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August 5, 2019

VIA ELECTRONIC FILING

Mark L. Johnson, Executive Director & Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: **U-190531 - Comments of Northwest Natural Gas Company**

Dear Mr. Johnson:

Northwest Natural Gas Company, dba NW Natural (NW Natural or Company), provides the following comments in response to the Washington Utilities and Transportation Commission's (Commission) July 5, 2019 Notice of Opportunity to File Written Comments (Notice) in the above-referenced docket. These comments respond to the questions posed by the Commission relating to the recently passed SB 5116, which required the Commission to "establish an appropriate process to identify, review, and approve public service company property that becomes used and useful for service in this state after the rate effective date."

1. In order for property to be considered for inclusion in rates during the rate effective period, should such property specifically be identified in the general rate case giving rise to those rates, or can specific property be identified in a subsequent proceeding? If such property may be identified in a subsequent proceeding, what proceeding would that be and why?

Response: The appropriate level of specificity for property included in rates during the rate effective period should be determined in relation to the type of property being considered for the inclusion in rates. Generally, most of NW Natural's property can be divided into two main categories. The first category consists of "discrete" projects that the Company has proposed and planned to implement to fulfill a specific operational aim, or to address a specific system need. These often fall into subcategories of System Betterments, System Reinforcement Projects, Land and Structures, and certain IT projects. These projects may be planned in advance of a rate case filing and could potentially be specifically identified in a rate case. To the extent these projects could be judged for prudence in advance of being placed in service, these projects could be evaluated during the pendency of a rate case.

The second, and larger, category consists of "non-discrete" projects. This category consists of several subcategories of property, of which there could be hundreds of small projects in each category. These types of projects include the steady stream of day-to-day investment required for the routine maintenance and extension of our distribution system, as well as the property required to administer the Company's operations. These subcategories include Public Works,

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Relocates, Damages, Transportation and Equipment, Tools, Leakage, Customer Growth, and Transmission Integrity Management Program (TIMP), and the Distribution Integrity Management Program (DIMP). A significant portion of our IT falls under this category as well.

For the second category of “non-discrete” property, each subcategory remains relatively stable over time, with slow, steady and predictable increases for growth and inflation. For the rate effective period, NW Natural relies on both historical trends and current planning in the regular course of business by managers in charge of each subcategory. For example, in the subcategory of Customer Growth, this property consists of the investments needed to connect new customer to the Company’s system. These costs would include mains, service lines, regulators, meters, and permitting costs. While we can predict that a certain amount of service lines will be installed, for instance; we cannot predict the exact location, timing, and cost of each service line installed.

Given the routine and predictable nature of this second category, utilities should be permitted to include in rates this property that comes in service during the rate effective period based upon a supportable level of rate base. NW Natural could break down the level of rate base into categories, as described above, to bring greater detail to the overall review of the rate base to be included in rates. As with any planning, the further out in time one attempts to plan for, the less degree of certainty one has. As such, it will be important to allow appropriate adjustments to the level of rate base for later years in a rate plan. This process could occur in the rate case docket or potentially a separate docket.

These annual adjustments could also be used to identify any “discrete” property that becomes used and useful during the rate effective period, to the extent those were not identifiable during the pendency of the prior rate case. This could be especially important for short-lived assets, such as IT projects, that are becoming a larger percentage of utilities’ overall rate base and more critical to the daily operations of utilities. Providing a mechanism for utilities to include these “discrete” projects in rates as they become used and useful will be an important tool that should be captured in the rate plan.

2. How should plant-in-service be valued (for the determination of rate base) for each year of a rate plan? Does this valuation depend on prospectively identifying specific plant investments across the rate plan during the general rate case giving rise to the rates? Why or why not?

Response: As described above, the valuation of each year of a rate plan may be set during the pendency of a rate case and should be set using a level of rate base that includes “non-discrete” investments and potentially “discrete,” identifiable investments. Each utility likely has differences in their planning and budgeting processes, but it will be incumbent on each utility to demonstrate, based on their own business practices, that the level of forecasted rate base will be met with a reasonable degree of certainty over the period of the rate plan.

3. What should be the review process for property included in rates that becomes used and useful after the rate effective date? Is this review process the same for plant placed in service both up to and during the rate-effective date?

Response: As described above, an annual review of the level of rate base approved in a rate case could be performed in the same rate case docket or a subsequent annual proceeding. It may be reasonable to leverage existing reporting and/or filing dates, such as the Commission Basis Report, quarterly results of operations or the PGA as opportunities for providing information to support the prudence review of capital expenditures in a manner that eases administrative burden for utilities and Staff. As an example, during the rate effective period, utilities could have regular reporting regarding their investment for the year, and provide a higher degree of specificity of the property as it becomes used and useful. However, in any given year there could be thousands of projects, and as such, it will be important to strike the right balance of information provided so that it is helpful to stakeholders reviewing the reports, not overly burdensome on the utility to produce the reports, and promotes the judicial efficiency that rate plans are intended to address. To the extent there are any questions around the prudence of any project, those could be addressed in the annual review or a subsequent rate case. Additionally, the reporting could provide updated projections of the following year's level of rate base to the extent the utility needs to adjust its rate plan.

4. Should pro forma plant additions placed in service after the test year but before the rate effective date be considered using the same process that the Commission will use to identify, review, and approve property that becomes used and useful after the rate effective date? Or should these post-test year plant additions be considered under a separate process? What is the best way to incorporate the participation of all of the parties to the underlying rate proceeding in the process of reviewing the prudence of these posttest year plant additions?

Response: For the time period between the test year and the rate effective period, pro forma plant additions can be reviewed using a similar process to the process described above. The level of rate base (inclusive of "discrete" and "non-discrete" property) can be supported in the utility's initial rate case filing. Utilities could update the rate base level of this period through the pendency of the case to ensure the most accurate forecasted level of rate base is ultimately included in rates.

5. If the rate base used to establish rates for a multi-year rate plan relies on a formula or plant-in-service projections (rather than a prospective identification of specific investments), what is the appropriate process for identifying, reviewing, and approving property that becomes used and useful for service after the initial rate-effective date? How should actual plant-in-service relate to the plant-in-service used to establish rates?

Response: Please see responses 1-4 above.

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NW Natural appreciates the opportunity to provide these comments and looks forward to continued participation in this proceeding. Please direct any questions regarding these comments to Natasha Siores at 503-721-2452 or natasha.siores@nwnatural.com

Respectfully submitted,

/s/ Zachary D. Kravitz

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