

CASE: UM 1722
WITNESS: Judy Johnson

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 300

Cross-Response Testimony

March 9, 2016

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Judy Johnson. My business address is 201 High Street SE Suite 100, Salem,
3 Oregon 97308.

4 **Q. Have you previously provided testimony in this docket?**

5 A. Yes, I provided opening testimony labeled Exhibit Staff/200.

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

7 A. I incorporate a new element into the Staff recommendation in Docket No. UM 1722.
8 Specifically, Staff recommends that the Commission require the three gas utilities operating in
9 Oregon to submit an annual or bi-annual plan detailing and supporting future safety-related
10 capital investments in their distribution systems. I also respond to testimony filed by
11 Northwest Industrial Gas Users (NWIGU) and the Citizens' Utility Board of Oregon (CUB).

12 **Q. Is it usual for Staff to expand on its initial proposal in cross-response testimony?**

13 A. No. However, the three gas utilities are aware of Staff's plan to do so and that CUB and
14 NWIGU plan to make similar proposals in their cross-response testimony. CUB, NWIGU and
15 Staff have agreed to add a round of testimony to the evidentiary phase of this docket to allow
16 the Joint Utilities opportunity to respond to their safety plan proposal.

17 **Q. How is your testimony organized?**

18 A. My testimony is organized as follows:
19 Issue 1, Opposition to special cost recovery mechanisms1
20 Issue 2, Recommendation for safety plan requirement7

21 **Issue 1, Opposition to special cost recovery mechanisms**

22 **Q. Please summarize the purpose of these consolidated dockets.**

23 A. The Commission opened Docket No. UG 286 to address a request by Northwest Natural
24 Gas Company (NW Natural) to extend its System Integrity Program (SIP) cost recovery
25 mechanism. The Commission opened Docket No. UM 1722 to investigate generally whether
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1 local gas distribution companies in Oregon should be allowed to implement cost recovery
2 mechanisms for future investments in safety improvements made between general rate cases.

3 **Q. Please summarize the Staff recommendations in Staff's opening testimony.**

4 A. Regarding NW Natural's request to extend the SIP cost recovery mechanism, Staff
5 recommended that the Commission deny NW Natural's request because the investments
6 planned by NW Natural are not extraordinary and do not warrant a special cost recovery
7 mechanism.¹ With respect to the general investigation into cost recovery mechanisms, Staff
8 recommended that the Commission decline to take any action regarding special cost recovery
9 mechanisms at this time, asserting that such action is premature because none of the utilities
10 are planning investments that warrant a special cost recovery mechanism.²

11 Staff noted that *future* federal requirements may require significant investment that could
12 warrant special cost recovery mechanisms.³ For example, the Federal Energy Regulatory
13 Commission [FERC] noted in its 2015 policy statement regarding cost recovery mechanisms
14 that,

15 one likely result of the Pipeline Safety Act and [Pipeline and Hazardous Materials
16 Safety Administration's] PHMSA's rulemaking proceedings is that interstate
17 natural gas pipelines will soon face new safety standards requiring significant
18 capital costs to enhance the safety and reliability of their systems. Moreover,
19 pursuant to EPA's initiatives, pipelines may in the future face increased
20 environmental monitoring and compliance costs, as well as potentially having to
21 replace or repair existing natural gas compressors or other facilities.⁴

22 Staff testified that the possible need for special cost recovery mechanisms in the future does
23 not mean it is necessary for the Commission to act now.

24 ¹ Staff/200, Johnson/ 5-6.

25 ² Staff/100, Koho/3 .

26 ³ Staff/100, Koho/ 4.

⁴ Cost Recovery Mechanisms for Modernization of Natural Gas Facilities, 151 FERC P 61047
(2015 WL 1752866).

1 To the extent the Commission wanted to take action regarding cost recovery mechanisms
2 for safety-related investment, Staff recommended that the Commission adopt the following
3 guidelines for any future cost recovery mechanism specifying that a special cost recovery
4 mechanism for safety-related investment should be:

5 (1) established in a general rate case or within three years of the final order in its most
6 recent general rate case so that the Commission can ensure that base rates are reasonable;

7 (2) limited to costs for capital investments identified at the time the mechanism is
8 established that are needed to comply with federal regulations or that are necessary for the
9 safety of the system, that are not O&M, or normal capital or other expenditures to maintain the
10 pipeline's system in the ordinary course of business;

11 (3) limited by a cost recovery cap or caps, set at the time the cost recovery mechanism is
12 established, to limit the maximum amount of costs a utility can recover for the identified
13 investments;

14 (4) subject to periodic review, along with the general costs and rates of the utility, to
15 ensure the utility's rates remain reasonable;

16 (5) subject to an earnings test so that the utility is allowed to recover costs only to the
17 extent the recovery will not cause the utility to earn above its authorized rate of return;

18 (6) subject to a depreciation review test that limits annual amounts available for recovery
19 to the incremental costs that exceed the company's total annual depreciation on its Oregon-
20 allocated rate base; and

21 (7) limited to a period of no longer than three years.⁵

22 **Q. Have Staff's recommendations changed?**

23 A. Yes, in addition to recommending that the Commission require annual or bi-annual safety
24 plans, Staff modifies the recommended depreciation test (Staff guideline 6) described in Staff's
25 opening testimony. Rather than comparing annual safety-related investment to the amount of
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⁵ Staff/100, Koho/11-12.

1 depreciation for all Oregon rate base, the comparison should be between depreciation expense
2 for all Oregon rate base and the annual amount of *all* outside plant capital investment including
3 safety related investments. Meaning, under the modified depreciation test, safety investment
4 may be eligible for recovery under the special cost recovery mechanism if the Company's total
5 annual capital investment in all outside plant exceeds the annual amount of depreciation
6 expense for the Company's Oregon rate base.

7 Staff's recommendation in Docket No. UG 286 to deny NW Natural's request to extend
8 its SIP cost recovery mechanism has not changed, but it is no longer pertinent because NW
9 Natural has withdrawn its request.⁶

10 **Q. What are NWIGU's and CUB's positions regarding NW Natural's request to extend**
11 **its SIP cost recovery mechanism and regarding the Joint Utilities' request to implement**
12 **special cost recovery mechanisms based on their proposed guidelines?**

13 A. Both NWIGU and CUB oppose NW Natural's request to extend the SIP. Both CUB and
14 NWIGU note that the amounts that NW Natural proposed to recover annually through the SIP
15 are equal to a little over one percent of NW Natural's annual revenue.⁷ NWIGU also notes
16 that the annual depreciation expense in NW Natural's current rates is \$60 million and testifies
17 "[s]o long as the projected spend level is only a small fraction of allowed depreciation, there is
18 no compelling reason to surcharge customers between rate cases for the moneys spent on
19 safety compliance."⁸

20 CUB and NWIGU also oppose the Joint Utilities' request to implement special cost
21 recovery mechanisms based on the Joint Utilities' proposed guidelines. Both CUB and
22 NWIGU testify none of the utilities are anticipating extraordinary investment of a type that
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25 ⁶ See NW NATURAL's Withdrawal of Advice No. 14-23 and request to close docket UG 286
(March 4, 2016).

26 ⁷ CUB/100, McGovern/9; NWIGU/100, Finklea/3.

⁸ NWIGU/100, Finklea/3.

1 might warrant a cost recovery mechanism.⁹ Both CUB and NWIGU note that they have
 2 supported a cost recovery mechanism or mechanisms in certain circumstances.¹⁰ NWIGU
 3 notes that it supported a cost recovery mechanism for NW Natural’s cast iron replacement
 4 program in the 1980s and supported NW Natural’s SIP cost recovery mechanism for three
 5 distinct programs, the Bare Steel Program, the Transmission Integrity Management Program
 6 (TIMP) and the Distribution Integrity Management Program.¹¹ NWIGU notes that these cost
 7 recovery mechanisms for are not “precedent for allowing all Oregon LDCs to track through to
 8 customers future investments made simply to keep their distribution systems safe and in
 9 compliance with changing federal regulations.”¹²

10 **Q. Do CUB and NWIGU support the Joint Utilities’ proposed guidelines for a special**
 11 **cost recovery mechanism?**

12 A. No. Both CUB and NWIGU believe the guidelines proposed by the Joint Utilities are too
 13 broad. Both NWIGU and CUB believe, as does Staff, that it is premature to adopt guidelines
 14 for special cost recovery mechanisms (and the mechanisms themselves). However, like Staff,
 15 CUB and NWIGU offer different guidelines for cost recovery mechanisms as an alternative to
 16 what the Joint Utilities have proposed. The following is a table setting out the parties’
 17 recommendations for guidelines.

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25 ⁹ NWIGU/100, Finklea, 2-3; CUB/100, McGovern/10-15.
 26 ¹⁰ CUB/100, McGovern/9; NWIGU/100, Finklea/2-3.
¹¹ NWIGU/100, Finklea/1-2.
¹² NWIGU/100, Finklea/2.

Table 1. Parties' recommended guidelines for cost recovery mechanisms.

Staff	CUB	Joint Utilities	NWIGU
Must be established in rate case or within 3 years of rate case	Must be established in a general rate case		
Limited to capital investment identified at time mechanism is established that is needed to comply with federal regulations or necessary for safety of system and not normal investment in ordinary course of business	Limited to clearly identifiable, predictable and discrete capital investments that take place over several years	Significant capital investment that is not offset by revenues; O&M expense that is not included in rates for facilities replacement or improvement plan intended to "advance the safety and/or reliability of existing facilities"	Limited to cost recovery for specific, large, and unexpected replacement projects comparable to NW Natural's cast iron and bare steel replacement programs.
Cost recovery cap established at time of mechanism			
Mechanism and utility's general rates subject to periodic review		Mechanism reviewed at appropriate intervals and adjusted if necessary	
Earnings test so utility can recover only to extent recovery will not cause the utility to earn above authorized ROE	Earnings test, no specific benchmark suggested	Earnings test, no specific benchmark suggested	
Recovery limited to amount total annual investment in all outside plant in Oregon exceeds Company's total annual depreciation on Oregon-allocated rate base			
Limited to period of no more than 3 years	Limited duration determined at time mechanism established		

1 **Q. Does Staff believe it is necessary or appropriate for the Commission to select**
2 **between the parties' competing proposals for guidelines for special cost recovery**
3 **mechanisms?**

4 A. No. The safety investments described by the utilities are not so extraordinary that special
5 cost recovery mechanisms are required. Because it may be some time before any extraordinary
6 safety investments are required, it is premature to adopt guidelines for a recovery mechanism.

7 **Issue 2, Recommendation for safety plan requirement**

8 **Q. Please describe Staff's recommendation for annual or bi-annual safety plan.**

9 A. Staff recommends that the Commission require the three gas utilities to file annual or bi-
10 annual safety plans. At a minimum, the plans would address short-term and long-term safety
11 and modernization investment in the utilities' distribution and transmission systems. The plans
12 would include (1) a detailed description and cost analysis of the proposed system
13 modernization or safety-related improvements; (2) an identification and evaluation of any
14 government regulations requiring the investment or to which the investment is related; (3) an
15 identification, evaluation and justification of the technology involved; (4) a detailed
16 identification and description of the improved functionalities of the system (after investment)
17 both for the company and for customers; and (5) an analysis of the benefits of the investment
18 in terms of enhanced system safety, improved customer safety and reliability, and reduced
19 greenhouse gas emissions.

20 **Q. Why are such plans appropriate?**

21 A. The utilities' Integrated Resource Plans (IRPs) do not detail distribution and transmission
22 system investments for safety and modernization and the IRP Guidelines do not require this
23 detail. Accordingly, the first time Staff and intervenors learn about safety-related distribution
24 or transmission system investment may be when a gas utility seeks to place the investment in
25 rate base.
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1 For example, the Action Plan in NW Natural's 2014 Integrated Resource Plan includes
2 no safety-related distribution system investment in Oregon. In the IRP, NW Natural describes
3 three distribution projects, but they are planned to address customer demand rather than safety
4 concerns. Notwithstanding the absence of any discussion of safety-related improvements in its
5 2014 IRP or inclusion of such investments in its Action Plan, NW Natural asked to extend its
6 SIP cost recovery mechanism to recover costs associated with several safety-related
7 investments in Oregon that NW Natural plans during the same period covered by the 2014
8 Action Plan.

9 This example is not intended to suggest that NW Natural's IRP was deficient. Instead,
10 this example reflects that utilities generally do not include, and are not specifically required to
11 include, information regarding safety-related investment in their IRPs. An examination of the
12 2014 IRPs submitted by Avista and Cascade shows that neither of these utilities addresses
13 safety-related investments to pipeline facilities in Oregon as part of their IRPs.

14 **Q. Could the Commission simply expand the IRP Guidelines to incorporate guidelines**
15 **requiring analysis of safety-related investment?**

16 A. The Commission could simply expand the IRP, but Staff does not think this would be
17 optimal. The Commission has noted its interest in expediting the IRP process. Adding IRP
18 requirements does not further that goal.

19 **Q. Do CUB and NWIGU support the recommendation to impose a safety-plan**
20 **requirement for the natural gas utilities in Oregon?**

21 A. Yes. Staff anticipates that both these parties will make specific recommendations
22 regarding safety plans in their cross-response testimony.

23 **Q. If the Commission adopts the recommendation to require the gas utilities to file**
24 **safety plans, will the Commission need to conduct additional proceedings to establish**
25 **guidelines?**

1 A. Staff believes it is likely that some additional process would be required to establish
2 minimum filing requirements or guidelines for a safety plan.

3 **Q. Does this conclude your testimony?**

4 A. Yes.

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