
**PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1635

Staff Opening Testimony

Of

Judy Johnson

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

May 3, 2013

CASE: UM 1635
WITNESS: JUDY JOHNSON

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Opening Testimony

May 3, 2013

1 **Q. PLEASE STATE YOUR NAME, PRESENT POSITION WITH THE**
2 **OREGON 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
5 address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
7 **WORK EXPERIENCE.**

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

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

11 A. The purpose of my testimony is to respond to the opening testimony of
12 Northwest Natural Gas Company (NW Natural) related to the recovery of
13 environmental remediation costs in this proceeding.

14 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

15 A. My testimony is organized as follows:

- 16 **I. The earnings test that should be applied to NW Natural's**
17 **environmental remediation deferred accounts.**
- 18
- 19 **II. The earnings test that should be applied to NW Natural's Site**
20 **Remediation Recovery Mechanism (SRRM) on a going forward basis.**
- 21
- 22 **III. The prudence of NW Natural's environmental remediation costs to**
23 **date, as well as the prudence of insurance settlements and third party**
24 **contributions.**
- 25
- 26 **IV. The appropriate treatment of the GASCO plant that is not yet in**
27 **operation.**
- 28
- 29 **V. The appropriate allocation factor to use to allocate environmental**
30 **remediation costs between Oregon and Washington.**

1 **Q. BEFORE YOU COMMENT SPECIFICALLY ON THE EARNINGS TEST TO**
2 **APPLY IN THIS PROCEEDING, DO YOU HAVE ANY GENERAL**
3 **COMMENTS ABOUT DEFERRED ACCOUNTING AND WHY EARNINGS**
4 **TESTS ARE NECESSARY AND APPROPRIATE FOR GOOD**
5 **REGULATORY POLICY?**

6 A. Yes. The Commission's primary objective in regulation is to establish rates
7 that are fair and reasonable. Whether or not rates are fair and reasonable
8 does not depend upon an isolated review of a single expense. Rather,
9 ratemaking is holistic and the overall result must be fair and reasonable,
10 which means that single issues are generally not viewed in isolation in order
11 to determine if overall rates are fair and reasonable. As an exception to
12 normal ratemaking, deferred accounting allows retroactive ratemaking for
13 extraordinary events that occur between rate cases and, through
14 amortization, include expenses that the utility cannot otherwise absorb and
15 maintain fair and reasonable rates. Application of an earnings test to deferred
16 account balances operates as a check on single issue ratemaking. Before
17 deferred amounts can be amortized, Commission Staff does an earnings test
18 to determine if overall rates are fair and reasonable. Deferred accounting
19 does not alter the Commission's primary objective of establishing fair and
20 reasonable rates.

21 //

22 //

23 //

1 **Q. DO YOU AGREE THAT NW NATURAL'S EARNINGS TEST PROPOSAL IS**
2 **CONSISTENT WITH THE COMMISSION'S LONG STANDING PRACTICE**
3 **OF EARNINGS TEST ON DEFERRED BALANCES?**

4 A. No. NW Natural's proposed earnings test is much more generous to NW
5 Natural than application of the historic practice of earnings test for deferred
6 account balances. For example, NW Natural proposes that the earnings test
7 on its deferred balances be 100 basis points above its then authorized return
8 on equity (ROE). NW Natural also proposes to "average" its ROE from 2003
9 until the present, which allows it to avoid absorbing some of the
10 environmental remediation costs in the deferred account balances due to
11 averaging over-earning years with under-earning years. Both of these
12 proposals are inconsistent with the manner in which an earnings test is
13 typically applied.

14 **Q. PLEASE DESCRIBE THE EARNINGS TEST THAT STAFF SUPPORTS IN**
15 **THIS PROCEEDING.**

16 A. Staff recommends that the Commission apply the earnings test that is
17 typically applied in these circumstances. It is long standing policy to conduct
18 an earnings test when deferred amounts are requested to be amortized in
19 order to determine whether or not the utility could have absorbed some or all
20 of the costs that were deferred. First, Staff reviews the utility's results of
21 operations and makes Type 1 adjustments. Then, it compares these results
22 to the utility's authorized ROE for the period of the deferrals. As a general
23 rule, Staff considers the deferral period to be the year or period when the

1 costs were deferred. Finally, Staff determines how much, if any, of the
2 deferred costs could have been appropriately absorbed by the utility in the
3 deferral period. In sum, Staff compares the utility's results of operations after
4 Type 1 adjustments to its authorized ROE for the deferral period for which the
5 costs were incurred. Then, it considers how much, if any, of the costs should
6 be amortized in order to maintain fair and reasonable rates by comparing
7 actual results to a reasonable return during the same deferral period.

8 **Q. IF THE COMMISSION WERE TO DEPART FROM APPLYING ITS LONG**
9 **STANDING EARNINGS TEST, ARE YOU CONCERNED THAT THERE**
10 **WOULD BE FUTURE NEGATIVE CONSEQUENCES TO GOOD**
11 **REGULATORY POLICY?**

12 A. Yes. Departing from past practice on an earnings test for utilities would
13 establish a new practice of allowing utilities to collect costs in deferred
14 accounts even if they had reasonable earnings during the deferral period. As
15 discussed above, deferred accounting is an exception to normal ratemaking
16 and should not be employed to establish rates that are not fair and
17 reasonable. Instead, it should only be employed for extraordinary costs and
18 even then only for the purpose of bringing earnings up to a reasonable level.
19 Once earnings reach a reasonable level, utilities should have to absorb the
20 cost incurred between rate cases.

21 //

22 //

23 //

1 **Q. CAN YOU PROVIDE SOME SPECIFIC INFORMATION ON NW**
2 **NATURAL'S ENVIRONMENTAL REMEDIATION DEFERRED ACCOUNT**
3 **BALANCES?**

4 A. Yes. In this testimony, the historic period of environmental remediation
5 deferred accounts are the years 2003 through 2011.¹ I have prepared Staff
6 Exhibit Staff/102, which at Johnson/1 line 24 shows the total environmental
7 remediation costs for this time period as \$71.128 million. The exhibit also
8 shows the Company's actual (results of operation after Type 1 adjustments)
9 ROE for each year on line 9, while on line 12 the Company's authorized ROE
10 is presented. The Exhibit also shows the year-by-year amount of
11 environmental deferrals (plus interest) and various options for earnings tests
12 on those deferred amounts.

13 **Q. DOES AN EARNINGS TEST OF THIS TYPE TYPICALLY DO A YEAR-BY-**
14 **YEAR COMPARISON?**

15 A. Yes. Contrary to this typical practice, NW Natural proposes that its earnings
16 results be aggregated and averaged instead of reviewing each year
17 individually. The result of NW Natural's proposal is to skew the years it over-
18 earned and had substantial environmental costs and use years where it
19 under-earned and had limited environmental costs.

20 //

21 //

22 //

¹ Because NW Natural continues to put costs in the deferred account until Commission resolution of this docket, this exhibit will need to be updated once 2012 actuals are finalized.

1 **Q. DO YOU MAINTAIN THAT THE COMMISSION SHOULD DO A YEAR-BY-**
2 **YEAR EARNINGS COMPARISON INSTEAD OF THE NEW AVERAGE**
3 **APPROACH PROPOSED BY NW NATURAL?**

4 A. Yes, employing a year-by-year approach is consistent with Commission long
5 standing practices. I continue to believe this is the correct approach because
6 it is consistent with good regulatory policy, results in fair and reasonable
7 rates, and incorporates the purpose of the limited exceptions that allow
8 retroactive ratemaking. In a deferral period as long as the one at issue here,
9 a year-by-year approach accounts for the financial viability of the utility during
10 the same period it is incurring costs for environmental remediation.

11 Furthermore, the utility controls when it requests amortization of deferred
12 account balances. If the Commission were to allow averaging of a long
13 deferral period, a utility could time the request for amortization so as to
14 maximize collection of deferred costs at the expense of ratepayers. Finally,
15 good regulatory policy should try to match the costs and earnings as
16 accurately as possible. A year-by-year comparison is a much more accurate
17 way of comparing the overall earnings of the utility as related to when they
18 incurred deferred accounting expenses.

19 **Q. DOES STAFF AGREE WITH NW NATURAL'S PROPOSAL TO MAKE THE**
20 **EARNINGS TEST 100 BASIS POINTS MORE THAN AUTHORIZED ROE?**

21 A. No. I do not believe the purpose of the limited exception to retroactive
22 ratemaking should allow a utility to pick a single issue or cost and have it
23 considered in isolation and result in a utility over-earning. While the law

1 allows deferrals in certain circumstances, it provides that an earnings review
2 must be conducted at the time of amortization. The earnings review is to
3 determine how many of the deferred costs should be amortized to bring the
4 utility up to reasonable earnings. While I agree that reasonable earnings is
5 not the same as authorized ROE, in context of the purpose of deferred
6 accounting as an exception to normal ratemaking, I do not believe reasonable
7 earnings are more than authorized ROE during this period. To the contrary, I
8 believe reasonable earnings for this period are authorized ROE or an
9 earnings amount below authorized ROE.

10 **Q. HAVE YOU PROVIDED THE COMMISSION OPTIONS FOR DETERMINING**
11 **REASONABLE EARNINGS DURING THIS DEFERRAL PERIOD?**

12 A. Yes, Staff/102 provides numerous options and the impact of those options.
13 Consistent with long standing Commission practice, I recommend that the
14 Commission adopt reasonable earnings for this deferral period as between
15 9.2 percent, which is 100 basis points below the authorized ROE, to 10.2
16 percent, which was authorized ROE during the deferral period.

17 **Q. WHY DO YOU RECOMMEND A RANGE OF REASONABLE EARNINGS**
18 **THAT EXTENDS BELOW AUTHORIZED ROE?**

19 A. I believe legal retroactive ratemaking is an exception to normal ratemaking
20 and that its main purpose is to allow deferral of extraordinary costs that can
21 later be considered for amortization if it is necessary to bring the utility up to
22 modest, but reasonable earnings. I do not believe that retroactive
23 ratemaking, which does not consider rates holistically, should be used to

1 allow utilities to earn more than authorized ROE.² Finally, it is my opinion that
2 return of equity returns between 9.2 and 10.2 percent during the deferral
3 period is not inconsistent with earnings that are required to attract capital and
4 obtain credit.

5 **Q. DO YOU AGREE WITH NW NATURAL'S ASSERTION THAT**
6 **ENVIRONMENTAL COSTS CANNOT BE CONTROLLED AND THUS**
7 **RATEPAYERS SHOULD PAY 100 PERCENT OF THE COSTS?**

8 A. No. As discussed above, deferred accounting does not change the
9 Commission's charge to establish overall fair and reasonable rates. Even if
10 one set of costs could not be controlled, deferred accounting does not exist to
11 allow the costs to be borne by ratepayers when other costs can be controlled
12 and the result is overall reasonable earnings. That stated, I still believe NW
13 Natural has some control over the extent of environmental remediation costs.

14 **Q. CAN YOU GIVE ANY EXAMPLES ON HOW NW NATURAL MAY**
15 **CONTROL ENVIRONMENTAL REMEDIATION COSTS?**

16 A. Yes. NW Natural can control costs by advocating for and convincing the
17 Environmental Protection Agency of the least cost, best benefit plan to clean
18 the site. NW Natural can also control costs by aggressively and successfully
19 seeking third party contribution and insurance proceeds.

² Theoretically, I agree that reasonable earnings could be more than authorized ROE. However, it would be an extreme circumstance such as severe inflation in a short period of time that made authorized ROE unreasonable considering the deferral period subject to severe inflation. The period of 2003-2011 clearly does not fall into the category of severe inflation.

1 **Q. DO YOU AGREE A PRUDENCE REVIEW PROVIDES ALL THE INCENTIVE**
2 **NW NATURAL NEEDS TO CONTROL ENVIRONMENTAL REMEDIATION**
3 **COSTS?**

4 A. No. Although NW Natural can control costs by the least cost, best benefit
5 plan to clean the site and maximizing collections through third party
6 contributions and insurance proceeds, those actions are difficult to challenge
7 in a prudence review under the prudence standard. As a result, good
8 regulatory policy would build in incentives for NW Natural to control
9 environmental remediation costs.

10 **Q. WOULD YOU LIKE TO COMMENT ON INSURANCE PROCEEDS AND**
11 **THIRD PARTY CONTRIBUTIONS?**

12 A. Yes. Unlike the environmental remediation costs that are expended year-by-
13 year and should be compared to earnings year-by-year, insurance proceeds
14 and third party contributions are highly unpredictable, lumpy, and do not
15 necessarily match the benefits with the burdens, i.e. the proceeds versus
16 when the costs were incurred.

17 **Q. DO YOU HAVE A PROPOSAL FOR HOW TO HANDLE INSURANCE**
18 **PROCEEDS AND THIRD PARTY CONTRIBUTIONS?**

19 A. Yes. The first step in my proposal is to allocate the proceeds and
20 contributions to the historic period and future period. To accomplish this, I
21 take historical costs of approximately \$71 million through 2011 and add to it
22 NW Natural's estimate of future costs of \$58 million, for a total estimate of
23 \$129 million. Then, I take the \$71 million in historic costs and divide by the

1 \$129 million total and I take the \$58 million estimate of future costs and divide
2 it by the \$129 million total, which results in 55 percent of proceeds and
3 contributions that should be applied to the historic balance and the 45 percent
4 that should be applied to offset future costs. Because the \$58 million
5 estimate of future environmental remediation costs is a conservative estimate
6 and not all of the sites have a future estimate, I recommend allocating
7 insurance proceeds 50/50 to historic and future costs, respectively.³

8 The second step in my proposal is to allocate the historic share of the
9 proceeds and contributions to each year in the historic period. To accomplish
10 this, I determine the share of total historic costs spent in each year. More
11 specifically, I take the costs for each year plus interest (See Staff/102, line 20)
12 and divide it by the total historic costs (\$71 million). The result of this step will
13 give me a percentage of the cost paid in each year.

14 The final step is to allocate insurance proceeds and third party
15 contributions. For illustration, assume that there is a total of \$100 million of
16 insurance proceeds.

17 Under step 1, you would determine that the insurance proceeds and
18 third party contributions should be allocated 50 percent to the past costs and
19 50 percent to the future expected costs. Under step 2, you would determine
20 that the share of costs in 2003 is 10.5 percent (the costs in 2003 of \$7.5

³ I note that if the Commission desired to use a less conservative estimate of future environmental remediation costs, the amount of insurance proceeds and third party contributions allocated to the historic balances would be less, which would mean that the net of costs minus proceeds would be higher in the historic years, which may result in NW Natural having to absorb more of the costs under the historic earnings test.

1 million divided by total costs of \$71 million, or 10.5 percent). In the final step,
2 you would use the percentages from steps 1 and 2 to allocate a share of the
3 \$100 million in insurance proceeds to calendar year 2003. In this illustration
4 you would allocate \$5.25 million to 2003 (\$100 million multiplied by 50% from
5 step 1 and by 10.5% from step 2). Therefore, you would net the \$5.25 million
6 of insurance proceeds and third party contributions against the \$7.5 million in
7 the costs for that same year. Because in this example 2003 is a year subject
8 to an earnings test, the net amount (\$7.5 million minus \$5.25 million) of \$2.25
9 million would be subject to the earnings test.

10 **Q. IS YOUR PROPOSAL ON INSURANCE PROCEEDS AND THIRD PARTY**
11 **CONTRIBUTIONS FAIR AND REASONABLE?**

12 A. Yes. Because of the unique nature of the proceeds and
13 contributions, it seems fair and reasonable to allocate them differently than
14 simply accounting for them in the year in which they are received.

15 **II. The earnings test that should be applied to NW Natural's Site**
16 **Remediation Recovery Mechanism (SRRM) on a going forward basis.**

17 **Q. WHAT PRINCIPLES DID YOU CONSIDER IN DEVELOPING A**
18 **RECOMMENDATION FOR THE EARNINGS TEST GOING FORWARD?**

19 A. My primary principles were to create an earnings test that created the
20 appropriate incentives and prevented perverse outcomes.

21 **Q. WHAT DO YOU MEAN BY APPROPRIATE INCENTIVES?**

22 A. As I stated earlier, I believe NW Natural has some ability to control costs by
23 implementing a least cost, best benefit plan to clean the site and by
24

1 maximizing collections through third party contributions and insurance
2 proceeds. As a result, good regulatory policy should build in incentives for
3 NW Natural to control these environmental remediation costs.

4 **Q. WHAT DO YOU MEAN BY PREVENTION OF PERVERSE OUTCOMES?**

5 A. One scenario for a perverse outcome would be a situation where the
6 regulatory mechanism resulted in a large surcharge to customers in a year
7 when the company's actual earnings exceeded its authorized earnings by a
8 wide margin. Another scenario for a perverse outcome would be a situation
9 where the regulatory mechanism resulted in a large refund to customers in a
10 year when the company's actual earnings were less than its authorized
11 earnings by a wide margin.

12 **Q. WITH THESE PRINCIPLES IN MIND, WHAT EARNINGS TEST DO YOU**
13 **RECOMMEND GOING FORWARD?**

14 A. My primary recommendation for an earnings test going forward is to establish
15 an earnings test that has 50/50 sharing in a band for results both up to 50
16 basis points higher than authorized ROE and results down to 50 basis points
17 lower than authorized ROE. For results lower than 50 basis points of
18 authorized ROE, I recommend sharing the environmental remediation costs
19 where ratepayers pay 95 percent of the costs and shareholders pay 5 percent
20 of the costs. For results above more than 50 basis points of authorized ROE,
21 I recommend sharing the environmental remediation costs where customers
22 pay 5 percent of the costs and shareholders pay 95 percent of the costs.

1 Because the currently authorized ROE is 9.5 percent, this would mean that
2 any results between 9.0 percent and 10.0 percent would be shared 50/50
3 between ratepayers and shareholders. Thus, the future earnings band
4 contains symmetrical sharing within a band of plus and minus 50 basis points.
5 If the results were more than 10.0 percent, the amount above 10.0 percent
6 would be paid 95 percent by shareholders and 5 percent by ratepayers. If the
7 results were lower than 9.0 percent, the amount below 9.0 percent would be
8 paid 95 percent by ratepayers and 5 percent by shareholders.

9 **Q. DOES THIS MECHANISM SATISFY YOUR TWO PRINCIPLES?**

10 A. Yes, it reasonably balances these criteria. The earnings bands help to
11 prevent perverse outcomes while the sharing percentages help provide the
12 incentive to continuously and effectively manage costs.

13 **Q. DO YOU HAVE AN ALTERNATIVE RECOMMENDATION TO OFFER THE**
14 **COMMISSION ON AN EARNINGS TEST GOING FORWARD?**

15 A. Yes. Although the Commission rejected explicit sharing in the rate case, UG
16 221, it recognized that an earnings test may result in de facto sharing. As an
17 alternative to the earnings test described above, I recommend 90/10 sharing
18 of environmental remediation costs going forward, independent of NW
19 Natural's earnings levels, if the Commission desired to reconsider its position
20 on this issue in light of the new testimony in this docket. Under this sharing
21 approach, customers would pay 90 percent of the prudently incurred costs net
22 insurance proceeds and NW Natural's shareholder would pay 10 percent of
23 the incurred costs net insurance proceeds.

1 **Q. DOES THIS MECHANISM SATISFY YOUR TWO PRINCIPLES?**

2 A. No, although it would provide an incentive for NW Natural to appropriately
3 manage costs and insurance proceeds, it does little to mitigate against
4 perverse outcomes.

5 **III. The prudence of NW Natural's environmental remediation costs to**
6 **date, as well as the prudence of insurance settlements and third party**
7 **contributions.**

8 **Q. DID STAFF REVIEW THE PRUDENCY OF NW NATURAL'S INVESTMENT**
9 **IN ITS ENVIRONMENTAL REMEDIATION?**

10 A. Yes. Staff member Erik Colville performed the prudence review under my
11 guidance. In this testimony, I adopt and support the conclusions of Mr.
12 Colville's prudence review.

13 **Q. CAN YOU DESCRIBE HOW THE PRUDENCY REVIEW WAS**
14 **CONDUCTED?**

15 A. Yes. Mr. Colville reviewed written materials and met with NW Natural
16 employees, Mr. Bob Wyatt, who is the Environmental Project Manager, and
17 Ms. Cristan Kelley, who is a Rate Analyst, to discuss the prudence of NW
18 Natural's environmental remediation.

19 **Q. WHICH SITES ARE INVOLVED IN NW NATURAL'S ENVIRONMENTAL**
20 **REMEDICATION?**

21 A. There are two locations, which are the Gasco/Siltronics site and the Portland
Gas Manufacturing site. Within those two locations, there are six clean-up
projects, which are: Portland Harbor Superfund Site; Gasco Sediments;

1 Gasco Uplands; Gasco Source Control; Siltronics Uplands; and Portland Gas
2 Manufacturing.

3 **Q. WHO HAS JURISDICTION OVER THE ENVIRONMENTAL REMEDIATION OF**
4 **THESE SITES?**

5 A. The Environmental Protection Agency (EPA) has jurisdiction over the
6 Portland Harbor Superfund Site and Gasco Sediments site. The Oregon
7 Department of Environmental Quality (DEQ) has jurisdiction over Gasco
8 Uplands, Gasco Source Control, Siltronics Upland, and Portland Gas
9 Manufacturing sites.

10 **Q. DOES STAFF CONCLUDE THAT THE ENVIRONMENTAL REMEDIATION**
11 **ACTIONS TAKEN THUS FAR HAVE BEEN PRUDENT?**

12 A. Yes. After reviewing the record from UG 221, NW Natural's opening
13 testimony in UM 1635, and the information that Mr. Colville obtained in
14 meetings with Mr. Wyatt and Ms. Kelley, I conclude, with a limited exception
15 noted below, that NW Natural's environmental remediation costs through
16 2011 were prudently incurred.
17 Initially, Staff had concerns that a recent EPA decision negated the early
18 actions NW Natural took regarding Gasco Sediments and the removal of tar-
19 like substances from a limited area of the riverfront followed by installation of
20 a containment cap on that area. However, based upon discussions with Mr.
21 Wyatt, Staff became convinced that the EPA decision was to expand the area
22 involved in the 2005 clean up, but that the EPA decision did not impact the
23 work already completed.

1 **Q. YOU STATED THAT THE ENVIRONMENTAL REMEDIATION THUS FAR**
2 **HAS BEEN PRUDENT, BUT NOTED A LIMITED EXCEPTION. CAN YOU**
3 **PLEASE EXPLAIN THE LIMITED EXCEPTION?**

4 A. Yes. I reviewed the accounting details of environmental remediation costs
5 incurred thus far. In that review, NW Natural was unable or incapable of
6 demonstrating where \$33,400 dollars of costs were incurred. As a result, it is
7 my recommendation to approve the prudence of NW Natural's environmental
8 remediation costs through 2011, with the exception of the \$33,400 dollars that
9 should be removed due to NW Natural's inability to carry its burden of proof.⁴

10 **Q. DID YOU ALSO REVIEW THE PRUDENCE OF INSURANCE PROCEEDS**
11 **AND THIRD PARTY CONTRIBUTIONS THROUGH 2011?**

12 A. Yes. I generally reviewed the actions of NW Natural to seek recovery from
13 insurance policies and third parties. I also reviewed NW Natural's legal costs
14 to confirm that they were not double counted.

15 **Q. DO YOU AGREE THAT THESE PROCEEDS AND CONTRIBUTIONS ARE**
16 **PRUDENT?**

17 A. Yes. I did not discover any double counting of legal costs and have no
18 reason to believe that NW Natural's efforts to recover proceeds and
19 contributions has been imprudent. However, as I mentioned earlier in my
20 testimony, it is difficult to review environmental remediation activities and
21 second guess NW Natural's insurance efforts after they have occurred. As a

⁴ I also confirmed that no fines and penalty amounts are included in the deferred account balances. However, if fines and penalties are incurred in the future, I recommended that the Commission exclude all fines and penalties from consideration for rate recover.

1 result, while I find these efforts prudent through 2011, I continue to
2 recommend that the Commission adopt earnings tests and policies that
3 incentive NW Natural to control environmental remediation costs while
4 maximizing proceeds and contributions.

5 **IV. The appropriate treatment of the GASCO plant that is not yet in**
6 **operation.**
7

8 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE GASCO PLANT**
9 **THAT IS NOT IN OPERATION, OR USED AND USEFUL, YET?**

10 A. I recommend that a decision on GASCO is not ripe for decision in this
11 proceeding. NW Natural is requesting that we pre-approve inclusion of
12 GASCO, subject to a prudence review. Because GASCO is not expected to
13 become operational in the near future, there is no need to consider it for
14 inclusion at this premature date. Once GASCO is in operation, NW Natural
15 may request appropriate ratemaking treatment.

16 **V. The appropriate allocation factor to use to allocate environmental**
17 **remediation costs between Oregon and Washington.**
18

19 A. There are two options to allocate the environmental remediation costs
20 between Oregon and Washington. NW Natural proposes to allocate the costs
21 96.68 percent to Oregon and 3.32 percent to Washington. The basis of this
22 allocation among the states is to reflect that during the historical period of
23 time when the plant was operational Oregon received 96.68 percent of the
24 benefits and, therefore, should be allocated 96.68 percent of the costs.
25 On the other hand, NW Natural is proposing to collect the costs of
26 environmental remediation from current customers and the current allocation

1 is 90.15 percent to Oregon and 9.85 percent to Washington. Under this
2 rationale, the allocation to the states should be based upon who is paying
3 today.

4 Staff's primary recommendation is that the historic allocation that is less
5 favorable to Oregon is more consistent with the benefits and the burdens of
6 the site so should be adopted.

7
8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.

CASE: UM 1635
WITNESS: Judy Johnson

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 101

Witness Qualifications Statement

May 3, 2013

WITNESS QUALIFICATION STATEMENT

NAME: JUDY A. JOHNSON

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: Senior Economist – Energy, Rates, Finance, and Audit

ADDRESS: 550 CAPITOL ST. N.E., SALEM, OREGON 97310-1380

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 Senior Economist for Energy, Rates, Finance, and Audit. I was previously a Senior Analyst for the Revenue Requirements Section.
- 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.

CASE: UM 1635
WITNESS: JUDY JOHNSON

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 102

**Exhibits in Support
Of Opening Testimony**

May 3, 2013

1 **CERTIFICATE OF SERVICE**

2 I certify that on May 3, 2013, I served the foregoing Staff Opening Testimony upon the
3 following parties in this proceeding by sending a true, exact and full copy by electronic mail only
4 as all parties waive paper service.

5 **W**
6 **CABLE HUSTON BENEDICT HAAGENSEN &**
7 **LLOYD**
8 TOMMY A BROOKS (C)
1001 SW FIFTH AVE, STE 2000
PORTLAND OR 97204-1136
tbrooks@cablehuston.com

9 **W**
10 **CABLE HUSTON BENEDICT HAAGENSEN &**
11 **LLOYD LLP**
12 CHAD M STOKES (C)
1001 SW 5TH - STE 2000
PORTLAND OR 97204-1136
cstokes@cablehuston.com

13 **W**
14 **CITIZENS' UTILITY BOARD OF OREGON**
15 OPUC DOCKETS
610 SW BROADWAY, STE 400
PORTLAND OR 97205
dockets@oregoncub.org

16 ROBERT JENKS (C) (HC)
610 SW BROADWAY, STE 400
PORTLAND OR 97205
bob@oregoncub.org

17 G. CATRIONA MCCrackEN (C) (HC)
610 SW BROADWAY, STE 400
18 PORTLAND OR 97205
catriona@oregoncub.org

19 **W**
20 **MCDOWELL RACKNER & GIBSON PC**
21 AMIE JAMIESON (C) (HC)
419 SW 11TH AVE., STE 400
PORTLAND OR 97205
amie@mcd-law.com

W
MCDOWELL RACKNER & GIBSON PC
LISA F RACKNER (C) (HC)
419 SW 11TH AVE., SUITE 400
PORTLAND OR 97205
dockets@mcd-law.com

W
NORTHWEST INDUSTRIAL GAS USERS
EDWARD FINKLEA (C)
326 FIFTH ST
LAKE OSWEGO OR 97034
efinklea@nwigu.org

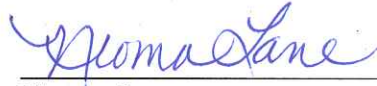
W
NORTHWEST NATURAL
E-FILING
220 NW 2ND AVE
PORTLAND OR 97209
efiling@nwnatural.com

MARK R THOMPSON (C) (HC)
220 NW 2ND AVE
PORTLAND OR 97209
mark.thompson@nwnatural.com

W
PORTLAND GENERAL ELECTRIC
RICHARD GEORGE (C)
121 SW SALMON ST - 1WTC1301
PORTLAND OR 97204
richard.george@pgn.com

JAY TINKER
121 SW SALMON ST 1WTC-0702
PORTLAND OR 97204
pge.opuc.filings@pgn.com

1 **W**
2 **PUBLIC UTILITY COMMISSION OF OREGON**
3 JUDY JOHNSON (C) (HC)
4 PO BOX 2148
5 SALEM OR 97308-2148
6 judy.johnson@state.or.us



Neoma Lane
Legal Secretary
Department of Justice
Business Activities Section

7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26