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VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-2148

Re: Docket No. UM 1722 –Investigation into Recovery of Safety Costs by Natural Gas Utilities

Dear PUC Filing Center:

This errata filing is being made to correct an error in the Joint Reply Testimony of Northwest Natural Gas Company, Avista Utilities and Cascade Natural Gas (“Joint Utilities”), filed on March 9, 2016. The version originally filed was missing pages 8, 9 and 10. This errata filing is intended to replace the March 9th version in its entirety.

If you have any questions, please do not hesitate to contact this office.

Very truly yours,

Lisa F. Rackner

Attachment

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 REPLY TESTIMONY OF
NORTHWEST NATURAL GAS COMPANY,
AVISTA UTILITIES,
AND
CASCADE NATURAL GAS
(JOINT UTILITIES)**

March 9, 2016

1 INTRODUCTION AND SUMMARY

2 **Q. Please state your names.**

3 A. Our names are Mark Thompson, Michael Parvinen, and Liz Andrews.

4 **Q. Are you the same witnesses who filed opening testimony in this case?**

5 A. Yes.

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

7 A. Our testimony responds to the opening testimony filed by Staff, the Citizens'
8 Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU).

9 **Q. Please summarize your testimony.**

10 A. The purpose of this docket is to investigate cost recovery of safety investments
11 made by natural gas utilities. To that end, in our opening testimony we
12 recommended high level guidelines intended to assist the Public Utility
13 Commission of Oregon's (Commission) consideration of a proposed safety
14 investment recovery mechanism. To be clear, however, the Joint Utilities are not
15 proposing that the Commission adopt a particular cost recovery mechanism in
16 this case, and the proposed guidelines are not intended to provide the specificity
17 that will be required for approval of a particular mechanism. On the contrary, the
18 Joint Utilities explicitly recommend against a one-size-fits-all approach to safety
19 investment recovery mechanisms, recognizing that the most effective
20 mechanisms will be carefully tailored to each utility's unique circumstances.

21 In their opening testimony, Staff and CUB propose their own set of
22 guidelines, and Staff, CUB, and NWIGU all question the need for a safety cost
23 recovery mechanism at this time. However, on the fundamental question at
24 issue in this case, all parties agree that under the right circumstances a safety
25 investment recovery mechanism may be appropriate.

1 **2. The Nature of the Costs that are Recoverable:**

- 2
- 3 • **Capital Investment: The mechanism should be designed to**
- 4 **recover capital costs that are significant, and that are not**
- 5 **offset by associated revenues.**
- 6
- 7 • **O&M Expense: The mechanism should cover expense that is**
- 8 **expected to be a significant one-time expense or ongoing**
- 9 **over multiple years, and that is not included in current rates.**
- 10 **It should also cover expenses that are difficult to forecast in**
- 11 **rate cases or incurred pursuant to laws/regulations/policies**
- 12 **adopted between rate cases.**

13 **3. Structure of the Adopted Mechanism.**

- 14
- 15 • **The Commission should not take a one-size-fits-all approach.**
- 16 **Rather, the Commission should consider recovery**
- 17 **mechanisms proposed by individual utilities on a case-by-**
- 18 **case basis, in either a general rate proceeding or other utility-**
- 19 **specific docket.**
- 20
- 21 • **The mechanism should be subject to prudence reviews and**
- 22 **earnings tests.**
- 23
- 24 • **The mechanism should be reviewed at appropriate intervals**
- 25 **and adjusted if necessary.**

26 **REASONABLENESS OF SAFETY INVESTMENT RECOVERY MECHANISMS**

27 **Q. What is the basis for your statement that the parties generally agree that**

28 **safety investment recovery mechanisms can be appropriate?**

29 **A. Each of the parties in this case expresses general support for safety investment**

30 **recovery mechanisms under the right circumstances.¹ While Staff believes that**

31 **present circumstances do not warrant a recovery mechanism, Staff is clear that it**

32 **may well support such a mechanism—as it did for the Bare Steel Program—if**

33 **new regulations are adopted requiring certain capital investments.²**

¹ Staff/100, Koho/4; CUB/100, McGovern/19, 29; NWIGU/100, Finklea/6.

² Staff/100, Koho/4.

1 CUB also testifies that safety investment recovery mechanisms can have
2 value, pointing out that CUB has supported such mechanisms in the past.³

3 For its part, NWIGU likewise indicates that it is open to the Joint Utilities
4 bringing forward specific proposals for the Commission's consideration.⁴

5 **Q. If the parties generally support safety investment recovery mechanisms**
6 **under the right circumstances, why do they oppose the Joint Utilities'**
7 **proposed guidelines in this case?**

8 A. Before directly addressing the Joint Utilities' guidelines, each party testifies that it
9 is premature for the Commission to adopt a safety investment recovery
10 mechanism for any of the Joint Utilities. On this point, Staff contends that a
11 mechanism is "premature" because "Staff does not believe that the Joint Utilities
12 are currently preparing to make investments of the type that warrant special cost
13 recovery."⁵ Similarly, CUB testifies that it is "inappropriate for a safety recovery
14 mechanism to be designed to prematurely anticipate [expected] regulations."⁶
15 NWIGU also testifies that a mechanism is premature and that an "open ended
16 safety tracker . . . is not warranted in Oregon at this time."⁷

17 In addition, at times the parties seem to imply that it may be premature for
18 the Commission to even adopt guidelines for safety investment recovery
19 mechanisms, given that we do not have details about the costs that would be
20 covered.⁸

³ CUB/100, McGovern/19, 29.

⁴ NWIGU/100, Finklea/6.

⁵ Staff/100, Koho/10.

⁶ CUB/100, McGovern/23.

⁷ NWIGU/100, Finklea/6-7.

⁸ See e.g. Staff/100, Koho/9 ("To the extent it is appropriate to establish a special cost recovery mechanism for any of the Joint Utilities for recovery of capital investments needed to comply with new regulatory requirements, the Commission can do so on a case-by-case basis."); NWIGU/100, Finklea/7-8 (suggesting that adoption of a policy similar to FERC is unnecessary at this time).

1 **Q. How do you respond to the argument that it is premature for the**
2 **Commission to approve a safety investment recovery mechanism at this**
3 **time?**

4 A. We agree, although it appears that this argument was advanced as a result of a
5 misunderstanding of our proposal in this case. The Joint Utilities are not seeking
6 approval of a specific safety investment recovery mechanism. Rather, the Joint
7 Utilities have proposed general guidelines that it would apply if a utility seeks a
8 safety investment recovery mechanism in the future in response to the
9 regulations that we believe are likely to be adopted. In this way we are asking
10 the Commission to take the same approach as the Federal Energy Regulatory
11 Commission (FERC) and adopt general polices that will form the “analytical
12 framework” for evaluating future requests for a safety investment recovery
13 mechanism.⁹ The fact that a mechanism is not warranted today is immaterial to
14 the Joint Utilities’ proposal, particularly when all the parties agree that a
15 mechanism may be appropriate in the future.

16 **Q. How do you respond to CUB’s claim that it is premature to design a safety**
17 **cost recovery mechanism when the anticipated regulations have yet to be**
18 **issued?**

19 A. As mentioned above, the Joint Utilities agree that it is difficult to design a tracker
20 mechanism without the new regulations. That is why we proposed high level
21 guidelines and not a fully-designed safety investment recovery mechanism. We
22 have recommended that the Commission should not take a one-size-fits-all

⁹ *Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, 151 FERC ¶ 61,047, P. 20 (Apr. 16, 2015) (FERC “proposed to establish a policy outlining the analytical framework for evaluating pipeline proposals for special rate mechanisms to recovery infrastructure modernization costs necessary for the efficient and safe operation of the pipeline’s system and compliance with new regulations.”).

1 approach. The Joint Utilities agree that any specific mechanism will need to be
2 tailored to the particular utility and the particular objectives sought to be achieved
3 by the program. Therefore, before approval of a safety investment recovery
4 mechanism, a utility seeking such a mechanism would file a detailed application
5 that can be reviewed at that time.

6 **Q. How do you respond to the suggestion that it may be premature for the**
7 **Commission to adopt guidelines for safety investment recovery**
8 **mechanisms?**

9 A. We agree in part. As the Commission is aware, NW Natural has withdrawn its
10 request to continue its System Integrity Program (SIP).¹⁰ Without a proposal on
11 the table-- and without a clear understanding of the nature and extent of the
12 investments that may be required by new regulations—it would be
13 counterproductive for the Commission to adopt highly prescriptive guidelines.
14 Indeed, the Joint Utilities' proposed guidelines are intentionally broad because
15 we do not know what a future safety investment recovery mechanism may look
16 like.

17 **Q. How do you respond to NWIGU's concern about an "open ended"**
18 **mechanism?¹¹**

19 A. This concern is misplaced. Any mechanism that is proposed in the future will be
20 limited to the specific investments described in the application. Just as NW
21 Natural's SIP was not open ended, and was extended only with the agreement of
22 the parties and approval of the Commission after NW Natural demonstrated the
23 reasonableness and need for the investments, the Joint Utilities would not expect
24 any future safety investment recovery mechanism to be open ended.

¹⁰ See, *Letter to Commission from Mark Thompson*, filed in this docket on March 4, 2016.

¹¹ NWIGU/100, Finklea/4.

1 **COSTS SUBJECT TO A SAFETY INVESTMENT RECOVERY MECHANISM**

2 **Q. Staff claims that the costs eligible for recovery under the Joint Utilities'**
3 **proposal are "too vaguely defined and broad" and "would allow utilities to**
4 **recover capital investments to maintain their distribution systems, which**
5 **are not extraordinary costs."¹² NWIGU also testifies that safety and**
6 **reliability investments are part of the normal course of business and**
7 **should not be subject to special rate recovery.¹³ How do you respond to**
8 **these concerns?**

9 A. First, safety and reliability investment in the LDCs' distribution and transmission
10 systems is, and will always be, integral to the Joint Utilities' "normal course of
11 business." Therefore, Staff and NWIGU's proposal that the Commission exclude
12 all costs incurred in the ordinary course of business would likely eviscerate all
13 requests for recovery mechanisms, even under the circumstances that the
14 parties seem to contemplate would otherwise be appropriate. The Joint Utilities
15 believe the better approach is to evaluate the particular recovery mechanism and
16 the investments proposed in the recovery mechanism on a case by case basis,
17 to determine whether the costs are appropriately addressed through a cost
18 recovery mechanism.

19 **Q. Do the parties recognize that there may be identifiable investments that are**
20 **appropriate for safety investment recovery mechanisms?**

21 A. Yes. Staff agrees that there may be circumstances where a particular cost or
22 incremental investment is well defined and responsive to a new regulation, in
23 which case, Staff agrees that a safety investment recovery mechanism "may be

¹² Staff/100, Koho/6.

¹³ NWIGU/100, Finklea/4.

1 warranted.”¹⁴ NWIGU and CUB similarly testify that certain investments may
2 warrant recovery through a safety investment recovery mechanism.¹⁵

3 Again, it is important to keep in mind that the Joint Utilities are not
4 proposing that the Commission adopt a recovery mechanism in this case—only
5 general principles by which a future proposed mechanism may be evaluated. A
6 greater level of specificity will be provided when a utility has a particular proposal
7 in front of the Commission.¹⁶

8 **Q. Staff recommends that safety investment recovery mechanisms allow**
9 **recovery only of capital investments, not operations and maintenance**
10 **(O&M) costs.¹⁷ CUB appears to agree.¹⁸ Staff claims that O&M costs can**
11 **be forecasted and are not subject to the same restrictions as capital**
12 **investments. How do you respond?**

13 A. We agree generally that O&M costs are typically forecasted in rates, and that is
14 precisely why our proposed guidelines specify that O&M costs could be
15 recovered only if the expense is significant, not included in rates, difficult to
16 forecast, or incurred to comply with regulations adopted between rate cases. We
17 believe our proposal effectively addresses Staff’s concerns.

18 **Q. Do you have any concerns about preemptively limiting a potential**
19 **mechanism to capital investments?**

20 A. Yes. Such a restriction could prove counter-productive. It is possible that a
21 future safety investment program may consist primarily of O&M expenses that

¹⁴ Staff/100, Koho/7.

¹⁵ NWIGU/100, Finklea/6; CUB/100, McGovern/17.

¹⁶ While the Joint Utilities agree that it is sometimes difficult to isolate specific capital investments for purposes of a safety investment recovery mechanism, it is possible to do so. Indeed, NW Natural’s prior mechanisms demonstrate that both the parties and the Commission were able to sufficiently isolate these costs.

¹⁷ Staff/100, Koho/6-7.

¹⁸ CUB/100, McGovern/25.

1 are difficult to forecast in rates. Given the range of programs and costs that may
2 be required, the Commission should not foreclose the possibility of recovering
3 O&M expense, without the benefit of an actual proposal that describes the nature
4 and extent of the O&M expenses that are sought for recovery. Again, we believe
5 this case should establish high-level policy guidelines, and that overly
6 prescriptive limitations are counterproductive at this time.

7 **Q. CUB objects to allowing the recovery through the mechanism of system**
8 **reliability costs, claiming that inclusion of reliability investments will**
9 **unreasonably expand the scope of a safety investment recovery**
10 **mechanism.¹⁹ How do you respond?**

11 A. We understand CUB's point but think it is premature to establish guidelines that
12 prohibit all reliability investment without the benefit of a specific application to
13 review. We would note that FERC specifically held that both safety and
14 reliability investments may be included in a well-designed safety investment
15 recovery.²⁰ Further, CUB's proposed limitation is unnecessary because prior to
16 the recovery of any investments that enhance system reliability, the utility will be
17 required to specifically identify the investments in its application for a safety
18 investment recovery mechanism. If the Commission determines that a particular
19 reliability investment should be excluded from the mechanism, it can do so on a
20 case by case basis. As with O&M expenses, there is no reason to preemptively
21 limit the scope of a safety investment recovery mechanism at this time. For
22 these reasons, it makes sense to allow utilities to propose the recovery of
23 reliability investments in safety recovery mechanisms.

¹⁹ CUB/100, McGovern/20-21.

²⁰ *Cost Recovery Mechanisms for Modernization of Natural Gas Facilities*, 151 FERC ¶ 61,047, P. 25 (Apr. 16, 2015) (allowing recovery of costs that enhance "system reliability, safety and regulatory compliance . . .").

1 **BENEFITS OF A SAFETY INVESTMENT RECOVERY MECHANISM**

2 **Q. What are the customer benefits of a safety investment recovery**
3 **mechanism?**

4 A. As we discussed in our opening testimony, these mechanisms can provide
5 significant customer benefits. First and foremost, safety investment recovery
6 mechanisms promote timely utility investments designed to enhance the safety
7 and reliability of natural gas pipelines. By streamlining cost recovery and
8 minimizing regulatory lag, these mechanisms eliminate barriers to investment,
9 thereby protecting customers from harm and enhancing service to gas
10 customer. Second, safety investment recovery mechanisms can reduce the
11 need for frequent rate cases. Third, the mechanism can work to prevent rate
12 shock by allowing a utility to include incremental safety investments in rates on a
13 gradual, annual basis, rather than all at once in a rate case.

14 **Q. CUB suggests that the avoidance of rate cases does not benefit customers**
15 **because general rate cases have the salutary effect of allowing more**
16 **regular examination of all of a utility's costs.²¹ How do you respond?**

17 A. We acknowledge that staying out of rate cases is not, in every circumstance, a
18 customer benefit. Periodic rate cases can be beneficial to both customers and
19 the utility. However, is quite possible that PHMSA's new regulations may require
20 significant investments year after year, thus necessitating annual rate cases if
21 there is no safety investment recovery mechanism. Such frequent general rate
22 cases could be burdensome to all parties involved. Finally, the earnings test

²¹ CUB/100, McGovern/17-18.

1 component of the mechanism is intended to act as a proxy for a rate case,
2 rendering CUB's blanket proposal unnecessarily prescriptive.²²

3 **Q. Staff argues that tracking mechanisms reduce the utility's incentive for**
4 **innovation, efficiency, and cost minimization.²³ How do you respond?**

5 A. We disagree. The Joint Utilities' proposed guidelines explicitly acknowledge that
6 prior to inclusion in rates, all costs included in the mechanism will be subject to
7 an prudence review—providing an effective incentive for efficiency and cost
8 minimization.²⁴

9 **Q. Staff also argues that because tracker mechanisms constitute single issue**
10 **ratemaking they prevent the Commission from holistically examining a**
11 **utility's rates before charging customers for the tracked amounts.²⁵ How**
12 **do you respond?**

13 A. While the Commission generally disfavors single-issue ratemaking, it has
14 recognized that cost recovery mechanisms, like NW Natural's SIP or the
15 Purchased Gas Adjustment mechanism (PGA), are appropriate under certain
16 circumstances—particularly when the mechanism advances important policy
17 goals.

18 Safety investment recovery mechanisms also better match the costs and
19 benefits received by customers by including the investments in rates the year

²² We note that the Spring Earnings Test, that is a part of all LDCs' PGA, provides the Commission with an annual review of the companies' results of operations. If an individual LDC's results suggest that a rate case is in order, the Commission can address that fact on an individual basis if and when that LDC applies for a safety cost recovery mechanism.

²³ Staff/100, Koho/4.

²⁴ *Northwest Natural Gas Co.*, Docket UG 221, Order No. 12-437 at 32 (Nov. 16, 2012) ("The majority of Commissioners believe that use of an earnings test (with a deadband) coupled with the Commission's ongoing prudence review will provide an effective incentive for the company to manage its costs.").

²⁵ Staff/100, Koho/4-5.

1 they are incurred. Staff specifically recognized this benefit when it supported
2 approval of NW Natural's Bare Steel Program.²⁶

3 Moreover, the Joint Utilities' proposed earnings review, which is included
4 in the proposed guidelines, is intended to address concerns over single-issue
5 ratemaking by ensuring that recovery of the safety investments is reasonable in
6 light of the utility's overall earnings.

7 **Q. NWIGU claims that customers are worse off when utilities recover costs
8 through a tracker mechanism, rather than through general rate cases.²⁷ To
9 support this argument, NWIGU presents a hypothetical indicating that
10 customers pay more with trackers. How do you respond?**

11 A. NWIGU's hypothetical shows nothing more than that under a certain scenario, it
12 may be that a utility recovers less than its total cost of service on an investment.
13 Depending on the timing of rate cases, the conclusion could also be the opposite.
14 In no way, however, does the hypothetical support the conclusion that a tracker
15 mechanism is not fair to customers. Tracker mechanisms can be designed such
16 that they allow a utility to recover its cost of service on an investment—no more
17 and no less. And, the utilities would expect to propose mechanisms that do this.

18 **PROPOSED GUIDELINES FOR SAFETY INVESTMENT RECOVERY MECHANISMS**

19 **Q. Given that the parties agree that a safety cost recovery mechanism is
20 reasonable under certain circumstances, do the parties offer their own
21 guidelines to govern the adoption of a proposed mechanism?**

22 A. Yes. And before we address the parties' proposed guidelines individually, we
23 want to note the areas where they are in agreement with those proposed by the
24 Joint Utilities. We agree that:

²⁶ Order No. 01-843 at 4.

²⁷ NWIGU/100, Finklea/9.

- 1 • a tracking mechanism may be appropriate to recover the costs to
- 2 implement important safety investments;
- 3 • the mechanism need not be the same for each utility;
- 4 • the utility must set forth the specific investments that will be recovered,
- 5 demonstrate that the investments are significant, not otherwise included
- 6 in rates;
- 7 • the mechanism must include an earnings test; and
- 8 • the mechanism should be periodically reviewed to ensure that it remains
- 9 reasonable.

10 The Joint Utilities believe that these central points of agreement can
11 serve as the foundation of any proposed safety investment recovery mechanism
12 that is adopted in the future and represent consensus on the most important
13 issues related to safety investment recovery mechanisms.

14 **Q. What are Staff's proposed guidelines?**

15 A. Staff recommends seven guidelines, or conditions, that should be met before
16 approving a safety investment recovery mechanism.²⁸ Staff's first guideline is
17 that the mechanism must be established in a general rate case or within three
18 years of a general rate case.

19 **Q. Do you agree with this guideline?**

20 A. No. This limitation is overly restrictive. Each mechanism will be unique to the
21 utility requesting it and tailored to the circumstances of the utility. It is possible
22 that a mechanism would be appropriate for a particular utility under particular
23 circumstances even if the utility is not within three years of its last rate case.

²⁸ Staff/100, Koho/11-12.

1 Moreover, we have agreed that all recovery mechanisms should be
2 subject to an earnings test. The earnings test will act as a reasonable proxy for a
3 general rate case by ensuring that customers are not required to pay for the
4 safety investments when the utility's earnings are high. Thus, even without a
5 holistic review of a utility's rates, the earnings test protects both the utility and
6 customers.

7 **Q. What is Staff's second guideline?**

8 A. Staff proposes that the mechanism must be limited to capital investments
9 identified at the time the mechanism is established that are needed to comply
10 with federal regulations or that are necessary for the safety of the system, that
11 are not O&M expenses, or normal capital expenditures made in the ordinary
12 course of business.

13 **Q. Do you agree with this guideline?**

14 A. The Joint Utilities agree with this guideline, except for the limitation on recovery
15 of O&M expenses, and the Staff's distinction related to normal capital
16 expenditures, which were discussed above.

17 **Q. What is Staff's third guideline?**

18 A. Staff proposes that the mechanism must include a cost recovery cap.

19 **Q. Do you agree with this guideline?**

20 A. While a cost recovery cap may be appropriate in some circumstances, it may not
21 be appropriate in all. Therefore, it is unreasonable to impose this restriction
22 preemptively to all safety investment recovery mechanisms before a specific
23 application is requested.

24 **Q. What is Staff's fourth guideline?**

25 A. Staff proposes that the mechanism must be subject to periodic review, along with
26 the general rates of the utility.

1 Q. Do you agree with this guideline?

2 A. The Joint Utilities agree that periodic review of the mechanisms is appropriate.

3 Q. What is Staff's fifth guideline?

4 A. Staff proposes that the mechanism must include an earnings test.

5 Q. Do you agree with this guideline?

6 A. Yes, it is consistent with our own proposal.

7 Q. What is Staff's sixth guideline?

8 A. Staff proposes that the mechanism must include a depreciation test that limits
9 annual amounts available for recovery to the incremental costs that exceed the
10 company's total annual depreciation on its Oregon-allocated rate base.

11 Q. Do you agree with this guideline?

12 A. No, the Joint Utilities disagree with this limitation.

13 Q. What is Staff's rationale for this restriction?

14 A. Staff claims that regulatory lag can work to a utility's benefit and this guideline is
15 intended to account for the beneficial aspects of regulatory lag.²⁹

16 Q. How do you respond to this argument?

17 A. Staff's proposal is counter to standard ratemaking principles, which recognize
18 that a utility is authorized to have both a recovery of, and a return on, its prudent
19 investments. The inclusion of depreciation expense in rates is the only method
20 through which ratemaking provides utilities for the return of their investments.
21 Therefore, Staff's position that depreciation expense related to *prior* investments
22 can be applied to the recovery of *future* investments would essentially amount to
23 inappropriately applying one cost recovery to two different expenses.

²⁹ Staff/100, Koho/14.

1 Additionally, to the extent that Staff is arguing that depreciation expense
2 captured at the time of a rate case could be higher than capital expense for the
3 utility in some future year, such an argument is also flawed because it overlooks
4 the fundamental fact that utilities make other non-tracked investments in their
5 system on an ongoing basis, and do not receive an adjustment to rates to
6 recognize the increased investment. Thus, the inclusion of a fixed depreciation
7 expense in rates under standard ratemaking practices already implements an
8 appropriate balance related to ongoing capital investment and depreciation
9 expense. The addition of incremental investment to a utility's rate base through a
10 tracking mechanism does not reverse or alter that balance.

11 **Q. What is Staff's seventh guideline?**

12 A. Staff proposes that the mechanism be limited to a period of no longer than three
13 years.

14 **Q. Do you agree with this guideline?**

15 A. No. The Joint Utilities disagree with this condition, as it is too restrictive to
16 preemptively adopt at this time. It is possible that particular safety investments
17 will require more than three years to complete. For example, NW Natural's Bare
18 Steel Program took 15 years to complete. There is no reason to preemptively
19 limit the duration of the mechanism, particularly when the mechanism will be
20 periodically reviewed.

21 While we disagree with this particular restriction, the Joint Utilities agree
22 that a safety investment recovery mechanism should not be open ended. At the
23 time the mechanism is approved, the utility will have provided a detailed
24 description of the investments it intends to undertake and any additional
25 investments would be subject to Commission approval.

26 **Q. What guidelines does CUB propose?**

1 A. CUB recommends five guidelines that should govern safety investment recovery
2 mechanisms.³⁰ CUB's first guideline is that the mechanism should be restricted
3 to discrete capital investment that is spread over several years, predictable, and
4 readily identifiable.

5 **Q. Do you agree with this guideline?**

6 A. With the exception of its exclusion of O&M expenses, we agree that the recovery
7 mechanism should be used for identifiable safety and reliability costs.

8 **Q. What is CUB's second proposed guideline?**

9 A. CUB recommends that the mechanism should be implemented in a general rate
10 case.

11 **Q. Do you agree with this guideline?**

12 A. No. The Joint Utilities disagree with this guideline, for the reasons discussed
13 above. Moreover, CUB's proposal is even more restrictive than Staff's and
14 would, for example, require a new rate case even if the need for a safety
15 investment recovery mechanism occurred immediately after the conclusion of a
16 general rate case.

17 **Q. CUB argues that the mechanism must be included in a general rate case to**
18 **ensure that costs are not double-recovered, both in base rates established**
19 **in a rate case and through the adjustment from the safety investment**
20 **recovery mechanism.³¹ How do you respond to this concern?**

21 A. The Joint Utilities agree that it is appropriate to demonstrate that there is no
22 double-recovery, but believe that this concern can be adequately addressed in a
23 stand-alone proceeding to approve a safety investment recovery mechanism.
24 Moreover, if it is unclear whether costs are being double-counted, the

³⁰ CUB/100, McGovern/25-29.

³¹ CUB/100, McGovern/27.

1 Commission can require a utility to file a general rate case on a case-by-case
2 basis.

3 **Q. What is CUB's third guideline?**

4 A. CUB recommends that the mechanism include an earnings test.

5 **Q. Do you agree with this guideline?**

6 A. Yes.³²

7 **Q. What is CUB's fourth proposed guideline?**

8 A. CUB recommends that the mechanism should have a limited duration.

9 **Q. Do you agree with this restriction?**

10 A. No. The Joint Utilities disagree with this guideline, as discussed above.

11 **Q. What is CUB's fifth proposed guideline?**

12 A. CUB recommends that the mechanism should not be renewed, expanded, or
13 significantly altered outside of a general rate case.

14 **Q. Do you agree with this guideline?**

15 A. No. Again, there is no need to be overly restrictive at this point, given that no
16 utility has actually presented a proposed mechanism for approval, renewal,
17 expansion, or alteration.

18 **Q. Did NWIGU propose specific guidelines for approval of a safety investment
19 recovery mechanism?**

20 A. No, but NWIGU testified that it would be open to a proposal that has a great deal
21 of specificity, guards against over-earning, and addresses extraordinary
22 investments.³³ We believe that our proposed guidelines satisfy these standards.

³² Although CUB appears to distinguish an earnings *test* from the earnings *review*, the Joint Utilities are unclear what distinction CUB makes between the two. The earnings review proposed by the Joint Utilities would be generally consistent with the earnings review required under ORS 757.259 for amortization of deferrals.

³³ NWIGU/100, Finklea/6.

1 Q. Does this conclude your reply testimony?

2 A. Yes.