cases, required to  
18 exercise a significant amount of discretion as to the specific actions to be taken  
19 and the timeline for compliance. This discretion means that operators may  
20 consider a number of factors in determining which investments to make, and at  
21 what times. Thus, in order to encourage pipeline operators to take a proactive  
22 approach to system safety investments—to go beyond minimum requirements,  
23 and to accelerate improvements— many state regulators around the country,  
24 including this Commission as well as the Federal Energy Regulatory  
25 Commission, have implemented a progressive approach to cost-recovery.

1           The Joint Utilities believe that safety investment recovery mechanisms  
2 will benefit utility customers through more reliable service, and benefit the public  
3 generally through a safer natural gas system. In addition, applied correctly, such  
4 mechanisms can reduce costs and avoid rate shock.

5           Nevertheless, the companies recognize that such mechanisms must be  
6 carefully designed to ensure that resulting rates are fair and reasonable. Toward  
7 that end, the Joint Utilities propose that the Commission adopt the following three  
8 guidelines for safety investment recovery mechanisms:

9           **1,        The Type of Program for Which Cost Recovery is Available:**

- 10                   • **The recovery mechanism should be used to recover costs of**  
11                   **a facilities replacement or improvement plan intended to**  
12                   **advance the safety and/or reliability of existing facilities.**
- 13                   • **The plan must be designed to implement federal, state, or**  
14                   **local laws or regulations, or public policies adopted to**  
15                   **promote the safe and efficient operation of natural gas**  
16                   **systems. The program should prioritize costs that are based**  
17                   **on updated risk assessments.**

18                   • **The recovery mechanism should be used to recover costs of**  
19                   **a facilities replacement or improvement plan intended to**  
20                   **advance the safety and/or reliability of existing facilities.**  
21           **2.        The Nature of the Costs that are Recoverable:**

- 22                   • **Capital Investment: The mechanism should be designed to**  
23                   **recover capital costs that are significant, and that are not**  
24                   **offset by associated revenues.**
- 25                   • **O&M Expense: The mechanism should cover expense that is**  
26                   **expected to be significant one-time expense or ongoing over**  
27                   **multiple years, and that is not included in current rates. It**  
28                   **should also cover expense that is difficult to forecast in rate**  
29                   **cases or incurred pursuant to laws/regulations/policies**  
30                   **adopted between rate cases.**

31                   • **The recovery mechanism should be used to recover costs of**  
32                   **a facilities replacement or improvement plan intended to**  
33                   **advance the safety and/or reliability of existing facilities.**  
34           **3.        Structure of the Adopted Mechanism**

- 35                   • **The Commission should not take a one-size-fits-all approach.**  
36                   **Rather, the Commission should consider recovery**  
37                   **mechanisms proposed by individual utilities on a case by**  
38                   **case basis.**

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*case basis, in either a general rate proceeding or other utility-specific docket.*

- *The mechanism should be subject to prudence reviews and earnings tests.*
- *The mechanism should be reviewed at appropriate intervals and adjusted if necessary.*

**BACKGROUND**

**Q. Please describe the origins of this docket.**

A. Since 2001, NW Natural has utilized a safety investment recovery mechanism to recover certain costs related to infrastructure investment implementing federal legislation and regulations requiring natural gas pipeline operators to make critical improvements to enhance system safety and reliability. This cost recovery mechanism is referred to as NW Natural's SIP.<sup>1</sup>

NW Natural's SIP was scheduled to expire on October 31, 2014, unless the Commission authorized an extension. On October 14, 2014, NW Natural made a tariff filing requesting an extension of the SIP, including several modifications to the program. The NW Natural tariff filing was docketed as docket UG 286.

At a public meeting on March 24, 2015, the Commission suspended NW Natural's tariff filing for investigation.<sup>2</sup> In addition, the Commission opened a generic investigation to examine the recovery of safety costs by natural gas utilities. The generic investigation was docketed as docket UM 1722. Dockets UG 286 and UM 1722 have now been consolidated.

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<sup>1</sup> The details of NW Natural's SIP are discussed in NW Natural's individual testimony, filed contemporaneously.

<sup>2</sup> Order No. 15-093.



1 mechanisms that allow for annual cost recovery substantially mitigates regulatory  
2 lag.

3 **Q. Can you provide an example?**

4 A. Yes. In 2001 the Commission adopted NW Natural's first safety investment  
5 recovery mechanism to address the costs of its Bare Steel program. Prior to the  
6 adoption of the mechanism, NW Natural had planned to replace the Bare Steel in  
7 its system over approximately forty years with an annual investment of  
8 approximately \$3 million.<sup>3</sup> With the adoption of a cost recovery mechanism, NW  
9 Natural was able to double its annual investment, and thereby cut in half the  
10 amount of time necessary to replace the bare steel in its system.<sup>4</sup> In its Staff  
11 Report supporting the program, Staff specifically noted that it recommended  
12 approval specifically because the "normal time frame for replacing corrosion-  
13 subject bare steel would likely result in higher costs of detecting and repairing  
14 leaks, and more importantly, impair the company's excellent service quality and  
15 safe distribution system."<sup>5</sup> Thus, Staff supported, and the Commission approved,  
16 a program that allowed NW Natural to accelerate the replacement of its bare  
17 steel distribution and transmission facilities by authorizing an annual rate  
18 adjustment to recover the accelerated investment outside of a general rate case.<sup>6</sup>

19 **Q. Do safety investment recovery mechanisms provide customer benefits?**

20 A. Yes. As described above, a mechanism promotes investment resulting in a safer  
21 and more reliable system. Second, a mechanism will potentially reduce the need  
22 for more frequent rate cases, which would otherwise be required to reduce  
23 regulatory lag. Less frequent rate cases will encourage cost control between

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<sup>3</sup> Order No. 01-843, Appendix A at 2.

<sup>4</sup> Order No. 01-843, Appendix A at 2.

<sup>5</sup> Order No. 01-843, Appendix A at 3.

<sup>6</sup> Order No. 01-843.

1 cases and reduce the need to incur additional rate case costs. Third, safety  
2 investment recovery mechanisms prevent rate shock because they allow a utility  
3 to include incremental investments in rates on a gradual, annual basis rather  
4 than all at once in a rate case.

5 **Q. Have other states adopted safety investment recovery mechanisms?**

6 A. Yes. For example, in 2012, the Washington Utilities and Transportation  
7 Commission (WUTC) adopted a policy statement intended to “develop a way for  
8 a gas company to reduce substantially that [regulatory] lag for recovering its  
9 investment pursuant to a pipe replacement program. . .”<sup>7</sup> The WUTC recognized  
10 that, “[w]ithout specific cause to order pipe replacement, we look to economic  
11 incentives as leverage to increase the replacement rate for elevated risk pipe.”<sup>8</sup>  
12 The WUTC adopted a “special pipe replacement program cost recovery  
13 mechanism,” modeled on NW Natural’s SIP, to provide the economic incentive  
14 for gas utilities to prioritize their investments to “meaningfully expedite and  
15 improve company performance in their pipe replacement programs.”<sup>9</sup>

16  
17 **Q. Has FERC adopted similar mechanisms?**

18 A. Yes. In 2013, FERC approved a contested settlement in *Columbia Gas*  
19 *Transmission, LLC* that included a safety investment recovery mechanism (which  
20 FERC referred to as a capital cost recovery mechanism, or “CCRM”).<sup>10</sup> In so  
21 doing, FERC explained that the settlement and CRRM “provide a reasonable  
22 means for Columbia to recover the substantial costs of addressing urgent public

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<sup>7</sup> *Re Policy of the Washington Utilities and Transportation Commission Related to Replacing Pipeline Facilities with an Elevated Risk of Failure*, Docket UG-120715, Commission Policy on Accelerated Replacement of Pipeline Facilities with Elevated Risk at ¶ 33 (Dec. 31, 2012).

<sup>8</sup> *Id.* at ¶ 35.

<sup>9</sup> *Id.* at ¶¶ 39, 35.

<sup>10</sup> *Columbia Gas Transmission, LLC*, 142 FERC ¶ 61,062 (Jan. 24, 2013).



1 safety and reliability concerns, without undercutting Columbia’s incentives to  
2 operate efficiently and to maximize service . . . .”<sup>11</sup>

3 **Q. Has FERC provided any additional guidance on safety cost recovery**  
4 **mechanisms?**

5 A. Yes. Following up on its *Columbia Gas* order, on April 16, 2015, FERC issued a  
6 Policy Statement intended to provide “greater certainty regarding the ability of  
7 interstate natural gas pipelines to recover the costs of modernizing their facilities  
8 and infrastructure to enhance efficient and safe operation of their systems.”<sup>12</sup>  
9 FERC’s Policy Statement explains the standards FERC will require interstate  
10 natural gas pipelines to satisfy in order to approve safety investment recovery  
11 mechanisms.

12 **Q. Does FERC typically allow gas utilities to recovery infrastructure**  
13 **investments through annual cost recovery mechanisms?**

14 A. No. FERC specifically acknowledged that its Policy Statement reflects a  
15 departure from its normal approach to ratemaking, in which it typically declines to  
16 allow cost recovery outside of rate cases. However, noting that recent  
17 governmental initiatives have “raised the probability that interstate natural gas  
18 pipelines will soon face increased costs to enhance the safety and reliability of  
19 their systems” FERC issued its Policy to “ensure that existing Commission  
20 ratemaking policies do not unnecessarily inhibit interstate natural gas pipelines’  
21 ability to expedite needed or required upgrades and improvements, such as

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<sup>11</sup> *Id.* at ¶ 22.

<sup>12</sup> *Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, 151 FERC ¶ 61,047 (Apr. 16, 2015).

1 replacing old and inefficient compressors and leak-prone pipelines.”<sup>13</sup> FERC

2 concluded:

3 We find on balance, however, that consideration of such  
4 mechanisms is justified if they are properly designed to  
5 limit a pipeline’s recovery of such costs to those shown to  
6 modernize the pipeline’s system infrastructure in a manner  
7 that enhances system safety, reliability and regulatory  
8 compliance, and are subject to conditions that ensure that  
9 the resulting rates are just and reasonable and protect  
10 natural gas consumers from excessive costs.<sup>14</sup>

11 FERC’s Policy Statement therefore acknowledges two very important  
12 concerns that are relevant here. *First*, FERC recognized that safety and  
13 environmental regulations will likely result in increased costs to ensure the safe  
14 and reliable operation of gas pipelines. *Second*, FERC recognized that its  
15 normal ratemaking policies could inhibit beneficial investment designed to  
16 enhance safety and reliability. Under these circumstances, FERC found it  
17 appropriate to address these concerns with a recovery mechanism to allow  
18 pipeline operators to reduce regulatory lag through accelerated investment  
19 recovery.  
20

21 **Q. What specific governmental initiatives prompted FERC to allow safety**  
22 **investment recovery mechanisms?**

23 A. FERC specifically cited the following regulatory developments that lead it to  
24 depart from its conventional ratemaking policies:

- 25 • **Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011:**  
26 In 2012, Congress passed this legislation, which requires the United  
27 States Department of Transportation (DOT) to take various actions to  
28 reduce the risk of future pipeline failures, including requiring DOT to (1)  
29 consider expansion and strengthening of its integrity management  
30 regulations, (2) consider requiring automatic shut-off valves on new  
31 pipeline construction, (3) require pipelines to reconfirm their Maximum  
32 Allowable Operating Pressures, and (4) conduct surveys to measure

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<sup>13</sup> *Id.* at ¶¶ 1-2.

<sup>14</sup> *Id.* at ¶ 2.

1 progress in plans for safe management and replacement of cast iron  
2 pipelines.<sup>15</sup>

3 • **Pipeline Safety Reform Initiative:** The Pipeline and Hazardous  
4 Materials Safety Administration (PHMSA) is in the process of  
5 implementing this multi-year initiative to comply with the Pipeline Safety  
6 Act's mandate to enhance the agency's ability to reduce the risk of future  
7 pipeline failures.<sup>16</sup>

8 • **Expansion of High Consequence Areas (HCA):** PHMSA is considering  
9 expanding the definition of an HCA<sup>17</sup> so that more miles of pipeline will be  
10 subject to integrity management requirements.<sup>18</sup>

11 • **Expanded Pipeline Repair Criteria:** PHMSA is considering new rules  
12 related to repair criteria, including applying the integrity management  
13 repair criteria to non-HCAs; reassessing the repair criteria in areas where  
14 the population has grown since the pipeline was constructed; requiring  
15 methods to validate in-line inspection tool performance and qualifications  
16 of personnel; and implementing risk-tiering such that repairs in an HCA  
17 have priority over repairs in a non-HCA.<sup>19</sup>

18 • **Expanded Pipeline Assessment Requirements:** PHMSA is considering  
19 changes to its requirements that pipelines perform baseline and periodic  
20 assessments of pipeline segments in an HCA through one or a  
21 combination of in-line inspection, pressure testing, direct assessment of  
22 external and internal corrosion, or other technology demonstrated to  
23 accurately assess the condition of a pipe.<sup>20</sup>

24 • **Greenhouse Gas (GHG) Concerns:** FERC noted growing concerns  
25 about the emissions of GHG in the production and transportation of  
26 natural gas.<sup>21</sup>

27  
28 **Q. What standards did FERC adopt for approval of safety investment recovery**  
29 **mechanisms?**

30 A. FERC adopted the following five standards that would need to be satisfied in  
31 order to obtain approval of a safety investment recovery mechanism:

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<sup>15</sup> *Id.* at ¶ 4.

<sup>16</sup> *Id.* at ¶ 5.

<sup>17</sup> An HCA is a location which is defined in the pipeline safety regulations as an area where pipeline releases have greater consequences to the safety, health and environment. Basically, these are areas with greater population density.

<sup>18</sup> *Id.* at ¶ 6.

<sup>19</sup> *Id.* at ¶ 6.

<sup>20</sup> *Id.* at ¶ 7.

<sup>21</sup> *Id.* at ¶¶ 8-9.

- 1 (1) **Review of Existing Rates:** The pipeline’s base rates must  
2 have been recently reviewed, either by means of a general  
3 rate case or through a collaborative effort between the  
4 pipeline and its customers. The purpose of this  
5 requirement is to ensure that the pipeline is not over-  
6 recovering its costs.<sup>22</sup>
- 7 (2) **Eligible Costs:** The eligible costs must be limited to one-  
8 time capital costs incurred to modify the pipeline’s existing  
9 system to comply with safety or environmental regulations  
10 issued by PHMSA, EPA, or other federal or state  
11 government agencies, and other capital costs shown to be  
12 necessary for the safe or efficient operation of the pipeline,  
13 and the pipeline must specifically identify each capital  
14 investment to be recovered by the surcharge. The safety  
15 investment recovery mechanism is not intended to capture  
16 routine investments made in the ordinary course of  
17 business.<sup>23</sup>
- 18 (3) **Avoidance of Cost Shifting:** The pipeline must design the  
19 proposed surcharge in a manner that will protect the  
20 pipeline’s captive customers from cost shifts if the pipeline  
21 loses shippers or must offer increased discounts to retain  
22 business.<sup>24</sup>
- 23 (4) **Periodic Review of the Surcharge and Base Rates:** The  
24 pipeline must include some method to allow a periodic  
25 review of whether the surcharge and the pipeline’s base  
26 rates remain just and reasonable.<sup>25</sup>
- 27 (5) **Shipper Support:** The pipeline must work collaboratively  
28 with shippers to seek shipper support for any surcharge  
29 proposal. Unanimous support, however, is not necessary  
30 and FERC stressed that it would approve a just and  
31 reasonable mechanism even over opposition.<sup>26</sup>
- 32 **Q. Are these FERC guidelines helpful in formulating guidelines for the**  
33 **Commission’s consideration in this docket?**
- 34 A. Yes. Several of them are not directly applicable to a mechanism designed for  
35 natural gas utilities; however, these FERC guidelines do serve as a helpful

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<sup>22</sup> *Id.* at ¶ 52.

<sup>23</sup> *Id.* at ¶ 63.

<sup>24</sup> *Id.* at ¶ 78.

<sup>25</sup> *Id.* at ¶ 87.

<sup>26</sup> *Id.* at ¶ 93.

1 “check” as to the validity of the guidelines we have proposed in this case. For  
2 that reason, we provide a brief comparison at the end our testimony.

3 **RECOMMENDED GUIDELINES FOR SAFETY INVESTMENT RECOVERY**  
4 **MECHANISMS**

5 **Q. Based on the foregoing policies, what specific guidelines do you**  
6 **recommend that the Commission apply when evaluating a proposed safety**  
7 **investment recovery mechanism?**

8 A. The Joint Utilities propose three general guidelines. The first guideline  
9 addresses the type of program to be included in a safety investment recovery  
10 mechanism. The second guideline addresses the nature of the costs that should  
11 be recoverable. The third guideline addresses our recommendation for the  
12 preferred structure of the recovery mechanism.

13 **Q. What is your first proposed guideline, addressing the type of program that**  
14 **should be eligible for a safety investment recovery mechanism?**

15 A. The Joint Utilities recommend the first guideline as follows:

16 ***The Type of Program for Which Cost Recovery is Available:***

17  
18 **A. *The recovery mechanism should be used to recover costs of***  
19 ***a facilities replacement or improvement plan intended to***  
20 ***advance the safety and/or reliability of existing facilities.***

21  
22 **B. *The plan must be designed to implement federal, state, or***  
23 ***local laws or regulations, or public policies adopted to***  
24 ***promote the safe and efficient operation of natural gas***  
25 ***systems. The program should prioritize costs that are based***  
26 ***on updated risk assessments.***

27 **Q. Your guideline refers to a “facilities replacement or improvement plan.” Is**  
28 **it your expectation that a utility would have a single project that would be**  
29 **eligible under the safety investment recovery mechanism?**

1 A. Not necessarily. Our use of the terms “plan” or “program” here is intended to  
2 refer to comprehensive plan that may include numerous smaller projects, each  
3 designed to respond to one of the myriad safety and/or reliability laws,  
4 regulations, or policies.

5 **Q. What type of regulatory review will the plan or program receive?**

6 A. In the interests of full transparency, the Joint Utilities recommend that any utility  
7 plan covered by a safety investment recovery mechanism be reviewed by the  
8 Commission, Staff, and interested stakeholders. The plan could be subject to a  
9 formal approval process—although the process ideally could be conducted on an  
10 expedited basis, and the approval would allow for some flexibility in plan  
11 activities.

12 **Q. What types of plans do you anticipate being required by federal, state, or**  
13 **local law?**

14 A. There are a number of potential regulations that may have a significant impact on  
15 a utility’s system and require significant capital investment. FERC’s recent Policy  
16 Statement provides a good overview of the potential federal regulations that are  
17 expected. Although FERC’s analysis focused on the impact of potential  
18 regulations on the interstate pipeline system, many of the same regulations will  
19 have similar impacts on distribution facilities.

20 In addition, there are issues of state and local concern that may be  
21 appropriate to include in a utility’s safety investment plan. For example, the Joint  
22 Utilities are currently analyzing the need for upgrades to our systems to ensure  
23 that we are prepared for the potentially large seismic event that is expected to  
24 eventually occur in the Northwest. The need for and timing of these upgrades  
25 could be included in a safety improvement plan and they could be appropriate for  
26 recovery through a safety investment recovery mechanism.

1 **Q. What is your second proposed guideline, regarding the type of costs that**  
2 **should be recoverable?**

3 A. The Joint Utilities recommend the second guideline as follows:

4 ***The Nature of the Costs that are Recoverable:***

- 5
- 6 • ***Capital Investment: The mechanism should be designed to***  
7 ***recover capital costs that are significant, and that are not***  
8 ***offset by associated revenues.***
- 9
- 10 • ***O&M Expense: The mechanism should cover expense that is***  
11 ***expected to be significant one-time expense or ongoing over***  
12 ***multiple years, and that is not included in current rates. It***  
13 ***should also cover expense that is difficult to forecast in rate***  
14 ***cases or incurred pursuant to laws/regulations/policies***  
15 ***adopted between rate cases.***

16 **Q. Please elaborate on the second guideline as it applies to capital**  
17 **investments.**

18 A. First, the Joint Utilities recommend that the Commission establish a safety  
19 investment cost recovery mechanism only for capital costs that are significant.  
20 We do not recommend a specific dollar figure to be adopted in this case,  
21 because we believe that whether an investment is significant will necessarily vary  
22 for each utility based on its size, capital budgets, and numerous other utility-  
23 specific considerations.

24 In addition, the investment should not be substantially offset by  
25 incremental revenues; to the extent an investment produces enough revenue to  
26 offset its costs, the utility would not be financially harmed if it is forced to wait  
27 until a general rate case to include the investment in rate base.

28 **Q. Please elaborate on the second guideline as it applies to O&M expenses.**

29 • We believe that it is appropriate to recover O&M costs through a safety  
30 investment recovery mechanism if they are either difficult to forecast or designed

1 to comply with laws or policies that are adopted between rate cases. And of  
2 course the utility must demonstrate that they are not already being recovered in  
3 base rates.

4 **Q. What is your third proposed guideline, regarding the structure of the safety**  
5 **investment recovery mechanism?**

6 A. The Joint Utilities propose the following:

7 ***Structure of the Adopted Mechanism***

- 8
- 9 • ***The Commission should not take a one-size-fits-all approach. Rather, the Commission should consider recovery mechanisms proposed by individual utilities on a case-by-case basis, in either a general rate proceeding or other utility-specific docket.***
- 10
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- 15 • ***The mechanism should be subject to prudence reviews and earnings tests.***
- 16
- 17
- 18 • ***The mechanism should be reviewed at appropriate intervals and adjusted if necessary.***
- 19

20 **Q. Why do you recommend that the Commission adopt these mechanisms on**  
21 **a case-by-case basis, instead of simply approving one mechanism that will**  
22 **apply to all gas utilities?**

23 A. A carefully designed safety investment recovery mechanism may be specific as  
24 to the types of program costs that are eligible, and also may include spending  
25 thresholds and caps. For instance, while NW Natural's Schedule 177 recovery  
26 mechanism has been revised over time, it has always been very specific as to  
27 the program costs eligible, and has always required NW Natural to meet a  
28 spending threshold before which costs would be included in the mechanism, and  
29 has always included a soft cap for eligible spending.<sup>27</sup> These types of provisions

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<sup>27</sup> See e.g., NW Natural Advice No. 14-23.



1 will always be specific to individual utility needs. That is why we are proposing  
2 general guidelines instead of strict rules.

3 **Q. Why are you proposing a prudence review for these costs? Doesn't Staff**  
4 **review the utilities' safety programs separately?**

5 A. While Staff does regularly review the utilities' safety plans, all parties will need  
6 the opportunity to review the prudence of amounts spent prior to their  
7 amortization in rates.

8 **Q. Why are you proposing an earnings review?**

9 A. As an automatic adjustment clause, the safety investment recovery mechanism  
10 is not required by statute to include an earnings review. However, Staff, CUB,  
11 and NWIGU have indicated that they believe an earnings review would be an  
12 essential component of any mechanism adopted in this case and we do not  
13 object.

14 **Q. You discussed FERC's Policy Statement above. Are your proposed**  
15 **guidelines consistent with the principles underlying FERC's proposed**  
16 **standards?**

17 A. Yes. FERC's first standard is that the pipeline's base rates must have been  
18 recently reviewed to ensure that the pipeline is not over-recovering its costs. Our  
19 inclusion of an earnings test serves that same purpose.

20 **Q. Please address FERC's second standard regarding eligible costs.**

21 A. FERC's second principle seeks to limit costs that may be recovered under the  
22 mechanism to those incurred to modify the pipeline's existing system to comply  
23 with safety and reliability laws and regulations. Our proposed guideline on this  
24 point is very similar.

25 **Q. Please address FERC's third standard requiring the avoidance of cost**  
26 **shifting.**

1 A. The cost shifting principle reflects the fact that interstate pipeline customers have  
2 choices as to with whom they will contract, and that customers might leave a  
3 pipeline due to cost increases associated with safety investments. Given that  
4 natural gas utility customers do not have a choice of natural gas providers and  
5 therefore are unlikely to leave the system due to the type of modest cost increase  
6 that might be involved with a safety investment recovery mechanism, this point is  
7 not applicable.

8 **Q. Please address FERC's fourth standard requiring the periodic review of the**  
9 **surcharge and base rates.**

10 A. Any recovery mechanism will require Commission review of the surcharge prior  
11 to amortization, and the earnings review will require the review of base rates. In  
12 addition, we propose that any mechanism approved be subject to periodic  
13 review.

14 **Q. Please address FERC's fifth standard requiring the pipeline to seek shipper**  
15 **support.**

16 A. The analogue in our case would require the gas utility to work collaboratively with  
17 the parties in designing a safety investment recovery mechanism. This  
18 collaboration could take place in the form of pre-filing workshops in which the  
19 parties could review and discuss a utility proposal. However, we note that FERC  
20 was clear that it would adopt a well-designed mechanism over shippers'  
21 opposition if it would result in just and reasonable rates.

22 **Q. Does this conclude your opening testimony?**

23 A. Yes.