



WENDY MCINDOO
Direct (503) 290-3627
wendy@mrg-law.com

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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:

Attached for filing in the above referenced case is an electronic copy of the Joint Supplemental Reply Testimony of Northwest Natural Gas Company, Avista Utilities, and Cascade Natural Gas.

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

Very truly yours,

Wendy McIndoo
Office Manager

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 SUPPLEMENTAL REPLY TESTIMONY OF

NORTHWEST NATURAL GAS COMPANY,

AVISTA UTILITIES,

AND

CASCADE NATURAL GAS

(“JOINT UTILITIES”)

April 13, 2016

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INTRODUCTION AND SUMMARY

Q. Please state your names.

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

Q. Are you the same witnesses that filed opening and reply testimonies in this case?

A. Yes. We provided opening testimony labeled Joint Utilities/100 and reply testimony labeled Joint Utilities/200.

Q. What is the purpose of your testimony?

A. Our testimony responds to the cross-response testimony filed by Staff of the Public Utility Commission of Oregon (Commission) and the reply testimony filed by Citizens Utility Board of Oregon (CUB), which were filed in this docket on March 9, 2016.

Q. Please summarize your testimony.

A. In their March 9 testimony, Staff¹ and CUB² made new proposals requiring the natural gas local distribution companies (LDCs) in Oregon to make regular filings detailing their planned investment in safety-related improvements to their systems. Pursuant to the ALJ's March 25 Ruling, NW Natural Gas Company, Avista Corporation, and Cascade Natural Gas Corp. are filing this limited Supplemental Reply Testimony to respond to this new issue.

SUMMARY OF STAFF'S AND CUB'S TESTIMONY

Q. Please summarize Staff's safety planning proposal.

A. Staff proposes that the Commission require the three LDCs operating in Oregon to submit an annual or biannual plan detailing and supporting future safety-

¹ See Staff/300, Johnson/1-9.
² See CUB/200, McGovern/1-12.

1 related capital investments in their distribution systems. Staff notes that the gas
2 utilities' IRPs currently do not evaluate distribution and transmission system
3 investments for safety and modernization and that the IRP Guidelines do not
4 require them to do so. As a result, Staff states that the first time Staff and
5 intervenors learn about safety-related distribution or transmission system
6 improvements may be when the LDCs seek to place them in rate base—a
7 situation Staff implies is less than optimal.³

8 **Q. Does Staff make a proposal as to the information that should be included in**
9 **the utilities' safety filings?**

10 A. Yes. Staff proposes that at a minimum the plans would address short-term and
11 long-term safety and modernization investment in the LDC's distribution and
12 transmission system, and would include:

- 13 • Detailed description and cost analysis of the proposed safety-related
14 improvements and modernization;
- 15 • Identification and evaluation of any government regulations requiring the
16 investment or to which the investment is related;
- 17 • Identification, evaluation and justification of the technology involved;
- 18 • A detailed identification and description of the improved functionalities of the
19 system that will be provided by the investment, both for the Company and
20 customers; and
- 21 • An analysis of the benefits of the investment in terms of enhanced system
22 safety, improved customer safety and reliability, and reduced greenhouse gas
23 emissions.⁴

³ Staff/300, Johnson/7.

⁴ *Id.*

1 **Q. Please summarize CUB's safety planning proposal.**

2 A. CUB believes that the LDCs should engage in an IRP-type collaborative process
3 to review the companies' planned safety investments. CUB offers that the safety
4 planning process, which it refers to as the SPP, could be performed as part of the
5 IRP, or could be done in a separate safety planning docket. CUB states that the
6 purpose of the SPP is to (1) demonstrate the need for safety remediation or
7 mitigation; (2) allow the utility to explore which method would be most
8 appropriate, when considering risks, costs and benefits; and (3) establish the
9 basis for the Commission to evaluate investments that will later be recovered
10 through a safety cost recovery mechanism (SCRM) that might be requested by
11 the utility.⁵

12 **Q. Does CUB offer a proposal for the information that it believes should be
13 filed in the SPP?**

14 A. Yes. CUB's recommendation is similar, but not identical to Staff's proposal.
15 Notably, the information required in CUB's approach would cover all current and
16 ongoing safety projects, identifying both the functional and financial status. In
17 addition, the utility would be required to address the safety standards the utility is
18 attempting to meet and any deficiencies that need to be addressed to meet those
19 standards; a qualitative assessment of safety risks and quantitative assessments
20 of multiple remediation and mitigation measures, and the preferred measures for
21 each deficiency.⁶

⁵ CUB/200, McGovern/4.

⁶ The full list of proposed requirements is included at CUB/200, McGovern/4.

1 **Q. Does Staff or CUB make any recommendations as to the process that**
2 **would be involved in the SPP⁷ or what the outcome would be?**

3 A. Not explicitly. If the SPP were included in the IRP—which is one of CUB’s
4 alternative proposals—we would assume that the SPP would be subject to the
5 same process, and the SPP portion of the IRP would be acknowledged in the
6 same way that the IRP is acknowledged. However, in the case of an SPP that is
7 filed separately from the IRP, neither Staff nor CUB offer a specific proposal as to
8 the process or outcome of the process. In particular, they do not discuss
9 whether the Commission would approve or acknowledge the SPP, nor do they
10 state what the legal effect of such action would be.

11 **JOINT UTILITIES’ REPLY TO STAFF’S AND CUB’S PROPOSALS**

12 **Q. What is your general response?**

13 A. The Joint Utilities disagree that Staff and parties would lack the ability to review
14 safety costs included in a tracker mechanism without the SPP. We are,
15 nevertheless, open to the SPP proposal as a condition of an approved safety
16 cost tracker mechanism. In particular, we see value in a process whereby an
17 LDC works collaboratively with the Commission, Staff, and other interested
18 parties to review planning and analysis of any safety or reliability related
19 improvements that are subject to a utility’s SCRM. With respect to safety
20 measures proposed --but not yet-- included in the SCRM, the SPP could provide
21 the parties with a comprehensive view of the LDC’s safety planning and would
22 aid a determination as to whether the project was appropriate for accelerated
23 recovery through an SCRM. We note that one of the overarching concerns
24 expressed in this docket by Staff, CUB and NWIGU is that the “wrong” type of

⁷ For the purposes of this testimony we will use CUB’s term “SPP” to refer to any safety planning process proposed in this docket.

1 investment might be included in an SCRM. The SPP would provide the parties
2 with an expanded opportunity to vet the proposed projects and thereby assist a
3 determination as to whether the public interest will be furthered by their inclusion
4 in an SCRM. For these reasons, we agree it would be reasonable for the
5 Commission to require regular SPP filings for those LDCs with an approved
6 SCRM.

7 **Q. Why would it be appropriate to limit the filing of SPPs to those LDC's that**
8 **have requested an SCRM?**

9 A. In the absence of an SCRM, a utility's safety investments will be evaluated in the
10 context of a general rate case (GRC), where parties have close to a year to
11 conduct discovery on safety investments, and to consider whether the
12 investments are prudent. Under these circumstances, an SPP is not required
13 and normal regulatory review and traditional cost recovery mechanisms are
14 appropriate. On the other hand, if the LDC seeks to include safety costs as part
15 of an SCRM, the SPP could prove helpful. In this case, we can understand that
16 having insight into a utility's planning process can shed light on the
17 appropriateness of tracking costs annually into rates.

18 **Q. Would your proposal have any impact on LDCs that have not been granted**
19 **an SCRM?**

20 A. No. As we stated above, LDCs that have not been granted an SCRM will not be
21 required to file SPPs. LDCs without an SCRM will continue to seek recovery for
22 all safety and reliability investments in a GRC. In that context, there will be no
23 expectation that the LDC's safety and reliability investments have been included
24 in an SPP.

1 **Q. Is there precedent in other states for requiring a safety planning filing for**
2 **LDCs requesting a SCRM?**

3 A. Yes. In Washington, LDCs who have been granted safety cost recovery
4 mechanism—called CRMs—are required to make regular filings describing and
5 analyzing the projects included.⁸

6 **Q. Do you agree with CUB that the SPP could be incorporated into the IRP?**

7 A. No. The IRP process is already highly complex and subject to a relatively
8 abbreviated timeline. As Staff points out, the Commission has noted an interest in
9 expediting the IRP process and adding additional subjects for analysis does not
10 further this goal.⁹ We agree with Staff that the SPP should not be merged with the
11 IRP process.

12 **Q. How often should the SPP be filed?**

13 A. The Joint Utilities would be open to an annual SPP filing requirement—for those
14 LDCs with approved SCRM.

15 **Q. What time period should the SPP cover?**

16 Our safety planning tends to be focused on projects that will be initiated within 2-3
17 years. For that reason, we would suggest that projected plans falling within that
18 timeline be included in the SPP.

19 **Q. Do you agree with Staff and CUB's proposals as to the contents of an SPP?**

20 A. Yes, as we understand their proposals. In particular, we agree that an SPP should
21 include the following:

22 1. Information as to the risks or deficiencies the safety plan intends to
23 address;

⁸ In the Matter of the 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 (Dec. 31, 2012).

⁹ Staff/300, Johnson/8:14-18.

- 1 2. Identification of the applicable legal requirements--federal, state and local
- 2 regulations, statutes and policies—the safety plans seek to address;
- 3 3. Quantitative and qualitative analysis of the alternative approaches
- 4 available to address the identified risks and/or deficiencies;
- 5 4. Identification of the preferred approach, consistent with the analysis
- 6 provided, including the benefits of the investment in terms of enhanced
- 7 system safety, improved customer safety, and, if applicable, improved
- 8 reliability and reduced greenhouse gas emissions.

9 In addition, the SPP should include an Action Plan—like that included in the IRP.
10 The Action Plan would identify the specific activities the LDC plans to undertake
11 over the 2-3 year period following the review of the plan.

12 **Q. What type of Commission process should be accorded the filing?**

13 **A.** We propose that the investigation of the SPP be accorded a process similar to that
14 accorded an IRP, but on a shorter timeline. Given that the SPP will be more limited
15 than a full IRP, we would assume that its review could be completed in 4-6 months.
16 The schedule for the filing should include an opportunity for discovery, workshops,
17 and written comments, and should culminate with a presentation at a Public
18 Meeting.

19 **Q. Do you contemplate that the Commission would acknowledge the SPP, and**
20 **if so what legal effect would that acknowledgement have?**

21 **A.** The Joint Utilities agree that a regularly-filed SPP could provide a valuable
22 opportunity for the parties and the Commission to engage in an in-depth review of
23 a utility's safety and reliability planning and investments. This endeavor would
24 require a significant commitment of time and resources for everyone involved. As
25 such, the result of this process should include a determination by the Commission
26 as to whether, based on the information presented, the LDC's plan appears to be

1 a reasonable one. We recommend that the Commission make specific
2 determinations acknowledging each item of the SPP plan, and that an
3 acknowledgement have the same legal effect as that in the IRP—that is, while the
4 acknowledgement would not constitute rate-making, it would be relevant for
5 ratemaking treatment.¹⁰

6 **Q. Do you agree with Staff that the Commission will need to conduct**
7 **additional proceedings to adopt minimum filing requirements or guidelines**
8 **for the SPP?**

9 A. No, not at the outset. We believe that the processes and timelines proposed in
10 this testimony would be sufficient to guide initial SPP filings. In the future it may
11 be appropriate for the Commission to open a generic policy-making docket to
12 clarify expectations; however we believe that this process would be much
13 improved by the benefit of experience. The Joint Utilities therefore suggest that
14 prior to, or contemporaneously with, an initial request for an SCRM, the utility file
15 its first SPP, with the understanding that the reviewing parties and/or the
16 Commission may request some additional information. If after having engaged in
17 the review of one SPP, the Commission believes that guidelines would be
18 helpful, a generic docket could be opened for that purpose at that time.

19 **Q. Does this conclude your supplemental reply testimony?**

20 A. Yes.

¹⁰ *In the Matter of, Public Utility Commission of Oregon, Investigation Into Integrated Resource Planning*, UM 1056, Order No. 07-002 at 24-25 (Jan. 8, 2007).