BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. NORTHWEST NATURAL GAS COMPANY, Respondent.	DOCKET UG-_____

NORTHWEST NATURAL GAS COMPANY

Direct Testimony of Wayne K. Pipes

FACILITIES

Exh. WKP-1CT

REDACTED VERSION

December 18, 2020

DIRECT TESTIMONY OF WAYNE K. PIPES

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I. INTRODUCTION AND SUMMARY

Q. Please state your name and position at Northwest Natural Gas Company ("NW Natural" or "the Company").

A. My name is Wayne K. Pipes. I am the Director of Facilities, Security and Emergency Management for NW Natural. I am responsible for facilities, real estate, security and emergency management activities for NW Natural, which includes planning and management of real estate, construction, capital projects, maintenance, security and emergency management for NW Natural's facilities.

Q. Please summarize your educational background and business experience.

A. I have over 38 years of facilities management and construction experience. I have been employed at NW Natural since 2014. Before assuming my current position at NW Natural in 2014, I worked for New Seasons for a year as Director of Design, Construction, and Facilities Management. I also worked for Knowledge Universe for 15 years as Vice President of Facilities and Development, and for Red Lion Hotels for 17 years as Senior Director of Facilities Management.

Q. Please summarize your testimony.

A. The primary purpose of my testimony is to describe the Company's move to its new operations center, 250 Taylor, including the decision-making process leading to that move. I also describe the Vancouver Resource Center Project, which is a retrofit of the existing Vancouver Resource Center to address seismic resilience and operational functionality issues.

Q. Please provide a summary of your testimony regarding the new operations center.

A. NW Natural's headquarters serves as our operations center where, under normal operating circumstances, approximately 650 of the Company's nearly 1,200 employees come to work every day. The Company's employees are our most important resource, and NW Natural prioritizes keeping them safe so that we can continue to operate the utility 24 hours per day, 365 days per year, in order to best serve our customers. To do so, NW Natural's operations center must be safe and accessible at all times. Critical utility operations, such as our resource management center, gas control center, emergency dispatch customer call center, and gas supply and engineering teams, all operate out of this primary facility. Additionally, the operations center also houses all other departments in the Company that operate our day-to-day business, including human resources, audit, purchasing, finance, legal, rates and regulatory, facilities and security, public affairs, environmental management and policy, major accounts services, project management office, business analytics, marketing and corporate communications, business development, strategic planning, and information technology and services.

Over the last decade, there has been a greater awareness and understanding of the seismic concerns and the risk of a major earthquake in the Pacific Northwest. Public and private entities have been working closely together to ensure that we are doing all that we can to keep our communities safe in the event of a major seismic event. Specifically, Washington Governor Jay Inslee and Oregon Governor Kate Brown have established resiliency plans directing that regulated energy providers identify seismic vulnerabilities in their systems and mitigate the deficiencies. In concert with these

efforts, we assessed the seismic resiliency at our facilities, including our operations center and regional field service locations. As a result of these assessments, it was clear that several of our facilities, including the Company's prior operations center location at One Pacific Square ("OPS"), were not equipped to be operational after a seismic event.

With the lease at OPS expiring in 2020, the Company made seismic resiliency a top priority when evaluating whether to extend our lease or find a new location because it is essential that we can continue to operate from this facility in the immediate hours, days, and weeks following a major event. After a multi-year process, described fully in my testimony below, the Company decided to find a new location for our operations center, located at 250 Taylor Street in Portland, Oregon ("250 Taylor"), which is designed to be occupiable and fully operational after an earthquake, so that NW Natural is in the best position to be able to provide critical service in the event of an emergency.

The Company's goal throughout the process was to ensure that the needs of NW Natural operations and employees would be met, while balancing the Company's obligation to diligently review all relevant alternatives and make a prudent decision. After undertaking an extensive and deliberative process, I believe we achieved our goal and ultimately selected the least-cost, least-risk option that also met the Company's operational needs for the purpose of providing safe and reliable natural gas service to our customers.

Since our move to 250 Taylor in March 2020, we have had to make some adjustments in response to the coronavirus pandemic and Oregon Governor Kate

Brown's "Stay Home, Save Lives" Executive Order, and currently most of the Company's employees are telecommuting, while about 40 essential employees in the gas control, resource management center, and security continue to come into work. However, we are currently targeting February 2021 to begin returning more of our employees to the operations center, or when public health authorities deem it safe to do so.

Q. Please provide a summary of your testimony regarding the Vancouver Resource Center Project.

A. NW Natural is in the process of retrofitting its Vancouver Resource Center to address seismic and operational functionality issues. This work is being completed in two phases. Phase 1 addressed improvements to the office and warehouse. Phase 2 will address improvements to the yard, including construction of outbuildings to provide for needed storage, covered spoils bins, specialty equipment garage, and decant system, vehicle fueling station, truck wash booth and equipment, and site work, including paving, retaining wall, lighting, and fencing. Phase 1 was completed in early December 2020, and the Company plans to begin to use the facility at the end of December 2020. Construction for Phase 2 will begin in April 2022, and the Company anticipates that construction will be completed by the end of October 2022.

Q. Have you prepared exhibits to accompany your testimony?

A. Yes. The exhibits to my testimony include:

- Exh. WKP-2 – Headquarters Phase 1 Report
- Exh. WKP-3 – Headquarters Phase 2 Report
- Exh. WKP-4 – Financial Analysis of Four Headquarters Finalists (Summary)

- Exh. WKP-5 –250 Taylor Lease Agreement

II. NEW OPERATIONS CENTER – 250 TAYLOR

A. Background

Q. Please describe the Company's former headquarters facility.

A. NW Natural's former headquarters facility was located at OPS, in the Old Town neighborhood of Portland, Oregon. The Company had been in this space since the building was constructed in 1983.

Q. What was the initial lease term for OPS?

A. The initial lease was for a 15-year term, with four renewal options of five years apiece. There were also several amendments that were executed over the term of the lease.

Q. Did the Company use all four of the renewal options?

A. Yes. The Company used all four of the five-year renewal options, which allowed for the lease to be extended through June 1, 2018.

Q. Did the Company enter into a shorter-term lease extension in advance of the June 1, 2018 lease expiration?

A. Yes. In April of 2014, the Company signed a lease amendment that extended its final five-year lease period for an additional two years. This amendment extended the lease term from June 1, 2018 to May 31, 2020.

Q. Why did the Company enter into a shorter-term lease extension?

A. At the time that NW Natural entered into its most recent extension of the OPS lease in 2014, the Company was aware of certain disadvantages to remaining in the current location. Specifically, the Company had concerns regarding seismic resiliency at OPS and security incidents that had occurred in the Old Town neighborhood. To allow for

full consideration of all alternatives—including building construction or leasing a new building—the Company determined that a two-year lease extension would provide sufficient time to allow for a careful and thorough evaluation of its options.

Q. What was the Company's first step in evaluating alternatives for a headquarters location?

A. The Company's first step was to form an internal Headquarters ("HQ") Steering Committee in late 2014.

Q. Were you a member of the HQ Steering Committee?

A. Yes. I served on the HQ Steering Committee, along with a team of NW Natural's executives.

Q. What was the role of the HQ Steering Committee?

A. The HQ Steering Committee was formed to provide direction and oversight for the Company's investigation into alternative headquarters options. To fulfill this role, the HQ Steering Committee served as the project manager and made recommendations to the Company's executive committee and Board of Directors concerning significant decisions such as the final selection of the headquarters location and certain project budgets, such as the space design and furniture, fixtures and equipment ("FFE") cost.

Q. Had the Company already decided to move when it formed the HQ Steering Committee?

A. No. At the time the HQ Steering Committee was formed, the Company had no preconceived notions about relocating versus staying at OPS. To the contrary, the Company formed the HQ Steering Committee to develop a deliberate process and

timeline and to oversee the appropriate due diligence needed to reach a decision about our future facility.

B. NW Natural's Phased Approach to Decision-Making

Q. Please describe the Company's phased approach as it considered alternatives for its headquarters location.

A. The Company's process was split into three distinct phases. During Phase 1, we gathered information regarding potential headquarters locations, developed location and facility selection criteria, and assessed risk factors related to the seismic resilience of OPS and potential alternative locations. In Phase 2, we issued a request for information ("RFI") to the broker, developer and landlord community to solicit a broad range of responses, followed by a request for proposals ("RFP") for the top candidates using the selection criteria identified in Phase 1. Phase 2 culminated in the selection and lease negotiation of the preferred location and facility, 250 Taylor. In Phase 3, we implemented the decision to relocate to 250 Taylor—including decisions regarding final interior design, construction bid process, FFE, and physical relocation to the new site. Figure 1, below, shows the key decision points and timing for each phase.

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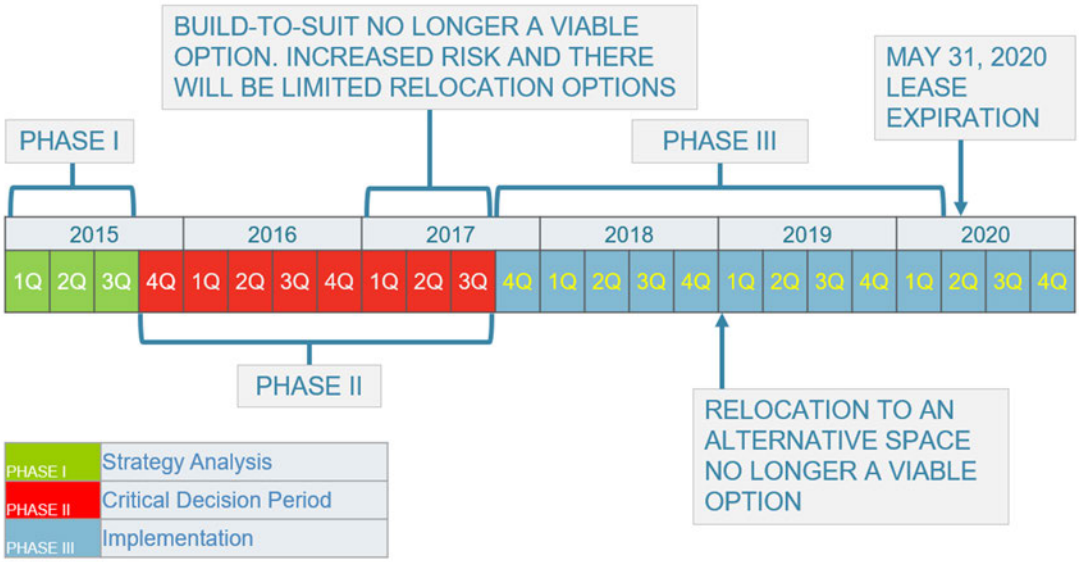
Figure 1. Key Decision Points and Timeline by Project Phase



Q. Did the Company engage outside consultants and subject matter experts throughout its phased process?

A. Yes. For each phase, the Company engaged outside consultants and subject matter experts to provide technical support for the Company.

Q. Please identify the outside consultants and subject matter experts that the Company engaged for each phase, and the scope of work for each consultant.

A. The consultants and subject matter experts the Company directly engaged during the project, as well as a brief description of the scope(s) of work, are listed below.

- Cushman & Wakefield ("Cushman"): Real estate and brokerage services.
- Leland Consulting Group ("Leland"): Strategic analysis, real estate planning, evaluation and optimization services.
- KPFF Consulting Engineers ("KPFF"): Seismic resiliency design and expertise; seismic review of OPS and potential relocation sites submitted in response to RFPs,

which included an examination of surrounding buildings and infrastructure for accessibility risks immediately following a seismic event.

- Geo Engineers: Geotechnical seismic assessments that modeled soil liquefaction and lateral spread risks of the finalist sites.
- GBD Architects: Tenant improvements and FFE planning, design, and purchase; built test fits of finalist candidates, provided design services and construction administration for tenant improvements at 250 Taylor.
- Glumac: Mechanical engineering and sustainability design services for tenant improvements.
- Turner Construction: Core and shell construction services; bidding and construction of tenant improvements at 250 Taylor.
- Chipman Relocation & Logistics ("Chipman"): Professional moving planning and implementation; physically move all Company departments to 250 Taylor; removal and disposition assistance of FFE at OPS for salvage.

1. Phase 1

Q. Please describe Phase 1 of the headquarters project.

A. Phase 1 began in late 2014, with the engagement of our seismic consultant, KPFF, our strategy and planning consultant, Leland, and our real estate broker, Cushman. These consultants were tasked to develop a process that would arrive at a solution to best meet the needs of NW Natural operations and employees and fulfill the Company's obligation to customers to diligently review all relevant alternatives and make a prudent decision. The scope of work for Phase 1 included three major components: (1) analysis of the risk factors related to the seismic resilience of the OPS building and location; (2)

the development and preliminary analysis of building evaluation criteria to guide the Company's decision-making process, which involved surveying key NW Natural stakeholders; and (3) the development of a list of alternative geographic locations for further analysis. Phase 1 was completed in late 2015, and culminated in the Phase 1 Report, which is included as Exh. WKP-2.

a. Seismic Resiliency

Q. Regarding the first component of Phase 1, why was seismic resiliency the first major issue that the Company addressed?

A. In the past decade or so, there has been increased understanding and heightened awareness in Washington and Oregon about the risk of a Cascadia Subduction Zone earthquake in the Pacific Northwest—which geologists predict may be a 9.0+ magnitude earthquake—and the need to plan for such an event. Moreover, beginning in approximately 2010, the State of Washington and the State of Oregon were engaged in planning for the risk of a Cascadia Subduction Zone earthquake to northwest utilities.

Q. Please describe the state-level planning in Washington and Oregon that informed the prioritization of seismic issues.

A. In Washington, in response to the growing scientific consensus about the risk of a major subduction event along the Cascadia fault line, the Resilient Washington State ("RWS") Subcommittee of the Washington State Emergency Management Council's Seismic Safety Committee issued a report in 2012 titled "Resilient Washington State: A Framework for Minimizing Loss and Improving Statewide Recovery after an

Earthquake."[1] The primary objective of this report was to identify weaknesses and make recommendations for improving statewide resilience to seismic events. The report also provided a timeframe for increasing the resiliency of each of the state's major infrastructure components, including the utilities sector.

Similarly, in 2011, the Oregon legislature directed the Oregon Seismic Safety Policy Advisory Commission to prepare the Oregon Resiliency Plan ("ORP") with the purpose of identifying recommendations for how Oregon's critical infrastructure—including energy infrastructure—could be made seismically resilient against a Cascadia Subduction Zone earthquake. Upon completion of the ORP in 2013, the Oregon legislature passed Senate Bill 33, which established the Governor's Task Force on Resilience Plan Implementation ("Task Force"). In October 2014, the Task Force issued a report recommending that the Public Utility Commission of Oregon (1) require regulated energy providers to conduct seismic assessments of regulated facilities, and (2) allow cost recovery for prudent investments related to assessments and mitigation of vulnerabilities identified during those assessments.

Q. Did the ORP specifically address infrastructure risk?

A. Yes. The ORP noted that much of Oregon's infrastructure had been designed to meet older building codes that are now outdated with respect to seismic risk, and concluded that "the majority of buildings in Oregon have not been designed to resist the shaking

[1] *See* https://www.dnr.wa.gov/Publications/ger_ic114_resilient_washington_state.pdf ("Resilient Washington Framework").

from a magnitude 9.0 Cascadia earthquake" and accordingly the "estimated impacts of a Cascadia subduction earthquake in Oregon are catastrophic."[2]

Similarly, a 2017 Resilient Washington Subcabinet Report noted that much of Washington's infrastructure had been designed and constructed before the "state's seismic hazards were well known or even discovered," and concluded that "[i]mproving the seismic safety of buildings is critical to community, regional, and statewide resilience," and accordingly this planning will enable "businesses located within seismically-safe structures [to] be able to resume operations much faster following a disaster, which is essential to rapid community and economic recovery."[3]

Q. How have the Oregon building codes related to seismic resiliency changed over the years?

A. The first version of the Uniform Building Code ("UBC") in 1973 classified all of Oregon as seismic zone 2. In 1988, the UBC placed Oregon in seismic zone 2B, a higher risk category. This change required buildings to be designed for a higher seismic force, about a 30 percent increase. In 1991, the UBC again changed the seismic zone for portions of Oregon west of the Cascades to seismic zone 3. This represented a 50 percent increase in seismic force that buildings needed to be designed for under the UBC.[4]

[2] ORP at 13. (Available at https://www.oregon.gov/oem/Documents/Oregon_Resilience_Plan_Final.pdf, last accessed December 2, 2020).
[3] Resilient Washington Subcabinet Report at 16 (Aug. 2017). (Available at mil.wa.gov/asset/5ba4206543f69, last accessed December 2, 2020).
[4] The Company's operations center is located in Oregon, and thus the Oregon building standards apply. Nonetheless, the Company notes that similar changes in seismic zone designations were also made in the state of Washington.

Q. Did NW Natural perform seismic evaluations of its facilities in response to the ORP and Resilient Washington Framework?

A. Yes. NW Natural hired KPFF to perform seismic evaluations of its facilities. The first evaluation was for OPS in 2015, which is discussed in greater detail below. KPFF later evaluated the Company's resource center facilities—and concluded that none of the resource centers met the current standard for seismic performance, with varying degrees of non-compliance. The Company has used the evaluations to develop a seismic upgrade strategy for the Company's resource centers, including the Vancouver Resource Center, which is discussed later in my testimony.[5]

Q. Please describe KPFF's seismic evaluation of OPS.

A. KPFF performed a seismic evaluation of OPS to better understand the seismic integrity of the building in the event of a major earthquake. KPFF analyzed the building's seismic performance under the current building codes. OPS was further evaluated to determine whether it met the acceptance criteria of the American Society of Civil Engineers standard ASCE 41-13, which is recognized by State and international building codes as the standard for evaluating seismic performance of existing buildings.

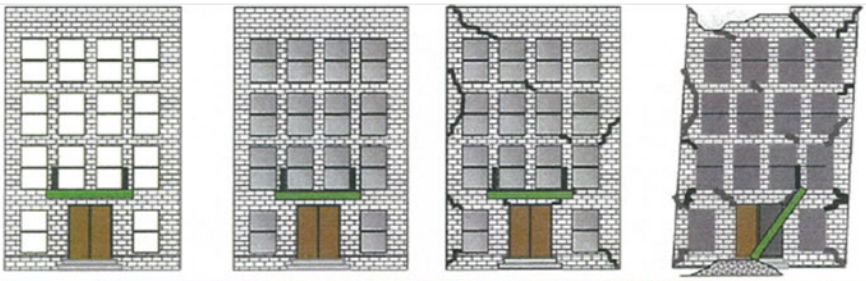
Q. Please describe KPFF's conclusions from its seismic evaluation of OPS.

A. KPFF concluded that OPS did not meet current standards for seismic performance. KPFF noted that this was not unexpected because OPS was designed in 1981 to meet the operative building standards in effect at that time, the 1979 UBC. As noted above,

[5] To date, seismic upgrades have been completed at 3 of the Company's 13 resource centers. Work is in progress for 2 more facilities, and 1 is in the planning stage. The remaining resource centers are scheduled to be upgraded by the end of 2026.

the understanding of seismicity and the associated levels of ground-shaking in Portland had increased significantly since the building was designed. Simply, the seismic forces that buildings are constructed for today are much higher than they were in the early 1980s when OPS was originally designed. KPFF's analysis concluded that OPS could meet a "Collapse Prevention" standard, shown below in Figure 2, but would not allow for immediate occupancy or continuity in utility operations following a major earthquake.

Figure 2. Comparison of Seismic Survivability Categories



	Operational	Immediate Occupancy	Life Safety	Collapse Prevention
Damage?	Minor	Minor	Substantial	Extensive
Safe to Occupy?	Yes	Yes	No	No
Repairable?	Yes	Yes	Maybe	No
Functional?	Yes	M/E/P Systems likely down	No	No

IMAGE SOURCE: KPFF

SERA

28 APRIL 2015

OPS would likely suffer significant damage during a major seismic event, and seismic infrastructure improvements would be required to bring the building up to an "Immediate Occupancy" or "Operational" standard.

Q. Why does NW Natural need to have its headquarters facility immediately occupiable and fully operational following a major seismic event?

A. In the event of a major seismic event, it is essential that NW Natural be able to operate its key business functions, such as the resource management center, gas control center, emergency dispatch customer call center, operations and engineering in the immediate hours, days, and weeks following a major event. For example, the emergency dispatch customer call center will be essential for responding to our customers and performing repairs. The gas control center monitors and regulates gas flows throughout NW Natural's system, and emergency dispatch is the command center for responding to emergencies throughout NW Natural's system.

Q. In light of your recent experience working from home due to the COVID-19 pandemic, please discuss whether these operations can be performed by NW Natural employees remotely from home.

A. In response to the COVID-19 pandemic and Governor's Brown's "Stay Home, Stay Safe" Executive Order, and in consideration of the health and safety of our employees, we reduced the number of NW Natural employees working at 250 Taylor. NW Natural has transitioned some employees performing these functions to a partially remote, work from home setting. However, it is critical that the remainder of the employees in these roles can report to 250 Taylor due to specialized technology and equipment required for their roles and the fact that some employees do not have the ability to work from home. In particular, the employees in the emergency dispatch center, resource management center, and gas control require access to NW Natural's dedicated radio communications system, the gas control staff require access to the gas control telemetry

network and gas distribution monitoring capabilities, and engineering staff require access to the large format printers and plotters for plans and mapping.

Moreover, in the aftermath of a major natural disaster, NW Natural employees may not be able to perform their critical emergency response duties remotely from home—particularly if they do not have access to power/internet/phone service at home. The operations center includes emergency backup capabilities for power, data, and phone that employees may not have at home, and thus it remains critical for the Company to maintain a resilient operations center to allow the Company to immediately respond following a major event.

Q. Did the Company eliminate OPS from consideration following this preliminary evaluation of seismic issues?

A. No. However, the Company determined any further consideration of OPS would need to include evaluation of seismic retrofitting to enhance the seismic performance of the building for NW Natural's operational needs. I address that evaluation later in my testimony.

b. Development and Preliminary Analysis of Evaluation Criteria

Q. With respect to the second component of Phase 1, how did NW Natural develop the evaluation criteria?

A. The Company's consultant, Leland, conducted surveys of key stakeholders at NW Natural about the issues and factors that should influence a location decision for this type of facility. Through these surveys, Leland developed and weighted evaluation criteria to screen potential relocation areas and facilities and compared them against the option of remaining at OPS.

Q. How were the surveys of key stakeholders conducted?

A. In early 2015, Leland, with assistance from Cushman, held a series of meetings with NW Natural's executives and leadership. The HQ Steering Committee also sent out surveys to all NW Natural employees then working at OPS to solicit input directly from the people who would be most impacted by the ultimate decision. The interviews and surveys asked what our employees liked about the location of OPS and what they would change if they could, about what neighborhood and building amenities were desirable, as well as input regarding adjacency needs for different departments and whether alternative configurations—such as separating departments into different buildings—could be acceptable. Leland evaluated interview responses to understand existing conditions and external factors relevant to establishing an overall vision for the building and location.

Q. What categories of criteria were identified during Phase 1?

A. As a result of the stakeholder surveys, there were certain "must-haves" that the Company would require of any location:

- Robust financial support to demonstrate the prudency of our decisions;
- A space that reflects our culture and identity;
- Better lighting and climate control in the building;
- Improved IT infrastructure; and
- Seismic safety.

In addition to the "must-haves," NW Natural's consultants identified both locational criteria and building criteria that would allow for quantitative and qualitative evaluation of alternatives. The locational criteria included characteristics of a

neighborhood relative to other locations, particularly with respect to seismic resiliency, safety, customer needs, and operational excellence. The building criteria focused on building characteristics such as safety and security, amenities, and flexibility to accommodate growing or decreasing space needs.

Q. After identifying the Phase 1 evaluation criteria, how did the Company decide which neighborhoods to evaluate?

A. The Company considered whether it would remain in the central city area of Portland ("Central City") or relocate to Vancouver or one of Portland's suburbs. Central City consists of six different geographic submarkets which included the Pearl District, Old Town, the Central Business District ("CBD"), South Waterfront, Lloyd District, and Central Eastside ("Eastside").

Q. Please describe the Company's analysis regarding potential relocation outside of the Central City.

A. The Company analyzed three factors that could be impacted by relocation outside of the Central City: (1) employee commuting, (2) recruiting and retaining talent, and (3) proximity to business partners and the community.

First, regarding employee commute times, the Company has nearly 1,200 employees, approximately 650 of whom officially report to our headquarters on a daily basis. A move outside of the core Portland area would have a significant impact on our employees' daily lives. To analyze the impact of a move outside Portland, the Company plotted the home zip codes for its employees and determined that its employees are geographically dispersed throughout the Portland metro area, and moving to a location outside of the downtown Portland area would result in increased

commute times for many of its employees. Not only does this impact daily routines for our employees like childcare and school drop-offs and pick-ups, but it could ultimately result in retention issues if employees have to commute significantly longer than their current commute.

Second, regarding the impact of location on recruitment and retention, the Company considered industry research demonstrating that current and potential employees favor a central city location with easy access by walking, bicycling, or public transit. Moreover, the Company's own employee survey validated the industry research discussed above. Accordingly, the Company determined that remaining in a central city location would be key to the Company's ability to compete for and retain top talent.

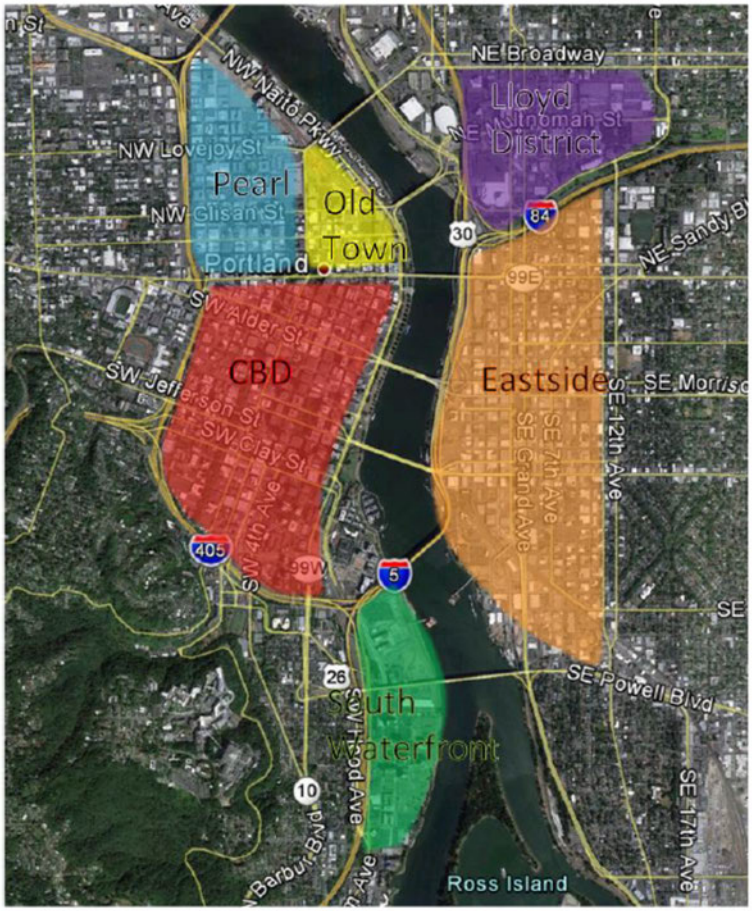
Third, the Company has been part of the fabric of the Portland community for over 160 years. Maintaining a central city location would continue to provide our Company and employees with opportunities for community involvement and community service, which is an important part of the Company's culture and core values. Additionally, many of NW Natural's business partners are located in the Central City area, and remaining in the core Portland area and being able to efficiently meet with our partners was an important factor, as well.

In sum, based on the results of the survey of stakeholders and employees and the Company's own research and analysis, the Company decided that a relocation outside the core Portland area was neither feasible nor desired.

Q. After determining that a move to Vancouver or suburban areas was not feasible or desired, which geographic submarkets did the Company consider?

A. The Company considered six different geographic submarkets in the Central City, as shown in Figure 3.

Figure 3. Portland Central City Submarkets



Q. What were the preliminary conclusions from Phase 1?

A. NW Natural's consultants considered the building and locational criteria and weighting developed through stakeholder surveys and performed a high-level analysis, weighing different location and building options. Based on this analysis, Leland, as supported by Cushman, drew the following preliminary conclusions:

- Neighborhoods. The consultants recommended that the Pearl District and South Waterfront be removed from further consideration—primarily due to concerns about building safety in the event of a natural disaster (e.g., seismic and flooding). The remaining options within the Central City were considered to all be acceptable—including the CBD, Old Town, the Eastside, and the Lloyd District. The Eastside and Lloyd District preliminarily rated highest for safety reasons (lower seismic risk and lower crime rates). Based on previous security incidents at OPS, NW Natural employees shared concerns regarding employee safety in the Old Town neighborhood. However, the consultants recommended that the Company solicit and consider developer proposals from all geographies in the next phase of its analysis.
- Building Criteria Analysis. NW Natural's consultants evaluated the options of renewing the lease at OPS, relocating to an existing building, or relocating to a new building. Based on the building criteria identified through the stakeholder survey and interview process (including building safety, building amenities, and flexibility to accommodate future space needs), the analysis ranked relocating to a new building to be most preferable (under various leasing and ownership scenarios), followed by renewing the lease at OPS.
- Adjacency/Space. Based on feedback provided during the interviews and the consultants' assessment of NW Natural's work style and culture, splitting business functions into multiple buildings was viewed as suboptimal, but would have been considered if financial, operational, seismic, or other factors made multiple facilities the best alternative. Through the surveys, the Company found that there

is great value and efficiency from having all departments in the same building and that having Company executives in an accessible and physically proximate location to all staff is an important part of NW Natural's culture. This was not to say that having some functions in different buildings would not be possible in some scenarios, but that as an order of priority, solutions that accommodated the entire operation in one facility (which could have included a campus model with multiple adjacent buildings) would be considered first.

- Seismic. Seismic resiliency for the facility is critical for business continuity immediately following a seismic event. Whether in an existing or new building, NW Natural needs to be in a facility that meets or exceeds seismic safety standards. At a minimum, there were some elements of NW Natural's operations, such as the resource management center, gas control center, emergency dispatch customer call center, and operations and engineering that needed to be situated in a facility that exceeded the minimum seismic safety standard, which would allow for continued operation and emergency response capabilities following a major seismic event. The adjacency/space evaluation found that it would be operationally suboptimal if these functions were located in a facility separate from the rest of the Company's functions.

Q. How did the results from Phase 1 inform the Company's decision-making in Phase 2?

A. The Company, with the help of its consultants, developed evaluation criteria to screen potential relocation areas and development models to use in subsequent project phases when specific sites, development, and/or remodel alternatives would be considered.

Thus, the criteria and preliminary conclusions from Phase 1 provided a foundation for a more detailed analysis in Phase 2.

2. Phase 2

Q. Please describe work performed in Phase 2 of the project.

A. Beginning in 2016, the HQ Steering Committee and the consultants, Cushman, Leland, GBD Architects, KPFF, and Geo Engineers, engaged the development and real estate community to identify potential facility candidates, including OPS. The scope of work for Phase 2 included:

- Workplace strategy analysis to determine current and future space needs;
- Selecting an architecture firm to serve as NW Natural's architect for test fits and space planning;
- Issuing an RFI and RFP to the real estate broker community, potential landlords and developers;
- Evaluating responses to the RFI and RFP against the criteria developed in Phase 1;
- Refining the seismic suitability criteria and evaluating each option seismically;
- Conducting detailed financial analysis of the short-listed options; and
- Negotiating with finalist options to achieve optimal lease terms prior to selection.

The Phase 2 Report is included as Exh. WKP-3.

Q. Please describe the Company's selection process for architectural services.

A. NW Natural, through Cushman, issued a request for qualifications ("RFQ") for architectural services. The scope of services desired for Phase 2 included refinement of workspace strategies, conducting test fits of candidate office locations, coordinating with landlords and developers, and preparing space planning designs for the finalist

office locations. An RFQ evaluation committee was formed to review submittals and conduct interviews for four firms that were invited to submit an RFQ. Following consideration of depth of experience, resources available, references, and price proposals, NW Natural selected GBD Architects, which was deemed most qualified to provide the necessary services.

Q. Please describe the workplace strategy analysis and results from that analysis.

A. NW Natural directed Cushman's workplace strategy team to perform a study that would help the Company understand the key factors that might impact space needs, including how to optimize organizational effectiveness, identify key departmental needs and adjacency requirements that would support collaboration and the Company's culture, and develop a space budget to help inform the direction of the Company's real estate strategy. To perform this study, Cushman analyzed the Company's then-current space utilization at OPS, interviewed department leaders, held several meetings with the HQ Steering Committee, and considered the Company's forecasts for each department employee count. The key findings from this analysis were as follows:

- Overall, there was an inadequate number of conference rooms at OPS and there was a desire for more informal spaces for employee collaboration and meetings;
- There was an opportunity to reduce square footage for storage through an enterprise-wide content management system, which would greatly reduce the need for paper storage;
- There was a desire for the workplace to be flexible and engaging, supporting an atmosphere that creates employee pride and reinforces NW Natural's culture; and

- NW Natural's needs were best met through a single location as opposed to splitting functions across two or more sites.

With an efficient floor plan in a single location, Cushman determined that the total space requirement for the Company in 2020 would be approximately 167,000 square feet.[6]

Q. Please describe the developer and landlord RFI process and results of the RFI.

A. To cast a wide net, Cushman issued an initial RFI in March 2016 ("Initial RFI"). The Initial RFI included the following building requirements: target move-in date (May 2020), space need (140,000 to 180,000 square feet), and geographic area (Portland's Central City). The Initial RFI generated 33 responses, including mostly new, yet-to-be-constructed developments, but also some existing buildings. Cushman then issued a second RFI ("Second RFI") to respondents, this time seeking additional information regarding the key criteria identified in Phase 1. The Second RFI yielded 22 responses. After review and evaluation of the responses to the Second RFI, the Company selected 11 sites and invited those respondents to participate in the RFP.

Q. Did the Company express a preference for leased or owned facilities in the RFI?

A. No. The RFI requested information regarding proposed ownership structure, but did not include criteria specific to ownership or leasing.

Q. Please describe the RFP process and results of the RFP.

A. The RFP sought additional details regarding the 11 selected sites, such as preliminary pricing, lease terms, and building details. The Company received seven responses to

[6] Exh. WKP-3 6 (report page 3).

the RFP, and evaluated these sites against the criteria identified in Phase 1. Certain sites failed to meet the criteria, and were eliminated from further consideration. The Company subsequently carried forward four options for a detailed analysis:

1. OPS (NW Natural's then-existing headquarters located in Old Town) – Though OPS presented significant seismic related concerns, NW Natural continued to evaluate OPS for negotiation purposes and to keep under consideration as a benchmark and potential fallback option.
2. Oregon Square (proposed building as part of a multi-block project located in the Lloyd District) – Oregon Square scored highest on qualitative metrics and the lowest for seismic hazard. There were significant concerns, however, about the construction timeline of this project, as well as the developer's inability to commit to critical deal terms.
3. Block 38 (proposed mixed-use building in the CBD, located at the west end of the Morrison Bridge) – This option scored highly on qualitative metrics. There were significant concerns, however, about the site's proximity to the Morrison Bridge, the area's accessibility after a major earthquake, and the fact that the Company would share the building with mixed uses.
4. 250 Taylor (office building to be built in the CBD on SW Taylor between 2nd and 3rd Avenues) – This option scored highly on qualitative metrics, the second lowest seismic hazard and the lowest development risk and provided for single-occupancy (allowing for security and operational control).

Q. Did any of the four finalists propose a financial structure resulting in Company ownership of the building?

A. No. All four finalists proposed a leasing structure.

Q. How did these four options compare financially?

A. 250 Taylor was the least cost option, followed by Oregon Square and OPS. Block 38 was the most expensive option. The range from the least cost to greatest cost was $90.7 million to $99.8 million (present value revenue requirement ["PVRR"] on a 15-year lease), or about a difference of about $9.1 million. Table 1, below, presents a summary of the financial comparison of the four finalists that was completed during Phase 2.

Table 1. Financial Analysis of Four Headquarters Finalists

FINANCIAL RESULTS	OPS	Block 38	Oregon Square	250 Taylor
15 YR. PVRR Utility Lease Space w/ Parking	**$98,083,971**	**$99,810,113**	**$92,561,013**	**$90,746,877**
15 YR. PVRR delta from least cost option	$7,337,095	$9,063,237	$1,814,137	$0
15 YR. PVRR Ranking	3	4	2	1

NW Natural's financial analysis of these four options is shown in Exh. WKP-4.

Q. How did seismic risk inform the evaluation of these alternatives?

A. Seismic risk was a key driver in the Company's decision-making. Block 38 was rejected in part due to seismic considerations, and OPS posed the highest seismic risk of four finalists. Due to the seismic concerns for OPS, the Company studied and compared options for performing a seismic retrofit at OPS.

Q. Did NW Natural evaluate the cost of retrofitting OPS?

A. Yes. The Company's consultants estimated capital costs of roughly $12.2 million to bring OPS up to the Immediate Occupancy seismic performance standard.[7]

Q. Would a seismic retrofit of OPS have resolved all of the seismic concerns related to OPS?

A. No. The Company's evaluation of the seismic resiliency at OPS during Phase 2 examined soils risk and accessibility during and immediately after a seismic event. Geo Engineers found that the immediate area surrounding the building would be subject to soil liquefaction and lateral spread during a Cascadia event. Even if a retrofitted OPS were to remain fully operational, KPFF concluded that the building would likely not be immediately accessible due to the damage to surrounding buildings and infrastructure. Thus, while the Company initially found it useful to evaluate OPS against other alternatives, no amount of seismic upgrades at OPS could address the facts that the building is in a liquefaction zone, at risk for lateral spread, and surrounded by unreinforced masonry buildings, rendering OPS inaccessible in a Cascadia Earthquake event. Accordingly, the Company concluded that OPS would not serve the Company's business continuity objectives due to seismic risk, and it was eliminated from further consideration.

[7] The estimate includes a cost of $1.4 million for moving employees to other then-currently vacant or future vacated floors within the building during the retrofit.

Q. Why was Block 38 eliminated?

A. Block 38 was eliminated because it would potentially be inaccessible following a major earthquake, had the second highest lease costs, and presented security concerns related to occupying a mixed-use building.

Q. What were the security concerns associated with occupying a mixed-use building?

A. Block 38 included residential apartments on the upper floors of the building. Due to the presence of residential apartments, this type of building is more susceptible to fires that could require the evacuation of the entire facility—including critical functions such as gas control—and could also potentially result in damages to the Company's office space.

Q. After eliminating OPS and Block 38, how did NW Natural proceed?

A. NW Natural initiated negotiations with the two remaining finalists from March through June 2017.

Q. How did the cost of developing 250 Taylor compare to the other finalist, Oregon Square?

A. Based on NW Natural's analysis, the costs for both options were fairly close, though 250 Taylor was slightly less expensive.[8] In a subsequent financial analysis of these two finalists, NW Natural estimated the present value revenue requirement (PVRR) for a 15-year lease for 250 Taylor to be $98.06 million, versus $99.67 million for Oregon Square.[9]

[8] Exh. WKP-3, Phase 2 Report, Appendix F.
[9] Exh. WKP-3, Phase 2 Report, Appendix F.

Q. Please describe the negotiation process with the developers for Oregon Square and 250 Taylor.

A. The negotiation team worked back and forth with both developers to refine the lease terms, building program, and other details in order to arrive at terms that were best for NW Natural and that indicated a clear winner.

Over the course of negotiations, several risks to the project at the Oregon Square site emerged, including:

- The likely phasing of development of the multi-block project, meaning that NW Natural would potentially have several years of adjacent construction;
- This phasing also impacted the efficiency and cost of the shared parking structure; and
- The developer of Oregon Square was unwilling to guarantee in writing several terms that were initially promised—most importantly it would not guarantee a construction timeline that would meet the Company's needs.

Meanwhile, negotiations with the developer of 250 Taylor were productive, resulting in several pricing concessions and design improvements that made it a better financial decision in the end. Further, this building already had its land use entitlements and the developer was committed to breaking ground in 2017 with or without a lease, so it had a very high level of certainty with little risk that the timeline would not be met. After additional seismic research, an evaluation of developer risk, and coordinated financial analysis between internal finance team resources and external brokers, the Company determined that 250 Taylor was the least-cost, least-risk option.

Q. What was the result of the negotiations?

A. The Company eliminated Oregon Square from further consideration, and instead moved forward with the 250 Taylor site. We were able to take advantage of low interest rates and our strong financial position to enter into a long-term lease at rates that are below market when compared to similar-type buildings and square footage in the CBD. The Company found that this recommendation represented the lowest cost option and a vast improvement in seismic resiliency and business continuity capabilities over its previous location at OPS.

Q. Please explain further how 250 Taylor meets the Company's criteria.

A. Starting with seismic, 250 Taylor provides enhanced seismic resiliency and business continuity capabilities, consistent with the State of Oregon's Critical Energy Infrastructure Hub key goal to prevent and mitigate catastrophic failure and ensure fuel supplies and alternate energy sources are available to first responders and the public.[10] Locating the facility in the CBD outside the soil liquefaction and lateral spread zone optimizes emergency response capabilities.

250 Taylor was designed to have dual transformers for back-up power to NW Natural during and after a natural disaster. Getting involved in the project very early in its planning and construction phases was beneficial such that the Company could

[10] Seismic resiliency remains a key priority for NW Natural. Building on the foundation from the ORP, in October 2018, Governor Kate Brown presented the "Resiliency 2025" plan, titled "Improving Our Readiness for the Cascadia Earthquake and Tsunami" ("Resiliency 2025 Plan"). The Resiliency 2025 Plan follows the 2013 ORP, and outlines six key strategies for the State of Oregon. Its vision is to "[p]rotect all Oregonians by ensuring we are prepared to survive and recover from the expected 9.0 magnitude Cascadia earthquake and ensuing tsunami." The key strategy of the Resiliency 2025 Plan to improve the energy infrastructure is to "[d]evelop a plan for the Critical Energy Infrastructure Hub to prevent and mitigate catastrophic failure and ensure fuel supplies and alternate energy sources are available to responders and the public."

have 250 Taylor built to higher seismic standards minimizing the cost and including a backup emergency power generator to serve floors with critical functions such as gas control.

The CBD location was important to retaining existing employees and recruiting new talent to NW Natural. The location also keeps the Company rooted in the Portland community and provides easy access to all major forms of regional mass transit for its employees, and its centralized location is convenient for bicycle commuters.

250 Taylor provides enhanced physical security with full building control, which NW Natural views as an improvement over OPS. Additionally, the proximity of 250 Taylor to the headquarters location for Portland General Electric Company ("PGE") has resulted in security synergies. Specifically, in response to the on-going protests that have occurred in downtown Portland, PGE security personnel worked with NW Natural security personnel to gather and share intelligence and communicated with each other during these events for the prevention of building damage and for the safety of all employees, contractors and visitors. We debriefed following significant events to examine what worked and what did not to better prepare for future incidents, and worked together for best practices on building security officer coverage. We also collaborated with shared coverage of our on-site building security systems to include the shared use of our physical security guards (cross-communication during actual events), and shared area camera coverage, and developed a plan for evacuation to each other's building in the event of a security breach.

The relocation provided the ability to reexamine use of space and Company procedures in order to make process improvements, streamline business functions, and

save on space costs. GBD Architects found opportunities to make more efficient use of space in the building; and the Company was fully involved in the space design of 250 Taylor from the beginning. Specifically, the Company reduced the size of personal workspaces from 7 feet by 9 feet (63 square feet) to 6 by 6.5 feet (39 square feet). The Company then had flexibility to create additional formal and informal collaboration spaces through the space savings realized from reducing personal workspace size—which furthers the Company's workplace strategy.

Additionally, 250 Taylor was built to Leadership in Energy and Environmental Design ("LEED") gold standards, and has many enhanced sustainability features, which is consistent with the Company's sustainability goals, including the Company's voluntary goal to create carbon savings equivalent to 30 percent of the Company's 2015 emissions by the year 2035.[11]

Q. Please describe the timing for negotiating and executing the lease for 250 Taylor.

A. The Company began negotiating the lease for 250 Taylor in March 2017 and signed a lease in October 2017. The 250 Taylor lease agreement is provided as Exh. WKP-5.

Q. What are the key lease terms?

A. The essential terms of the lease are as follows:

- The lease is for an initial term of 20 years beginning upon occupancy in March 2020.
- Beyond the initial term, there are two optional seven-year lease renewals.

[11] We are calling this our "Less We Can" initiative and more information about our low carbon pathway can be found at http://www.lesswecan.com.

- The total building rentable area is 179,685 square feet, of which NW Natural's proportionate share is 100 percent. The office rentable area is 178,851 square feet; the remaining 834 square feet is the storage room that I will discuss later in my testimony.
- The rate for office space is $33.95 per square foot, and the rate for storage is $18.00 per square foot.
- Base annual office space rent is approximately $6.1 million.
- The lease is subject to a 2.5 percent annual base rent escalation.
- The base lease amount does not include operating costs such as property taxes, parking, property management, maintenance, utilities, security, custodial, and landscaping.
- The parking garage is designed to accommodate 90 standard-sized vehicles. NW Natural has leased 85 striped parking stalls for a rate of $265 per month per stall at move-in. This cost will escalate at a market rate but no more than 3.0 percent annually on a cumulative and compounded basis. As I discuss later, the Company will sublease all but 13 parking stalls to its employees.

Q. [redacted]

A. [redacted]

3. Phase 3

Q. Please describe Phase 3 of the project.

A. Phase 3 began after the Company executed the lease, and ended when the turnover of OPS was completed in May of 2020. Phase 3 consisted of three main objectives: project planning, building construction and relocation, including core and shell development and interior buildout, and lease termination.

Q. What activities were performed as part of the core and shell development?

A. The Company and its consultants worked to ensure core and shell build-out met agreed to design scope per lease agreement, ensure that critical dates for delivery were met per lease agreement, and managed and oversaw landlord costs and/or credits related to tenant improvement scope of work. The Company was also able to reduce construction costs and its tenant improvement construction schedule by installing mechanical, plumbing and electrical systems conduits, boxes, sleeves, and imbeds prior to concrete being poured on each floor of the building.

Q. When was core and shell development completed?

A. Core and shell development was completed in December 2019.

Q. What activities were performed for the interior build out?

A. Utilizing its workplace strategy, the Company worked with GBD Architects to develop a building design plan. Once the design plan was finalized, GBD Architects developed construction documents that were used for obtaining a building permit and soliciting subcontractor bids. The Company held weekly design and construction team meetings with GBD Architects, the general contractor, and individual vendors/contractors as required from when building construction broke ground until completion. The

Company also developed a "Move" project team made up of a project manager and nine working teams to manage the building design process and prepare the business and its employees for the move to 250 Taylor. The Move project team worked to integrate all relevant business requirements and communicate/engage appropriate team members and employees as necessary for implementation. Additionally, the Company managed and oversaw the project schedule, budget, and tenant improvement allowance. Prior to allowing the interior build out to proceed, the Company worked with the general contractor to develop a safety plan and integrate safety training into all construction activities.

Q. When was the interior build-out completed?

A. Interior build-out was completed on time and within budget in March 2020.

Q. How did the Company execute the physical move to 250 Taylor?

A. The Company hired a professional moving company, Chipman, and moved departments over to the new location in four waves over the months of February and March 2020. The Company completely vacated OPS on May 31, 2020.

C. Working at 250 Taylor

Q. Please describe the Company's experience for the first few months at the new location, 250 Taylor.

A. On March 23, 2020, shortly after we completed moving our departments over to 250 Taylor, Governor Brown issued the "Stay Home, Save Lives" Executive Order. As a result, most of the 650 employees who would ordinarily report for work at 250 Taylor are now working remotely from home. However, there are approximately 40 essential employees who have been working out of the new operations center.

Q. Does the Company plan to have its workforce return to working at 250 Taylor?

A. Yes. As I have discussed in this testimony, the Company culture highly values in-person collaboration and NW Natural is tentatively planning to begin returning additional employees back to the office starting in February 2021. The Company plans for the remaining employees to return to work when public health authorities deem it safe to do so.

D. Costs Associated with 250 Taylor

Q. What types of costs are included with the Company's request for recovery associated with the relocation to 250 Taylor?

A. The Company is seeking recovery for operation and maintenance ("O&M") expense associated with the lease (rent) and common area maintenance ("CAM") expenses, and other O&M expenses associated with 250 Taylor. The other O&M expense includes utilities, property management, building security, custodial service, and other common area maintenance costs. Additionally, the Company is requesting recovery for capital costs associated with the Company's investment in leasehold improvements to 250 Taylor.

1. Lease and Common Area Maintenance Expenses

Q. What are the two main components of the lease expense?

A. The two main components of the lease expense are office space and storage space.

Q. Please explain the office space component of the lease.

A. The Company leases 178,851 square feet of office space at 250 Taylor. The rentable square footage calculations were validated by GBD Architects on behalf of the Company. The total amount of annual lease expense for office space is $6.1 million.

Q. Has the Company requested recovery of costs associated with the office space in 250 Taylor that will not be used by NW Natural?

A. No, it has not. While NW Natural is responsible for rent for the entirety of 250 Taylor, the Company intends to sublease first-floor retail space of 1,456 square feet to another entity. The space associated with this potential sublease has been removed from the Company's request for recovery in this case based on the price per square foot of the space. The Company also had initially planned to sublease the second-floor office space of 7,158 square feet. The Company is currently evaluating whether that space may be used for utility purposes in the future, but since that evaluation is not yet complete, this space is also excluded from the Company's request for recovery.

Additionally, approximately 228 square feet of office space that is assigned exclusively to employees of NW Natural's affiliates will be directly charged to those affiliates, and is excluded from the Company's request.

Taking these adjustments together, 95.1 percent of the square footage for office space at 250 Taylor is allocated for utility purposes and included in the Company's request for recovery. Please see Exh. TFD-2 for additional detail regarding the ratemaking adjustments to reflect the removal of the potential subleased and affiliate assigned space from the Company's request for recovery.

Q. Please explain the storage cost component of the lease.

A. The Company leases 834 square feet of storage space located in the 250 Taylor parking garage. This space, which is made up of multiple rooms in the garage, is used as storage for utility equipment. It is accounted for as a separate component in the lease because

the rental rate for this storage area is less than that of the office component on a per square foot basis. The total amount of annual lease expense for storage is $15 thousand.

Q. What are the CAM expenses?

A. The CAM expenses total approximately $2 million, the majority of which—$1.4 million—is for property taxes. The remainder is for parking lot cleaning, insurance, after hours utility fee, management fee, and an administrative fee as well as costs for repairs and maintenance, landscaping, window cleaning, and security for the common areas of the building (lobby, elevators, sidewalk, etc.).

Q. What is the amount of annual lease expense and common area maintenance expenses?

A. The annual lease expense and CAM expenses, unadjusted for potential subleased space and state allocation, is $8.2 million.[12] The annual lease amount escalates each year in accordance with the terms of the lease. The Direct Testimony of Tobin Davilla (Exh. TFD-1T) describes the ratemaking adjustments for potential subleased space, state allocation, and the allocation of O&M and capital associated with the lease.

Q. When did the Company begin making payments for the lease and CAM expenses?

A. Lease and CAM payments began in June 2020.

[12] The amounts shown in my testimony, unless otherwise indicated, reflect total system amounts, unadjusted for state allocation or capitalization. Please see Exh. TFD-2 for the ratemaking adjustments to these costs based on potential subleased space, state allocation, and the allocation of O&M and capital.

2. Other O&M Expense

Q. What types of recurring operating costs does the Company incur in connection with 250 Taylor?

A. The Company incurs costs associated with security, janitorial and landscaping services, as well as utilities, including gas, electric, water and wastewater, repairs and maintenance, and parking. The Company solicited security and janitorial services through an RFP process and entered into contracts for these services prior to moving in to the building in March 2020.

Q. What are the annual costs incurred in connection with security, janitorial, and landscaping services?

A. The Company determined that the annual costs for these services is $0.9 million. Please see Exh. TFD-2 for the ratemaking adjustments to these costs based on potential subleased space, state allocation, and the allocation of O&M and capital associated with these services.

Q. Has the Company determined the annual costs incurred for utilities?

A. Yes. The Company determined that annual utility expense is approximately $0.2 million. Please see Exh. TFD-2 for the ratemaking adjustments to these costs based on potential subleased space, state allocation, and the allocation of O&M and capital associated with these costs.

Q. Has the Company determined the annual costs for repairs and maintenance?

A. Yes. The Company determined that annual costs for repairs and maintenance expense is approximately $31 thousand. Please see Exh. TFD-2 for the ratemaking adjustments

to these costs based on potential subleased space, state allocation, and the allocation of O&M and capital associated with these costs.

Q. Will the Company use the parking available at 250 Taylor?

A. The Company will sublease all but 13 of the 250 Taylor parking stalls to its employees at an unsubsidized monthly rate. The 13 parking stalls at 250 Taylor will be reserved for utility vehicles and for visitor parking. The Company will sublease the remaining parking stalls to employees. The Company is only seeking recovery for the 13 stalls used by the Company.

Q. Is the Company incurring any parking costs for stalls external of 250 Taylor?

A. Yes. The Company has entered an agreement to lease 40 parking stalls at a nearby garage, known as the "Auditorium Garage." These stalls will be used exclusively by utility vehicles that are too large to fit in the smaller stalls underneath 250 Taylor. The negotiated lease cost for these stalls is $265 per stall per month.

Q. What is the cost of the Company's 13 stalls at 250 Taylor and 40 stalls at the Auditorium Garage?

A. The annual cost of these parking stalls is $147 thousand. Please see Exh. TFD-2 for the ratemaking adjustments based on the state allocation of these costs.

Q. Were there any one-time O&M expenses associated with the Company's move to 250 Taylor?

A. Yes. The Company incurred approximately $0.1 million in one-time moving expenses, as well as approximately $0.3 million in one-time OPS vacation and disposition expense, which was necessary to turn control of OPS back to its landlord. Additionally, the Company incurred a one-time expense for a parking subsidy. Because parking at

250 Taylor is more expensive than the parking at OPS, the Company is easing the transition for its employees by providing a subsidy for the first year so that actual costs to employees will be held at the level for parking at OPS. After the first year of subsidies (ending in March 2021), employees will pay the full amount of parking costs at 250 Taylor.

Q. Have the costs for moving expense, vacation and disposition expense, or parking subsidies been included in the Company's cost recovery request?

A. No, these costs are being borne by the Company's shareholders.

3. Capital Costs

Q. Please describe the capital costs for 250 Taylor.

A. The Company's capital costs for 250 Taylor total approximately $33.1 million.[13] These costs include amounts associated with leasehold improvements, technology, FFE, design, consulting, engineering, and permitting.

Q. Did the Company's budget change over the course of the project?

A. Yes. In the early stages of the project, the Company anticipated the construction cost for its leasehold improvements would be roughly $100.00 per square foot. Baseline leasehold improvement costs were $151.44 per square foot, excluding utility-specific scope and technology costs such as build-out of a gas control room. The cost difference is largely attributable to increases in the cost of construction materials and the amount of construction activity occurring in Portland.

[13] See the Direct Testimony and Exhibits of Kyle T. Walker (Exh. KTW-1T and Exh. KTW-2 through Exh. KTW-9) for additional information regarding allocation percentages.

Q. Has the Company concluded that the final cost for leasehold improvements is nonetheless reasonable?

A. Yes. According to Turner Construction, the Portland market cost for standard office tenant improvements in 2019—the period when most of the 250 Taylor improvements took place—averaged roughly $164.00 per square foot, which does not include construction up to the enhanced seismic standard of 250 Taylor nor does it include utility-specific costs.

Q. Did the Company secure any offsets to the capital costs associated with 250 Taylor?

A. Yes. The Company negotiated a tenant improvement allowance from the developer in the amount $12,996,697 plus an additional amount of $590,000 for limiting scope on core and shell construction. These amounts have been applied as an offset to the Company's costs for tenant improvements.

Q. Are there any costs that the Company has removed from its request for recovery?

A. Yes. The Company reduced the overall capital expenditure amount by $0.3 million to reflect exclusion of certain amenities for common areas and the executive floor.

Q. When were the leasehold improvements placed in service?

A. Leasehold improvements were placed into service and began amortizing in February 2020. The improvements will amortize over the 20-year life of the lease.

III. VANCOUVER RESOURCE CENTER PROJECT

Q. Please describe the Vancouver Resource Center.

A. The Vancouver Resource Center is a 26-year old, 13,000 square foot office and warehouse space that currently supports approximately 35 employees. The Vancouver

Resource Center is the Company's only facility located in Washington State—and the only facility located north of the Columbia River—and is therefore strategically important for the Company's operations and business continuity planning.

Q Please describe the operations at the Vancouver Resource Center.

A. The Vancouver Resource Center is the base for the utility's field operations in Clark County. The services provided at this location include customer field services, construction, transmission maintenance, leakage inspection, system operations, and field engineering. The Vancouver facility also provides vehicle, equipment, and parts and materials storage.

For example, in the past twelve months the Company responded to 184 damage calls, 36 of which resulted in main repairs and 54 resulted in service repair. The Company also operated and maintained 412 valves, which involves testing the valves and shutting them off if there are leaks or damages, and performed 35 miscellaneous maintenance service jobs. Additionally, the Company has more construction projects in the greater Clark County area, some of which are staged out of the Vancouver Resource Center.

Q. What types of construction work has the Company performed recently in Clark County?

A. Over approximately the past year, the Company worked on six large capital projects, 47 main system reinforcement projects (including new valves installed for system safety), and 31 compliance related projects. Additionally, the Company and its contractors have completed 170 main extensions, 2,741 new service installations, and 74 customer relocate services, as well as 59 cut and abandon services.

Q. What is the Vancouver Resource Center Project?

A. The Vancouver Resource Center Project involves retrofitting the Company's existing Vancouver Resource Center, which requires significant improvements to the building and warehouse, seismic upgrades to meet current building code requirements, and numerous site improvements to ensure operational functionality. The scope and infrastructure included in the Vancouver Resource Center Project, which I describe in greater detail in my testimony below, are needed to support ongoing Company operations in a safe and efficient manner.

Q. Why is the Vancouver Resource Center Project needed?

A. The Vancouver Resource Center Project has been in our Facilities roadmap for 12 years. The existing facility is in an excellent location and has adequate space to accommodate the Company's needs, but was not constructed for utility company purposes and requires upgrades to improve the functionality of the facility, for both the office and warehouse space as well as the yard and outbuildings. In particular, the facility was in poor condition with roof leaks, the flooring needed to be replaced, and the kitchen needed updating. The floor plan of the office space was suboptimal, as it was not designed for needed utility functionality, and the facility needed showers and locker rooms for service personnel and a drying room for personal protective equipment. In particular, showers, locker rooms, and a drying room are a standard at all NW Natural resource centers. The drying room is used by employees to remove and dry their wet personal protective equipment ("PPE") after work days when they experience inclement weather and their PPE gets wet. The resource center currently uses a rented trailer adjacent to the office for this purpose. Additionally, after

performing a comprehensive seismic evaluation of its resource centers in 2016, the Company determined that the facility did not meet current Life Safety seismic standards and required seismic upgrades.

In addition to the work needed to the office and warehouse space, the Company needs to perform improvements to the yard and outbuildings to enhance the functionality of the site. For example, the truck wash and grease trap were not functional and the fencing needed repair. Additionally, there is no covered storage space at the site for pipes and specialty equipment, and so the Company is installing outbuildings to meet these needs. The Company is also installing a covered fueling station and a decant system at the site. The decant system will accommodate the processing of mixed liquid/solid waste from vacuum excavation and horizontal directional drilling operations, and separates the liquids from solids and filters out contamination from the materials.

Q. Why is the Vancouver Resource Center important to the Company's business continuity planning?

A. The Vancouver Resource Center is the Company's only facility in Washington State, and the Company built flexibility into the Vancouver Resource Center to allow for increased staffing if needed to respond to a major disaster. In particular, the retrofit of the facility includes additional power and data outlets in the multi-purpose room to accommodate additional staffing at the Vancouver Resource Center if required, as well as a modular office hitching post in the parking lot with electrical, data, and phone wiring to allow for additional office space if needed for business continuity purposes.

With these improvements, the Vancouver Resource Center can provide a base of operations for approximately 35 additional employees if needed.

Q. Why is the flexibility to increase capacity for additional employees important to the Company's business continuity planning?

A. This type of flexibility is important if there is a major incident impacting the Company's Clark County customers, or in the event of a major natural disaster limiting the availability of the Columbia River bridges for the Company's 75 Washington-based employees who report to 250 Taylor.

Q. Are there any other features of the Vancouver Resource Center Project that will support the Company's business continuity objectives?

A. Yes. The Company is installing fueling stations at all of its larger resource centers throughout the Company's service territory, which provide both gasoline and diesel fuels for all service vehicles and fuel-powered equipment such as generators at the resource centers. This system also supports the Company's business continuity objectives by allowing the Company to maintain fuel on site for its own use in the event of a major disaster compromising access to retail fueling stations.

Q. Please describe the planning history associated with the Vancouver Resource Center Project.

A. Beginning in May 2012, the Company entered into a 10-year lease for the Vancouver Resource Center, which included an option to purchase the facility. The option was set to expire on January 31, 2016. In June 2015, the Company considered whether to exercise the option to purchase, and evaluated the following alternatives:

- Option 1: Exercise option to purchase the property and retrofit the building;

- Option 2: Purchase an alternative property and develop a new building;
- Option 3: Purchase an alternative property and retrofit an existing building,
- Option 4: Continue to lease the facility and retrofit the building; or
- Option 5: Build a new resource center on NW Natural-owned property on NE 72nd Avenue.

The results of this analysis demonstrated that Option 4 was not viable, as the value of the improvements would be lost at the termination of the lease, and Option 5 was not viable because the site is primarily a wetland and not suitable for development of a resource center. Of the remaining viable options, NW Natural determined that the least-cost alternative was Option 1, and in July 2015 the Company purchased the property for $2 million, which was approximately $400,000 less than market value based on a Broker Opinion of Value provided by Jones, Lang, Lasalle Commercial Real Estate.

The selection of the General Contractor for NW Natural projects was put out to bid through an RFP in March of 2019. NW Natural received and evaluated seven RFP responses, scoring each response based on safety, completeness of bid, bidder's approach to work, pricing proposal, personnel experience, schedule, experience with relevant projects, and contract issues. The Company's bid review team interviewed the top three contenders, and ultimately selected Bremik Construction as its contractor. While the Bremik bid was approximately $200,000 more expensive than the next lowest bidder, because Bremik included additional personnel and supervision that other bidders did not, Bremik scored higher in most other categories and NW Natural ultimately concluded that the Bremik bid was lower risk than the lower cost bid.

The design and construction documents were completed in December of 2019 and Bremik completed the subcontractor bid process for the project in January of 2020. Bremik issued 32 subcontractor bid packages and received a robust response with 172 responses total, for an average of 5.4 responses per bid package. Of the 32 scopes of work that were sent out to bid, 24 (75 percent), were awarded to the lowest bid. For the other eight scopes, the low bid was disqualified for a variety of reasons including missing scope, inexperience, substituting non-specified materials, bad references, etc. In those cases, the next lowest bidder was selected.

Q. Please describe the scope of the Vancouver Resource Center Project.

A. The Vancouver Resource Center Project is being completed in two phases: Phase 1, which includes retrofitting the office and warehouse space, and Phase 2, which includes improvements to the yard. The scope for Phase 1 includes demolition and replacement of the existing two-story office building with a new, seismically engineered office building on the same footprint, and seismic retrofitting for the existing warehouse building. The scope for Phase 2 includes new vehicle garages, a fueling station, new storage structures, truck wash system, truck scale, and decant system. Additionally, security and emergency resiliency improvements will be made, including new driveway gates, as well as secured perimeter fencing and a new emergency generator.

Q. Had the Company always planned to complete this project in two separate phases?

A. No. Initially, this project was planned to be completed all at once in 2020. However, in early 2020, the Company made the decision to split out the project into two phases. As discussed in the Direct Testimony of Zachary Kravitz (Exh. ZDK-1T), the Company

phased this project over multiple years in order to mitigate the customer rate impact by smoothing the increase in rates associated with this project over two different rate changes.

Q. Regarding the Phase 1 work associated with the office building, why was the office building demolished and replaced instead of being remodeled?

A. The Company considered remodeling and seismically retrofitting the existing facility in comparison with demolishing the office and building a new one. It determined that the cost would be comparable,[14] and that demolishing the existing office and building a new facility provided significant advantages, because the existing building was designed and constructed as a metal warehouse, and the structural steel columns and building height resulted in design and space inefficiencies. By constructing a new building, the Company was able to design a space plan that maximized the use of the space and included ceiling heights that allowed for the installation of new and more efficient heating and cooling systems.

Q. What work was performed in connection with seismically retrofitting the warehouse?

A. The warehouse's rigid frames did not have adequate strength to support lateral forces as is required by the current building code. However, because the pitch of the roof was increased, the contractor used the additional depth to strengthen and stiffen the rigid frames to meet lateral load demands. Additionally, the change in roof pitch required

[14] Based on estimates provided by NW Natural's contractor, it would be approximately $30,000 more expensive to demolish the existing facility and build a new office space in comparison with remodeling and retrofitting the existing space.

relocation and assessment of the x-bracing in the plane of the roof. In order to minimize lateral upgrades to certain areas of the warehouse, the warehouse was strategically tied into the new office building at various locations. This allows the new office building to provide lateral bracing and stability to the warehouse. Finally, lateral bracing was added on the north end of the warehouse to address the structural deficiency at that location.

Q. Regarding the work that will be completed in Phase 2, please provide additional information about the need for the yard improvements to support the Company's Vancouver field operations.

A. As I explained above, the Company needs to make improvements to the yard to enhance operational functionality. Below I provide additional detail for each of the site features described in the scope for Phase 2.

Q. Why is the covered pipe storage needed?

A. There is no existing covered storage space at the Vancouver Resource Center for pipes and special equipment. Because the Company's pipes require protection from ultraviolet ("UV") light, the Company has had to use tarps to provide UV protection, which may increase the risk of injury to NW Natural personnel when removing and tarping polyethylene pipe.

Q. How will the Company use the specialty equipment garage?

A. During freezing weather, critical equipment has been stored in the mechanic garage area at night and then removed in the morning to allow mechanics to utilize the garage. The specialty equipment garage will provide a heated storage space and permanent

home for temperature sensitive equipment such as the vacuum truck and vapor extraction unit.

Q. Why did NW Natural decide to install a fueling station?

A. The fueling station will improve productivity by allowing employees to fuel their vehicles and equipment while on site and at the beginning and end of their shifts, and not having to rely on retail gas stations. Additionally, as I discussed above, the fueling station will support the Company's business continuity objectives by providing an independent on-site fuel source in the event of a major disaster limiting access to retail fueling sources.

Q. What is the decant system and why is it important to NW Natural's Vancouver operations?

A. The decant system is used to remove liquids from soils removed during excavation work (also called "spoils") completed by utility operations. The liquids are removed by placing the soil in the decant system, which is a sloped containment bin that enables liquids to separate from the soil by allowing settling of the heavier solid materials and by evaporation and draining of the liquids.

The decant system is important to NW Natural's Vancouver field operations because disposal of spoils is required to support the Company's construction projects—including large capital projects, system reinforcement projects, main extensions, new service installations, customer relocates, and cut and abandons—that involve vacuum excavation and horizontal directional drilling operations. Environmental compliance requirements are continuing to reduce the availability for disposal sites, and as a result, sites accepting spoils are overcrowded with too many vehicles and pose safety concerns

for our employees when entering sites, during spoil disposal, and exiting sites. Additionally, due to the limited availability of sites accepting spoils, NW Natural has needed to haul spoils from Vancouver to Hillsboro, Oregon, which is an inefficient use of resources in terms of both fuel and employee time. Due to the above issues, NW Natural is planning to install these systems at all resource centers over the next several years.

Q. How are the spoils bins used in the Company's operations?

A. The spoils bins are used for storage of sand and gravel, which is used for fill material in construction, and are also used for storage of material removed during excavation activities, which may include soils, asphalt and other materials. These materials are stored on site in the spoils bins on an ongoing basis and are then hauled off to a disposal site in larger quantities for efficiency.

Q. Why is the truck scale needed?

A. The truck scale is a safety measure to ensure that NW Natural's trucks and trailers meet applicable weight limitations to avoid over-loading with equipment and materials.

Q. Why is the truck wash needed?

A. The truck wash system is used for cleaning all vehicles and equipment used at the Vancouver Resource Center, which includes dump trucks, backhoes, trailers, specialty equipment, pickup trucks, and service vans. Keeping this equipment clean improves safety by ensuring equipment can be inspected properly prior to use, and helps maintain the equipment and extends its life expectancy.

Q. What is the timing associated with the Vancouver Resource Center Project?

A. The Company completed the work associated with Phase 1 in early December 2020. The Phase 2 work will be performed in 2022, with completion anticipated by October 31, 2022.

Q. Did NW Natural update its budget for this project closer to construction?

A. Yes. In 2019, NW Natural updated the budget for the Vancouver Resource Center Project. In comparison with the initial budget developed in 2015, several areas required updating: (1) expanded project scope to include seismic retrofitting, decant system, and truck scale; (2) utilized schematic design documents prepared by consultants to develop more granular-level budget estimates; (3) included budget for external labor; (4) reflected 27 percent increase in general construction costs in Portland metro area; and (5) reflected increases in materials costs.

Q. What is the anticipated cost associated with the Vancouver Resource Center Project?

A. The total cost is approximately $15.9 million, with $11.2 million associated with the Phase 1 and $4.7 million associated with Phase 2.

Q. Please describe the Company's proposal for cost recovery for the Vancouver Resource Center Project.

A. As described in greater detail in the Direct Testimony of NW Natural witness Zachary Kravitz, the Company is proposing a multi-year rate plan, and the cost associated with Phase 1 will be included in year one of the rate plan, and the costs associated with Phase 2 will be included in year two of the rate plan.

Q. Does this conclude your testimony?

A. Yes.

IV. LIST OF EXHIBITS

Exh. WKP-2	Headquarters Phase 1 Report
Exh. WKP-3	Headquarters Phase 2 Report
Exh. WKP-4	Financial Analysis of Four Headquarter Finalists (Summary)
Exh. WKP-5	250 Taylor Lease Agreement