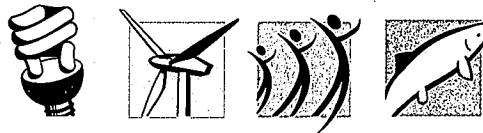


3TIER Environmental Forecast Group
 Advocates for the West
 AirWorks, Inc.
 Alaska Housing Finance Corporation
 Alliance to Save Energy
 Alternative Energy Resources Organization
 American Rivers
 The Apollo Alliance
 Audubon Washington
 Bonneville Environmental Foundation
 Central Area Motivation Program
 Citizens Utility Board of Oregon
 City of Ashland
 Clackamas County Weatherization
 Climate Solutions
 The Climate Trust
 Community Action Partnership of Oregon
 Community Action Partnership Assoc. of Idaho
 Conservation Services Group
 David Suzuki Foundation
 Earth and Spirit Council
 Earth Ministry
 Ecos Consulting
 eFormative Options, LLC
 Emerald People's Utility District
 The Energy Project
 Energy Trust of Oregon, Inc.
 enXco Development Corporation
 Environment Oregon
 Environment Washington
 Grasslands Renewable Energy
 Home Performance Guild of Oregon
 Home Performance Washington
 Housing and Comm. Services Agency of Lane Co.
 Human Resources Council, District XI
 Iberdrola Renewables
 Idaho Conservation League
 Idaho Rivers United
 Idaho Rural Council
 Idaho Wildlife Federation
 Interfaith Network for Earth Concerns
 Kootenai Environmental Alliance
 Laborers International Union of North America, NW Region
 League of Women Voters - ID, OR & WA
 Local Energy Alliance of Washington
 Metrocenter YMCA
 Missoula Urban Demonstration Project
 Montana Audubon
 Montana Environmental Information Center
 Montana Public Interest Research Group
 Montana Renewable Energy Association
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 Multnomah County Weatherization
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 Natural Resources Defense Council
 New Buildings Institute
 Northern Plains Resource Council
 Northwest Energy Efficiency Alliance
 Northwest Energy Efficiency Council
 Northwest Renewable Energy Institute
 Northwest Solar Center
 NW Natural
 NW SEED
 Olympic Community Action Programs
 Opportunities Industrialization Center of WA
 Opportunity Council
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 Oregon Action
 Oregon Energy Coordinators Association
 Oregon Environmental Council
 Oregon HEAT
 Oregonians for Renewable Energy Policy
 Pacific Energy Innovation Association
 Pacific NW Regional Council of Carpenters
 Pacific Rivers Council
 The Policy Institute
 Portland Energy Conservation Inc.
 Portland General Electric
 Puget Sound Alliance for Retired Americans
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 Puget Sound Energy
 Renewable Northwest Project
 River Network
 Salmon for All
 Save Our Wild Salmon
 Seattle Audubon Society
 Seattle City Light
 Sierra Club
 Sierra Club, Idaho Chapter
 Sierra Club, Montana Chapter
 Silicon Energy
 Snake River Alliance
 Solar Oregon
 Solar Washington
 South Central Community Action Partnership, Inc
 Southeast Idaho Community Action Agency
 Southern Alliance for Clean Energy
 Spokane Neighborhood Action Programs
 Smart Grid Oregon
 Student Advocates for Valuing the Environment
 SustainableWorks
 Sustainable Bainbridge
 Tahoma Audubon Society
 Trout Unlimited
 Union Of Concerned Scientists
 United Steelworkers of America, District 11
 WA CTED - Housing Division
 Washington CAN!



NW Energy Coalition

for a clean and affordable energy future

July 20, 2012

Via Electronic Filing and U.S. Mail

Re: UG 221

Attention Filing Center:

Enclosed for filing in UG 221 are an original and five copies of:
 Rebuttal Testimony of Nancy Hirsh on behalf of the NW Energy Coalition

This document is being filed by electronic mail with the Filing Center.

This document is being served electronically upon the UG 221 service list.

Sincerely,

Nancy Hirsh
 Policy Director

Enclosures

Cc: UG 221 Service List



1
2
3 **BEFORE THE**
4 **PUBLIC UTILITY COMMISSION OF OREGON**

5 **UG 221**

6
7
8 In the Matter of)
9) Rebuttal Testimony of
10 Northwest Natural Gas Corporation)
11 dba NW Natural) Nancy Hirsh
12) on Behalf of NW Energy Coalition
13 Request for a General Rate Revision)
14

I. INTRODUCTION AND SUMMARY

Q. Please state your name, affiliation and address.

A. My name is Nancy Hirsh and I am the policy director of the NW Energy Coalition. Our office is located at 811 1st Ave., Suite 305, Seattle, WA 98104.

Q. Are you the same Nancy Hirsh who filed direct testimony in this proceeding on behalf of the NW Energy Coalition?

A. Yes. My direct testimony was marked Exhibit 100.

Q. What is the purpose of your rebuttal testimony?

A. In this rebuttal testimony I will respond to the Staff testimony regarding proposed changes to the current NW Natural decoupling mechanism. I will also respond to some of the characterizations made by Company witness Russell Feingold on rate design and the use of long-run marginal cost as a tool in rate design.

II REBUTTAL OF DIRECT TESTIMONY OF OPUC STAFF

Q. What changes to NW Natural’s decoupling mechanism does the OPUC staff present in their opening testimony?

A. Staff proposes two main changes to the NW Natural decoupling mechanism:

- 1) Changing the baseline from “use-per-customer” to a “total use” benchmark;
and
- 2) Adopting a “New Service Rate” to be applied to new meters/new service locations when calculating the decoupling deferral - calculated by taking the proposed annual customer-related LRIC (excluding the cost of mains), minus the customer charge. The total amount is calculated multiplying the New Service Rate by the total number of new meters/new service locations. This charge or credit is applied to the decoupling deferral resulting from the baseline usage calculations.

Q. Do you support these two changes recommended by the OPUC staff?

1 **A.** No, I do not support either of these substantial changes to the decoupling mechanism
2 currently used by NW Natural. I support the continued use of the existing mechanism because I
3 believe the existing mechanism functions as intended to:

4 1) remove the throughput incentive,

5 2) allow the company full recovery of authorized fixed costs, and

6 3) support substantial energy savings among natural gas customers in NW Natural service
7 territory.
8

9 **Q. Do you believe that the existing decoupling mechanism is responsible for reduction
10 in gas usage among the Company's residential and commercial customers?**

11 **A.** Yes I do. As staff points out in their opening testimony "use per residential customer has
12 ... declined materially" in the period between 2002-2011¹. Actual use per residential customer in
13 the usage year 2002 – 2003 was 731 therms compared to 629.1 therms per residential customer
14 in usage year 2010-2011 – an average annual rate of decline of 1.9 percent.² Total weather
15 normalized use for commercial customers has declined at an average annual rate of 0.9 percent
16 over the same period. I believe the majority of the decline in both the residential and commercial
17 customer class to be a direct result of energy efficiency activities attributable to the Company
18 and the Energy Trust of Oregon (including energy codes and appliance and equipment
19 standards).
20

21 **Q. Staff's testimony states that residential customers actual weather-normalized total
22 usage has increased over the period since decoupling was implemented.**

23 **A.** This is true. However, this is not an indication that the mechanism is not functioning as
24 intended. The mechanism is intended to compensate the Company when use per customer
25 decreases due to energy efficiency measures. Total use is not a good measure of energy
26 efficiency because customer growth makes it difficult to determine the energy savings reductions
27 in demand from existing customers. Consequently, the fact that use per customer is going down
28 is a much better indicator of how well the mechanism is working.
29

¹ Staff/1300/Storm/ 16.

² See also Exhibit NWN/1200 Siores/7 Table 2.

1 **Q. If the total usage among residential customers is actually increasing, shouldn't the**
2 **amount of the decoupling deferral be smaller than it has been over the past 10 years?**

3 **A.** No, the decoupling deferral compensates the Company for the reduced energy use per
4 customer that is attributable to energy efficiency measures. In staff's testimony they seem to
5 overlook the fact that if the decoupling mechanism had not been in place, total usage would have
6 increased at a much higher rate than it did over the last 10 years.

7
8 **Q. Why is a use per customer decoupling mechanism, such as the one currently**
9 **employed by the Company, preferable to the total use decoupling mechanism proposed by**
10 **OPUC staff?**

11 **A.** First, Oregon has been using a use per customer decoupling mechanism with NW Natural
12 over the last 10 years and that mechanism is working well. Additionally, use per customer is the
13 predominate regulatory construct for decoupling mechanisms used across the United States. In
14 fact, 23 of 28 states that use decoupling mechanisms use some form of use per customer
15 construction.³

16
17 **Q. Do you have any other concerns about changing the NW Natural decoupling**
18 **mechanism to total use?**

19 **A.** Yes, total use does not effectively address revenue recovery because it does not
20 adequately account for customer growth.

21
22 **Q. But doesn't the OPUC staff's New Service Rate compensate for this deficiency in the**
23 **total use decoupling construct?**

24 **A.** The staff's New Service Rate calculations add a level of complexity to the decoupling
25 mechanism that is completely unnecessary. The existing mechanism works well –we should not
26 introduce additional calculations that will serve to complicate the decoupling deferral calculation
27 and make it more difficult for staff and stakeholders to review the Company's filings. Indeed, the
28 OPUC staff states that one of their goals is to simplify the mechanism, when, in fact, by adding a

³ See Pamela Morgan, Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive Review, Electricity Journal, Oct. 2009, p. 70

1 new, unknown, untested calculation they will have actually served to make the deferral
2 calculations more complicated.

3

4 **Q. Are there other reasons you object to the New Service Rate proposed by staff?**

5 **A.** Yes, I believe that the staff proposal is shortsighted. Staff Exhibit 1303, illustrating a
6 scenario where there is reduced per customer usage and negative customer growth, shows that
7 their new decoupling proposal would actually compensate the company well above the rate that
8 the current decoupling mechanism would in this same scenario. The level of compensation
9 shown in Staff Exhibit 1303 seems illogical in a situation where customer usage and customer
10 growth are both falling. One long-term implication of adopting the staff proposed mechanism is
11 that in the future we could be using the decoupling mechanism to compensate the company for
12 loss of customers – a result that I do not believe is acceptable nor intended by stakeholders that
13 agreed to the original decoupling mechanism.

14 In addition, staff offers no evidence, research or scholarly reports that support the New
15 Service Rate and its effectiveness when implemented. And finally, staff's proposal uses
16 ratepayer decoupling money to pay for the customer related costs of one subset of customers
17 (new customers). This is a precedent that should be avoided in designing decoupling
18 mechanisms.

19

20 **Q. What about the high decoupling adjustments that have occurred over the last three
21 years?**

22 **A.** As the staff points out in their own testimony, the high decoupling adjustments that
23 occurred over the last three years would have been avoided had the Company filed a rate case
24 prior to the current filing⁴. In this case, some portion of the decoupling deferral would have been
25 incorporated into base rates. Rather than changing the decoupling mechanism in an attempt to
26 address this issue, my recommendation is for the Company to file a general rate case more
27 frequently than every nine years, but no more frequently than every three years.

28

⁴ Staff/1300/Storm/25

1 **Q. Do you have other concerns related to the staff testimony as it pertains to**
2 **decoupling?**

3 **A.** Yes. In their testimony, staff adds the cumulative net decoupling deferral to the
4 company's direct contributions to the Energy Trust of Oregon and asserts that this represents the
5 total cost of energy efficiency programs to ratepayers. I find this assertion by staff to be highly
6 troubling and erroneous.

7
8 **Q. Why is staff's contention that the total costs of energy efficiency programs include**
9 **the decoupling deferral incorrect?**

10 **A.** The decoupling deferral is not an additional cost to ratepayers. Decoupling is a rate
11 making construct that is designed to ensure that authorized fixed cost revenue requirements are
12 recovered. Decoupling does not add to the revenue requirement. On the contrary, decoupling
13 mechanisms are designed to ensure that the revenue requirement is neither over nor under
14 recovered.

15
16 **Q. Do you support the staff recommendation to retain the opt-out provision for the**
17 **weather adjustment mechanism (WARM)?**

18 **A.** Yes I do. It is important to allow consumer choice and the opt-out provision does not
19 appear to cause undo cost or burden on the Company.

20
21 **Q. Do you support the staff recommendation to establish higher seasonal winter rates?**

22 **A.** No I do not. Now is not the time to send a price signal for marginal costs of providing
23 peak gas service. In general I do support seasonal rate structures as they do promote energy
24 efficiency. However, to add higher winter rates onto customers at a time when federal home
25 heating bill assistance funds are being significantly cut and unemployment in Oregon is still high
26 is not appropriate ratemaking. In addition, higher winter rates would disproportionately impact
27 low income customers despite the fact that on average low income customers use less therms
28 than the rest of the residential class. They already pay a higher percent of their income on
29 energy costs.

30

31 **III REBUTTAL OF REPLY TESTIMONY OF RUSSELL FEINGOLD**

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Q. Please summarize your concerns with NW Natural’s proposed rate design proposal.

A. As I stated in my direct testimony, significantly increasing the monthly customer charge and lowering the price per therm will increase usage and blunt the signal to customers that energy efficiency measures and conservation actions will help them lower their bills. Approval of such a rate design will very likely undo a decade of energy efficiency work done by NW Natural and its customers and the Energy Trust of Oregon. Mr. Feingold seems to argue that NW Natural’s existing volumetric rate structure provides too much of an incentive to conserve natural gas and that they are over-investing in natural gas efficiency improvements. Arguing that those who have higher consumption are discriminated against based on average system costs and therefore should have a lower cost per therm sends the wrong signal. Expanding energy efficiency outreach to those customers will be more effective at reducing their bills than lowering the price per therm, which may further increase consumption.

Q. Mr. Feingold argues that a fully cost-based customer charge provides adequate bill savings because the volumetric and other non-customer charge costs are still sufficient as a price signal. Do you agree?

A. No. Mr. Feingold does not provide an illustration of how the Company proposed rate design would maintain adequate incentive to reduce usage and therefore lower the bill.

Q. Were you convinced by the Company reply testimony that more distribution main and service costs should be included in the customer charge?

A. No I was not. The cost of extending mains is incurred volumetrically as it is a function of consumption being sufficient to justify the investment. It is collective usage that tips the scale rather than how much one customer uses compared to another. The Company will add up the total and determine a course of action based on the total new demand. The proposed rate design coupled with the Company’s line extension tariff, Schedule X, could result in a significant shift of cost responsibility from large users to small users. Under the Schedule X tariff, the Company is already recovering from small use customers a higher percentage of the costs of an extension than they are from a large user.

1 **Q. Why use long-run marginal cost for rate design?**

2 **A.** Planning and investment decisions for both the utility and the customer should be based
 3 on long-run marginal costs. Rate structures should reflect this same principle. Use of short run
 4 marginal cost of gas, as suggested by Mr. Feingold, distorts the signal that customers get and
 5 encourages inappropriate investments and usage decisions. As we have seen in the past two
 6 decades, there is tremendous short-term volatility in the gas market, reflecting surplus and
 7 shortage. Rate design should be based on LRIC so customers behave wisely.

8
 9 **Q. Is Mr. Feingold’s assertion that long-run marginal costs are lower than average
 10 costs accurate?**

11 **A.** If this situation were the case then rates would be going down as growth occurs. In
 12 addition, if overall usage goes down through energy efficiency and/or conservation, that puts
 13 downward pressure on gas supply, and the cost of gas in the market comes down. The
 14 illustration below shows how if a 10% reduction in the quantity demanded produces a 10%
 15 reduction in price, then the marginal cost of gas is much higher than the average cost. The point
 16 here is that if we collectively reduce demand, we collectively reduce the price. Rate design
 17 should use the long-run marginal cost to help drive more efficiency.

Marginal Cost of Gas Affected By Quantity Demanded				
			Year 1	Year 2
Quantity Demanded			1000	900
% Change				-10%
Market Price			\$ 3.00	\$ 2.70
Total Cost of Gas			\$ 3,000.00	\$ 2,430.00
Change in Total Cost				\$ (570.00)
Change in Quantity				-100
Marginal Cost				\$ 5.70

19
 20

1 **Q. Please summarize your rebuttal remarks.**

2 **A.** The existing decoupling mechanism and WARM adjustment are working as intended by
3 the Commission. That is not to say that tweaks and modifications are not warranted. In my
4 direct testimony I recommend and support a number of proposed changes that improve
5 implementation and effectiveness. However, Staff have proposed a more wholesale set of
6 changes to the decoupling mechanism that I believe actually undermine the effectiveness of the
7 tool and could negatively impact customers. As such, we urge the Commission to reject the
8 staff's proposal change the decoupling calculation to be based on total use and to reject the
9 complimentary New Service Rate.

10 The Company's reply case regarding the change in rate design from a volumetric
11 construct to a straight fixed variable construct was not compelling. The impacts on energy
12 efficiency and on small use customers remain as serious concerns. I understand why the
13 Company wants to transition to this type of rate design but that is not reason enough for the
14 Commission to approve such a structure. It is inconsistent with the approach to ratemaking that
15 has defined this Commission for the past 20 years.

16

17 **Q. Does this conclude your rebuttal testimony?**

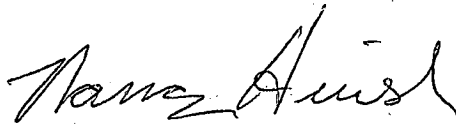
18 **A.** Yes.

19

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **the rebuttal testimony of Nancy Hirsh on behalf of the NW Energy Coalition** to be served by electronic mail to those parties whose email addresses appear on the attached service list, and by First Class Mail, postage prepaid and properly addressed, to those parties on the service list who have not waived paper service from OPUC Docket No. UG 221.

DATED this 20th day of July, 2012



Nancy Hirsh

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UG 221**

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