



Oregon

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May 29, 2014

via Electronic Filing

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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**RE: Docket No. UM 1635 Phase II – In the Matter of
NORTHWEST NATURAL GAS COMPANY, dba NW NATURAL
Mechanism for Recovery of Environmental Remediation Costs.**

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff Rebuttal Testimony.

/s/ Kay Barnes

Kay Barnes

Filing on Behalf of Public Utility Commission Staff

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c: UM 1635 Service List (parties)

**PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1635 Phase II

**JOINT STAFF
REBUTTAL TESTIMONY OF**

**JUDY JOHNSON
AND
BRIAN BAHR**

**In the Matter of
NORTHWEST NATURAL GAS COMPANY, dba NW
NATURAL
Mechanism for Recovery of Environmental
Remediation Costs.**

May 29, 2014

CASE: UM 1635
WITNESSES: JOHNSON-BAHR

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 300

Rebuttal Testimony

May 29, 2014

1 **Q. PLEASE STATE YOUR NAME, PRESENT POSITION WITH THE OREGON**
2 **PUBLIC UTILITY COMMISSION, AND BUSINESS ADDRESS.**

3 A. My name is Judy Johnson. I am employed as a Senior Economist in Energy -
4 Rates, Finance and Audit Division of the Utility Program. My business address
5 is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97308.

6 My name is Brian Bahr. I am employed as a Senior Economist in Energy -
7 Rates, Finance and Audit Division of the Utility Program. My business address
8 is 3930 Fairview Industrial Dr. SE, Salem, Oregon 97308.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
10 **EXPERIENCE.**

11 A. Our Witness Qualification Statements are found in Exhibit Staff/101 and Exhibit
12 Staff/203.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

14 A. Staff presents its review of other parties' recommendations on the issues in this
15 proceeding and makes a change to its previously filed Response Testimony.

16 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS FOUND IN THE**
17 **RESPONSE TESTIMONY OF OTHER PARTIES.**

18 A. Two parties, in addition to Staff, submitted testimony in response to NW
19 Natural's opening testimony of Phase II of this docket. Without withdrawing
20 support from any of its prior proposals, the Citizens' Utility Board (CUB) offers
21 a new recommendation in which environmental costs arising from outdated
22 assets are netted against revenue streams from other similar assets. The
23 Northwest Industrial Gas Users' (NWIGU) testimony emphasizes that any

1 environmental remediation costs should be allocated between NW Natural's
2 regulated and unregulated operations first, before being subjected to a tiered
3 earnings test. Please refer to the response testimonies of CUB and NWIGU for
4 further details of each of their specific recommendations.

5 **Q. DOES STAFF SUPPORT NWIGU'S PROPOSAL TO ASSIGN A PORTION**
6 **OF THE ENVIRONMENTAL REMEDIATION COSTS TO NW NATURAL'S**
7 **NON-REGULATED AFFILIATES?**

8 A. No. Staff's direct testimony analyzes the historical ratemaking treatment of
9 revenues from the sales of non-gas by-products produced from the natural gas
10 manufacturing process. The analysis concludes that such revenues were
11 credited to regulated operations thereby reducing the rates of regulated
12 operations. Therefore, it seems unreasonable to allocate some of the costs to
13 non-regulated operations.

14 **Q. PLEASE DESCRIBE STAFF'S POSITION REGARDING THE OTHER**
15 **RECOMMENDATIONS OFFERED BY CUB AND NWIGU.**

16 A. Staff has reviewed the recommendations in the response testimony of CUB
17 and NWIGU. Both parties present alternatives to issues in this proceeding and
18 provide alternative policy options for Commission consideration. However, for
19 the reasons previously explained in Staff's response testimony, Staff continues
20 to support its recommendations as equitable, appropriately applying the
21 earnings tests, and providing the Company incentives to minimize future
22 environmental remediation costs.

1 **Q. HAS STAFF PREPARED A TABLE OF THE PARTIES' POSITIONS ON**
2 **VARIOUS ISSUES IN THIS DOCKET?**

3 A. Yes. Please refer to Exhibit Staff/301, Johnson-Bahr/1 for a table summarizing
4 Staff's understanding of the parties' positions on various issues in this docket,
5 as put forth in opening and response testimonies. Staff notes that neither CUB
6 nor NWIGU provided spreadsheet analysis or estimates of the results of their
7 policy recommendations on the split of environmental remediation costs
8 between the Company and its customers and the resulting earnings of NW
9 Natural.

10 **Q. DOES STAFF WISH TO MAKE ANY CHANGES TO ITS RESPONSE**
11 **TESTIMONY?**

12 A. Yes. On Pages 18 and 19 of Staff's Response Testimony, Staff would like to
13 delete the testimony from line 3 on Page 18 through line10 on Page 19.

14 **Q. WHAT DOES THIS TESTIMONY CONCERN?**

15 A. This testimony concerns how NW Natural has presented recovery of its
16 environmental remediation costs to its shareholders. Staff mistakenly made
17 the statement that "The Company's treatment of deferred costs differs from the
18 way regulated utilities in Oregon typically account for deferred costs." Staff has
19 subsequently done more research and discovered that this is an inaccurate
20 statement. Accounting treatment of deferred costs seems to be consistent
21 across utilities and NW Natural does not account for its deferred costs
22 differently from other utilities.

23 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

1 A. Yes.

CASE: UM 1635 Phase II
WITNESS: JOHNSON - BAHR

**PUBLIC UTILITY COMMISSION
OF
OREGON**

JOINT STAFF EXHIBIT 301

**Exhibits in Support
Of Rebuttal Testimony**

May 29, 2014

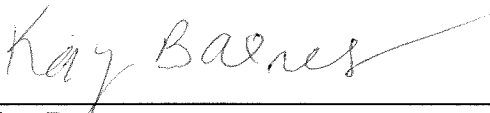
OR - WA allocation	NWN	Staff	CUB	NWIGU
	N/A	historic allocation factor	current allocation factor	N/A
mechanism going backward	past costs offset entirely by insurance, no earnings test necessary	past costs offset by insurance and then subject to earnings test at 50 bp below AROE	1/3 cost of each year's cost offset by insurance followed by earnings test at AROE	costs allocated among reg/non reg NWN companies and between rate classes and then insurance proceeds pays off cost, alternatively, 1/3 of insurance proceeds go to paying off past costs
mechanism going forward	excess insurance proceeds offset costs as incurred, additional costs subject to earnings test at 100 basis points above AROE	future costs offset by insurance proceeds and amount in base rates, remaining cost subject to 90/10 sharing and to earnings test	costs after insurance applied offset by net revenues from MIST after Company has been allowed AROE on MIST investment, return to previous structure (UM1654) after all future costs paid	costs allocated between reg/non-reg NWN companies and between customer classes and insurance proceeds offset costs incurred and all additional costs subject to earnings test at AROE
direct sharing - past	none	none	none	90/10
direct sharing - future	none	90/10	none	none
earnings test threshold - backward	100 bp > AROE	50 bp < AROE	AROE	tiered: 80/20 sharing @ AROE, 50/50 sharing @ 50 bp > AROE
earnings test threshold - future	100 bp > AROE	AROE	AROE	tiered: 80/20 sharing @ AROE, 50/50 sharing @ 50 bp > AROE
annual vs cumulative earnings test	cumulative in the past, annual in the future	annual past and future	annual past and future	N/A
earnings test - optimization and wacog	WACOG should be included as long as earnings threshold set at 100 bp > AROE	include 100% WACOG and 90% Optimization for earnings tests	all earnings should be included for earnings test	earnings test should include all excess earnings
insurance proceeds allocation (past/future)	entirety of past costs offset, any remaining offsets future costs as incurred	1/3 to past, 2/3 to future, or alternatively, 20% to past (based on past costs vs high end total cost estimate)	added to balancing account	insurance proceeds should offset customer portion of past costs, and remaining amount applied to balancing account to offset future costs
insurance proceeds past allocation (year by year)	all past costs offset	proportional to costs incurred in that year	1/3 of each year's cost offset by insurance proceeds	should offset all past costs to retail customers (following allocations and earnings tests)
insurance proceeds future allocation (year by year)	offset costs as incurred	\$5 million per year (future balance accumulated interest)	1/3 of each year's cost offset by insurance proceeds	insurance proceeds should be applied to balancing account
amount in base rates	should be included in base rates if predictable, but since not predictable shouldn't be included in rates, if Commission wants to put amount in rates then should engage in yearly process to determine amount	\$3 million, up to \$5 million	N/A	fixed amount to be included in rates should be determined in general rate cases and include a tracking balancing account
2012-2013 costs	N/A	2012 costs included in past, 2013 costs amortized over 4 year period beginning 1/1/15	included in either past or future mechanisms	N/A
Review checkpoint	N/A	5 years or \$100 million in future costs incurred	review triggered if balancing account reaches \$50 million and NWN doesn't expect it to balance within 5 years	N/A

CERTIFICATE OF SERVICE

UM 1635

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 29th day of May, 2014 at Salem, Oregon



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