

Docket Nos. UG-200994, UG-200995, UG-200996, UG-210085 (Consolidated) - Vol. III

WUTC v. Northwest Natural Gas Company

August 23, 2021



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BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND) DOCKET UG-200994
TRANSPORTATION COMMISSION,) (Consolidated)
))
Complainant,))
))
vs.))
))
NORTHWEST NATURAL GAS))
COMPANY,))
))
))
Respondent.) *CAPTION CONTINUED*

VIRTUAL EVIDENTIARY HEARING, VOLUME III
PAGES 26-120
ADMINISTRATIVE LAW JUDGE SAMANTHA DOYLE

August 23, 2021

9:00 a.m.

Washington Utilities and Transportation Commission
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1 In the Matter of the Petition)DOCKET UG-200995
of)(consolidated)
2)
NORTHWEST NATURAL GAS)
3 COMPANY)
))
4 For an Accounting Order)
Authorizing Deferred)
5 Accounting Treatment of)
Certain Start-up Costs)
6 Associated with a Major)
Information Technology and)
7 Services Project)

8
9 In the Matter of the Petition)DOCKET UG-200996
of)(consolidated)
))
10 NORTHWEST NATURAL GAS)
COMPANY)
11)
For an Accounting Order)
12 Authorizing Deferred)
Accounting Treatment of)
13 Certain Start-Up Costs)
Associated with a Major)
14 Information Technology)
and Services Project)

15
16 In the Matter of the Petition)DOCKET UG-210085
of)(consolidated)
17)
NORTHWEST NATURAL GAS)
18 COMPANY)
))
19 For an Accounting Order)
Authorizing Deferred)
20 Accounting Treatment of)
Conservation Potential)
21 Assessment Costs)

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A P P E A R A N C E S

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KYLE WALKER
BRAD MULLINS
SHAWN COLLINS
COREY DAHL
ROBERT WYMAN

* * * * *

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1 LACEY, WASHINGTON; AUGUST 23, 2021

2 9:00 A.M.

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4 P R O C E E D I N G S

5

6 JUDGE DOYLE: Let's be on the record. Good
7 morning. Today is Monday, August 23rd, 2021,
8 approximately 9:00 a.m., and we're here today for a
9 settlement hearing in Docket UG-200994 -- I just
10 realized it's also the consolidated proceedings at
11 UG-200995, UG 200996, and UG-210085. And it is
12 captioned as Washington Utilities and Transportation
13 Commission versus Northwest Natural Gas Company.

14 My name is Samantha Doyle. I'm an
15 administrative law judge with the Commission. And I'm
16 also co-presiding with Administrative Law Judge Rayne
17 Pearson. We're joined by Chair Dave Danner,
18 Commissioner Ann Rendahl, and Commissioner Jay Balasbas.

19 Let's begin by taking short form appearances
20 from the parties beginning with the Company.

21 MS. PEASE: Good morning, Chair Danner,
22 Commissioners, Judge Doyle and Judge Pearson. For the
23 record, my name is Jocelyn Pease with McDowell Rackner
24 Gibson. I'm appearing today on behalf of Northwest
25 Natural, and I also have with me Eric Nelsen, senior

1 regulatory -- senior regulatory attorney for Northwest
2 Natural.

3 JUDGE DOYLE: Great.

4 And for Staff?

5 MR. CALLAGHAN: Good morning, Your Honor.
6 This is Nash Callaghan, assistant attorney general, on
7 behalf of Commission Staff.

8 JUDGE DOYLE: And for AWEC?

9 MR. STOKES: Good morning. This is Chad
10 Stokes for the Alliance of Western Energy Consumers.

11 JUDGE DOYLE: Thank you.

12 And for The Energy Project?

13 MR. ZAKAI: Good morning, Commissioners,
14 judges. My name is Yochanan Zakai. I'm with the firm
15 of Shute, Mihaly & Weinberger, and I'm representing The
16 Energy Project in this proceeding.

17 JUDGE DOYLE: Thank you.

18 And for Public Counsel?

19 MS. GAFKEN: Good morning. My name is Lisa
20 Gafken. I'm an assistant attorney general, appearing on
21 behalf of Public Counsel.

22 JUDGE DOYLE: Thank you, everybody.

23 For the record, I will ask the parties if
24 they're willing to stipulate to the admission of all the
25 prefiled exhibits and testimony up to and including the

1 settlement testimony and exhibits.

2 MS. PEASE: Northwest Natural agrees to
3 stipulate to the admission of testimony and the
4 exhibits. Thank you.

5 MS. GAFKEN: Public Counsel stipulates to
6 admission of all the exhibits and testimony.

7 MR. CALLAGHAN: Thank you, Your Honor.
8 Staff stipulates to the admission.

9 MR. STOKES: And same for AWEC. Thank you.

10 MR. ZAKAI: Your Honor, The Energy Project
11 also stipulates to the admission of the testimony and
12 exhibits. Thank you.

13 JUDGE DOYLE: Okay. Thank you.

14 And with that, all prefiled exhibits are
15 admitted. I will provide a copy of the exhibit list to
16 the court reporter so it can be made a part of the
17 record.

18 (Prefiled exhibits and testimony
19 admitted into evidence.)

20 JUDGE DOYLE: And regarding the public
21 comment exhibits, does Public Counsel think they can
22 file it by close of business Friday, August 27, that's
23 this Friday 2021, or would you need more time?

24 MS. GAFKEN: Your Honor, generally we ask
25 for a week because there is some coordination between

1 consumer protection staff at the Commission and my staff
2 at Public Counsel to get that -- that document prepared
3 and filed. So I would request that we file next Monday,
4 so not a significant amount of time, but having that
5 full week is really useful.

6 JUDGE DOYLE: Okay. Great. Let me
7 double-check on the date. So that would be the 30th.

8 MS. GAFKEN: August 30th. Yeah.

9 JUDGE DOYLE: Okay. Then we will make those
10 due on the 30th. Thank you.

11 MS. GAFKEN: Do we have -- do we know what
12 the exhibit number would be or -- it's usually a
13 BR-something. You know, do you want to mark it?

14 JUDGE DOYLE: I'm not sure what we will mark
15 it for this one, but I can -- I'll notify you.

16 MS. GAFKEN: Okay. Thank you.

17 JUDGE DOYLE: Sure.

18 Judge Pearson?

19 JUDGE PEARSON: My recollection is we
20 haven't had bench requests in this docket; is that
21 correct?

22 JUDGE DOYLE: Not yet.

23 JUDGE PEARSON: Okay. Then it will be BR-1.

24 MS. GAFKEN: Okay. We'll mark it as such.

25 Thank you.

1 JUDGE DOYLE: Great.

2 And moving along, I understand that a
3 representative for the joint parties will be making an
4 opening statement on their behalf?

5 MR. CALLAGHAN: That's correct, Your Honor.
6 This is Nash Callaghan. I'd like to make a brief
7 opening statement if I may.

8 JUDGE DOYLE: Great. Well, Mr. Callaghan,
9 we'll turn it over to you. Thank you.

10 MR. CALLAGHAN: Thank you, Your Honor.

11 Good morning, Your Honors, good morning,
12 Commissioners. Before we begin today's hearing, I would
13 like to give a brief statement on behalf of the settling
14 parties. First, I want to thank everybody for the hard
15 work that went into reaching this settlement. As you
16 can see from the agreement itself and the supporting
17 testimony, a great deal of thought and discussion went
18 into drafting the terms of this settlement, and that
19 wouldn't have been possible without the parties making
20 their best efforts to reach an agreement that we believe
21 is in the public interest.

22 Given the level of detail in the agreement,
23 the settling parties understand that there may be
24 aspects of the settlement that the Commission has
25 questions about. So I'll briefly cover the basics of

1 the settlement and explain some provisions that are more
2 complicated. Before I do that, though, I want to
3 discuss how this settlement should be viewed given the
4 changing regulatory landscape here in Washington State.

5 As the Commission is well aware, the State
6 legislature passed significant legislation during this
7 last session that will impact the Commission and the
8 IEUs it regulates. Over the past few years, both the
9 State legislature and the Commission have clearly
10 signalled a preference for multiyear rate plans, and
11 while this case was ongoing, the legislature continued
12 that trend by passing Senate Bill 5295. 5295 augments
13 the Commission's authority to approve multiyear rate
14 plans and set performance-based rates.

15 During this last session, the Climate
16 Commitment Act also passed, which among other things,
17 established a cap and trade system that natural gas
18 utilities would participate in.

19 The Commission was also tasked with
20 examining and reporting to the legislature how natural
21 gas IEUs can decarbonize in accordance with State goals
22 including, for example, equity.

23 This settlement provides a bridge from our
24 current regulatory environments into the new environment
25 created by this and other legislation. If this

1 settlement is approved, the earliest that the Company
2 could file a new GRC would be December of 2022. By that
3 time, all parties will have better clarity and guidance
4 regarding our new regulatory landscape.

5 In the meantime, this settlement sets fair,
6 just, and reasonable rates, it is consistent with the
7 used and useful policy statement, it considers and
8 accounts for ongoing effects that the pandemic continues
9 to have on ratepayers, and it sets a multiyear rate plan
10 that includes both meaningful review of new projects and
11 rate stability for both ratepayers and the Company.

12 I'll now provide a brief overview of the
13 settlement agreement itself.

14 Overall, the agreement includes a
15 one-year -- year one revenue requirement increase of \$5
16 million and a year two revenue requirement increase of
17 \$3 million. The year two increase is subject to review
18 and possible refund. Including the rate impact
19 mitigation measures, year one increase would be about \$4
20 million and the year two increase would be about \$2.8
21 million. The settlement sets the Company's ROR at 6.814
22 percent. It also sets rate spread, but the cost of
23 service is left as a black box.

24 The agreement includes provisions regarding
25 the great program advisory group, annual reporting, and

1 it requires an independent low income evaluation study.
2 It also addresses the accounting petitions that were
3 consolidated with this docket related to Horizon 1 costs
4 and conservation potential assessment costs.

5 The agreement sets a two-year plan that
6 makes an adjustment in year two accounting for pro forma
7 plant scheduled to be in service before year two rates
8 go into effect. The review also includes the expenses
9 outlined in paragraph 11, subpart B of the agreement.
10 Year two rates are subject to review and refund until
11 the Commission issues an order regarding year two
12 project.

13 Year two rates would go into effect
14 November 1, 2022. Northwest Natural will both submit a
15 detailed final report that includes updates on the year
16 two project and other expenses of -- as part of the year
17 two increase as well as an update on offsetting factor.

18 The parties have also agreed to limit the
19 scope of their review by including a \$3 million cap and
20 a limit on non-Company settling parties' review of
21 certain types of offsetting factors.

22 As I mentioned before, there are aspects of
23 the settlement that are black box. First, the impact of
24 the year one pro forma projects on the overall revenue
25 requirement for year one is left unspecified.

1 Second, while the settling parties were able
2 to agree on an overall rate of return, the specific
3 elements of cost of capital used to reach that figure
4 were also left unspecified.

5 Third, certain offsetting factors in year
6 two were left undefined.

7 And finally, while the settling parties were
8 able to reach agreement on rate spread and rate design,
9 the underlying cost of service figures, as I mentioned
10 previously, were also left unspecified.

11 The Company does have an update on a -- the
12 Mist 300 and 400 compressor controls upgrade project,
13 which is one of the year one pro forma projects. This
14 is something that came to our attention on Thursday of
15 last week. I did inform Public Counsel of this issue on
16 Friday morning so that there wouldn't be any surprises.

17 But with that, unless there are any
18 questions, I will turn the floor over to the Company.

19 Thank you.

20 MR. KRAVITZ: Thank you, Mr Callaghan. Zach
21 Kravitz, director of rates and regulatory affairs at
22 Northwest Natural. Good morning, Chair Danner,
23 Commissioners Balasbas and Rendahl, and Judges Doyle and
24 Pearson. And I will start by also really thanking all
25 of the parties to this case for all of the engagement

1 and -- that we have had through the processing of this
2 case and the time and resources that all the parties
3 have really dedicated to working through a lot of
4 complicated issues. And so that time is really
5 appreciated as I know that everyone really has a full
6 regulatory plate currently.

7 To -- Mr. Callaghan raised the issue about
8 the Mist 300, 400 compressor project. In our -- in our
9 opening case that we filed, we did identify a loaded
10 number of discrete planned capital projects
11 that -- pro forma projects in year one of our rate plan.

12 As Mr. Callaghan noted, the -- the settling
13 parties agreed to recommend that the portion of the
14 revenue requirement increase for year one attributable
15 to year one pro forma plant included in rates would
16 remain unspecified. But as we were preparing for this
17 hearing, we did discover there is one project that when
18 we were negotiating this -- this comprehensive
19 settlement where we anticipated that project be in
20 service, we discovered that that project was not in
21 service and it was, in fact, delayed.

22 And I can talk briefly about that, but this
23 project was identified in Joe Karney's testimony that's
24 JFK-1T. It's -- it's really to work on two compressors
25 at Mist that we anticipated to be done earlier in the

1 year, but the engineering team had decided to push that
2 project out until September. And they did that because
3 in September, there is a routine kind of overall
4 maintenance that occurs in our Mist storage facility.
5 And the engineering team determined that that would be
6 the best operational time to -- to complete this
7 project.

8 So we -- we do have a high degree of
9 certainty that this project will be completed. It needs
10 to be completed in advance of the winter heating season,
11 but it is currently not. And so in the interest of --
12 of full transparency, we -- we did want to be clear with
13 all the parties and the Commission that there is this
14 single project of our pro forma projects that was not
15 complete.

16 And what we -- what we would propose to do
17 in this instance would be to file a -- an attestation by
18 October 5th that would confirm whether or not the
19 project has been placed into service.

20 If it was placed into service, the
21 settlement would remain unchanged, and the revenue
22 requirement in year one would be five million, but in
23 the event that that project is not complete, the Company
24 would be -- would agree to remove the associated revenue
25 requirement from the settled year one revenue

1 requirement.

2 So this isn't a -- this is not a large
3 project. The -- the full revenue requirement associated
4 with this project is approximately \$27,000. But if it
5 is not complete, we would agree to reduce the \$5 million
6 settled amount by 27,000, which is the associated
7 revenue requirement.

8 So that is our update. Apologize that it is
9 coming here -- here now, but we did want to make it
10 clear for all parties, Commission that this -- this
11 issue did come up, and we did want to propose a solution
12 for the issue. So thank you.

13 JUDGE DOYLE: Great. Thank you so much.

14 And if the Commissioners don't have any
15 questions for counsel or the Company, I will call the
16 witness panel.

17 MS. GAFKEN: Judge Doyle, I was wondering if
18 I would be permitted to offer a statement as well?

19 JUDGE DOYLE: Sure. Go right ahead.

20 MS. GAFKEN: It will be brief. We will get
21 the witnesses here in just a moment.

22 JUDGE DOYLE: Thank you.

23 MS. GAFKEN: So thank you, Judges Pearson,
24 Doyle, Chair Danner, Commissioner Rendahl and
25 Commissioner Balasbas. Public Counsel has not joined

1 the settlement under consideration today, but we also do
2 not oppose the settlement. Our non-opposition is
3 contingent on there being no material changes to the
4 terms of the settlement or the underlying facts.

5 As Mr. Callaghan mentioned, on Friday, he
6 did contact me about change of circumstances that
7 we've -- we've just heard about. Northwest Natural had
8 just the day before informed the settling parties that
9 one of their year one projects had not gone into service
10 and is currently not in service.

11 Anyway, I just wanted to note a couple of
12 things about this and the case in general. Given the
13 material change in circumstances, Northwest Natural
14 should have notified all of the parties in this matter,
15 and they -- they should have done so before the eve of
16 the hearing. And it is disappointing that the Company
17 first informed the settling parties of this mere days
18 before today's hearing. And they should have -- oh, and
19 they did send an email to Public Counsel this morning at
20 8:45 letting us know as well. That -- that's cutting it
21 pretty close.

22 This development does call into question
23 whether the remaining year one projects have gone into
24 service. The Company has represented that all of the
25 other projects are in service, but I think it's quite

1 reasonable that the Commission require today specific
2 confirmation from Northwest Natural that all of the
3 other year one projects have gone into service as
4 anticipated. And by specific confirmation, I mean that
5 Northwest Natural should walk through the project that
6 they represent would go into service in year one of the
7 proposed rate plan and confirm the in-service date of
8 each project.

9 The settlement does allow for all pro forma
10 plants proposed by Northwest Natural to go into rates.
11 Although, as Mr. Kravitz noted, the portion of the year
12 one rates attributed to those projects is unspecified.
13 So asking for that specific confirmation now is
14 reasonable.

15 This development also highlights the need
16 for a robust review of year two projects. The
17 settlement provides for a process to review year two
18 projects and to ensure that they occur and are prudent.
19 This is one of the terms that Public Counsel finds
20 reasonable under the settlement, and if the Commission
21 approve the multiyear rate plan, it is imperative that
22 the process to review projects that go online in the
23 later rate year is robust and rigorous.

24 Speaking more generally, Public Counsel
25 filed the testimony of Corey Dahl addressing the

1 settlement. In that testimony, Public Counsel
2 highlights two of the terms that we felt were important
3 in the settlement. One, as I just mentioned, was the
4 year two project review process. The other set of terms
5 that we felt are important are the low income assistance
6 terms.

7 At the time we filed that testimony, Public
8 Counsel was neutral and did not have a recommendation
9 regarding the overall settlement. At this time, I
10 continue to believe that Public Counsel will still
11 remain neutral on the settlement, but I -- I
12 unfortunately don't know what I don't know. There may
13 be information that is shared throughout this hearing
14 that may change our position given the status of the pro
15 forma plant adjustment. Therefore, I do reserve the
16 right to change Public Counsel's position based on the
17 evidence that we hear today.

18 Mr. Dahl is present this morning as Public
19 Counsel's witness addressing the settlement and will be
20 available for questions. Per Judge Doyle's email last
21 week asking that witnesses be available to address rate
22 spread, Glenn Watkins is also available for Public
23 Counsel should any questions be directed towards us on
24 that issue. I know everybody is aware, Mr. Watkins has
25 been a longtime Public Counsel rate -- rate design

1 expert, and he did work with us throughout this case as
2 well.

3 With that, I thank you for your time.

4 JUDGE DOYLE: Great. Thank you.

5 Commissioners, did you have any questions
6 before I swear in the witnesses?

7 COMMISSIONER RENDAHL: This is Commissioner
8 Rendahl, and I guess the only question would be that I
9 think can be posed to the panel is about the other
10 parties' response to Mr. Kravitz's information this
11 morning.

12 MR. CALLAGHAN: Thank you, Your Honor. This
13 is Nash Callaghan. We have discussed this approach with
14 the other parties and with the Company, and Staff is
15 comfortable with this approach.

16 JUDGE DOYLE: Okay. Great.

17 Then if we can have the witnesses please
18 turn on their cameras so I can swear you all in and make
19 them available for questions from the Commissioners.

20 (Witness panel sworn.)

21 JUDGE DOYLE: And we'll go one by one and
22 introduce ourselves for the record. Let's start with
23 Mr. Ball from Commission Staff, please.

24 MR. BALL: Hi. This is Jason Ball with
25 Commission Staff.

1 JUDGE DOYLE: Thank you.

2 And Mr. Kravitz?

3 MR. KRAVITZ: Good morning again. Zach
4 Kravitz, director of rates and regulatory affairs at
5 Northwest Natural.

6 JUDGE DOYLE: Thank you.

7 And Mr. Walker?

8 MR. WALKER: Good morning. My name is Kyle
9 Walker. I am the rates and regulatory manager at
10 Northwest Natural.

11 JUDGE DOYLE: And Mr. Mullins?

12 MR. MULLINS: Good morning. I am Brad
13 Mullins. I am the -- representing the Alliance of
14 Western Energy Consumers. Thank you.

15 JUDGE DOYLE: Thank you.

16 And Mr. Collins?

17 MR. COLLINS: Good morning. Shawn Collins,
18 director of The Energy Project.

19 JUDGE DOYLE: Thank you.

20 And Mr. Dahl?

21 MR. DAHL: Yes, this is Corey Dahl, and I'm
22 a regulatory analyst for the Public Counsel Unit of the
23 Washington State Office of the Attorney General.

24 JUDGE DOYLE: Great. Thank you.

25 We have the parties' joint testimony and

1 also Public Counsel's testimony. At this point, we will
2 open up to questions from the Commissioners by topic.
3 Let's begin with questions regarding the multiyear rate
4 plan and Commissioners who would like to --

5 CHAIR DANNER: I'm sorry to interrupt. This
6 is Dave Danner. Before we do that, Public Counsel asked
7 for a -- basically a recitation of the in-service dates
8 of the projects, and I'm wondering if that's readily
9 available and we can get that dispensed here?

10 JUDGE DOYLE: Great.

11 MR. KRAVITZ: Chair Danner, what I can do
12 right now is -- is go through all of the year one
13 projects and confirm that they are in service. I -- I
14 don't have at my fingerprints -- fingertips right now
15 the exact date that they went in service, but I can -- I
16 can confirm that all of the projects that we identified
17 in attachment 1 to the settlement that were year one
18 projects except the Mist 300, 400 have been placed in
19 service. So I'd be happy to do that.

20 CHAIR DANNER: Yeah, that would be fine as
21 long as we can get the in-service dates in the record.

22 THE COURT REPORTER: And I'm sorry, this is
23 the court reporter. Was that Mr. Kravitz speaking?

24 MR. KRAVITZ: Yes.

25 THE COURT REPORTER: Thank you.

1 MR. KRAVITZ: So should I start by
2 identifying those projects one by one and confirming
3 they are in service?

4 CHAIR DANNER: Yeah, I -- I am -- I have no
5 reason to doubt that they are in service, but yeah, why
6 don't we just go ahead and do that quickly.

7 COMMISSIONER RENDAHL: I guess -- this is
8 Commissioner Rendahl. In the interest of time, since
9 you've confirmed on the record they are in service
10 and -- but you don't have the dates, maybe we make this
11 a bench request for the Company to supplement the record
12 with the in-service dates of the specific projects.

13 CHAIR DANNER: That would be fine.

14 MR. KRAVITZ: Yes, thank you, Commissioners.
15 That -- that works, and we can start pulling that
16 together.

17 JUDGE DOYLE: Great. With that bench
18 request, do we feel comfortable moving on to the
19 multiyear rate plan issues? Okay. Great. And,
20 Commissioner Rendahl or Chair Danner, would either of
21 you like to start on the multiyear rate plan issue?

22 COMMISSIONER RENDAHL: Dave, you're muted,
23 but did you want to go ahead?

24 CHAIR DANNER: Why don't you go ahead,
25 Commissioner.

1 COMMISSIONER RENDAHL: Okay. So thank you
2 all. And with Mr. Callaghan's caveat, that this
3 settlement was negotiated at the time that the
4 legislature was implementing Senate Bill 5295, because
5 the multiyear rate plan that the parties have proposed
6 doesn't include provisions for performance measures,
7 goals, or targets, what incentives do the parties
8 consider that Northwest Natural has to keep its
9 operating cost and capital spending under control under
10 the two-year rate plan? And that's a question for all
11 the parties.

12 MR. BALL: This is Jason. I can -- with
13 Commission Staff. I will take the first crack at this.
14 The multiyear rate plan, I believe Mr. Callaghan this
15 morning described it as a bridge, which I think is a
16 very apt description. It is trying to get us from point
17 A to point B, and performance measures are something
18 that everyone has a lot of -- we have some experience
19 with them, but not a whole lot, and we need time to
20 examine and understand the best ways to implement them.

21 In prior rate plans, the way we have relied
22 on -- the way we've implemented and relied on cost
23 controls to occur is through the stay-out and through a
24 very limited amount of plans or other projects that are
25 included in the year two process. And that's basically

1 what we've done here. There is a very specific listing
2 of what's going to be going into the year two portion of
3 the multiyear rate plan, there's cost caps that are
4 included, and there's identified -- identification of
5 offsetting factors, which is what we have normally done
6 when we're building multiyear rate plans.

7 We haven't attached specific performance
8 measures. I imagine -- or I don't imagine, I know we
9 will in future plans, but this one just wasn't -- wasn't
10 the one to start introducing those things.

11 MR. MULLINS: This is Brad Mullins with
12 AWEC, and I will jump in as well. One of the aspects of
13 year two that we thought was important was having a cap
14 on the amount of capital that could be recovered. And,
15 you know, I think, you know, from a performance
16 perspective, that, you know, it encourages Northwest
17 Natural to, you know, be efficient because if they go
18 over that cap, there -- they won't recover those -- you
19 know, those that did that additional capital until
20 potentially a later -- a later rate case.

21 And so, you know, we viewed the cap as sort
22 of an important aspect of year two revenue requirement.

23 COMMISSIONER RENDAHL: Thank you.

24 Are there other parties who want to weigh
25 in?

1 MR. KRAVITZ: This is Zach Kravitz at
2 Northwest Natural. I will wait if there are other
3 parties that want to weigh in, but I'm happy to share my
4 view on this as well.

5 COMMISSIONER RENDAHL: Go right ahead.

6 MR. KRAVITZ: Thank you. So with the year
7 two rate plan -- or the rate plan and the second year,
8 one thing that we did when we -- when we brought this
9 case forward was when -- when we thought about how to
10 limit some of the rate impact of this case, which was
11 really front and center in our minds as we filed it
12 during the pandemic, was let's really put a case -- a
13 multiyear case together with that second year that is --
14 that is really limited to some of the projects that we
15 have planned for multiple years that -- that we know
16 with a -- with a high degree of certainty have -- will
17 be completed by that next rate effective date.

18 And so it really is limited to a -- a -- a
19 narrow set of projects in -- in year two. And the
20 remainder of -- of our -- our capital plan for the next
21 year and the majority of our O&M that may or may not
22 increase over the next year, that is not being included
23 in rates in the second year.

24 And so by virtue of that not getting updated
25 in this second year, the Company will be facing pressure

1 as a result of that to -- to have an efficient
2 operation. So there is an incentive there then as well
3 as identified by Mr. Mullins, that \$3 million cap really
4 puts pressure on us to -- to have the most efficiency in
5 developing those projects in year two. Because any --
6 any amount that goes over that cap the Company would
7 incur regulatory lag on until our next general rate
8 case. So we are incentivized to keep the cost of this
9 project down.

10 I'll also add one other note as it relates
11 to our -- our Horizon project, which is a large ITNS
12 project. It is replacing our current enterprise
13 resource platform hosted by SAP, and this really affects
14 all areas of the business; accounting, supply chain,
15 inventory, pretty much across the board. Our company
16 uses SAP, and one thing that we included in this case
17 that was identified as an offsetting factor in the year
18 two revenue requirement on a system level, we have
19 identified \$1.5 million of -- of efficiencies or savings
20 that we can harvest as a result of employing this new
21 technology that will go in service September of -- of
22 2022.

23 And as we identified with the parties
24 through discovery, those savings are -- I think we used
25 the term aspirational in nature. So we will not have

1 all of those savings on day one when we turn on this new
2 SAP program. We will be incentivized to ensure that we
3 are getting the most out of a project, and over time, we
4 will -- we do intend to capture those savings.

5 But that aspect -- and we did reduce revenue
6 requirement by the allocated amount associated with that
7 \$1.5 million in savings. And so we are incentivized to
8 get the most out of that new technology and new software
9 that we are employing in year two.

10 So I -- I don't know if we -- we necessarily
11 propose that as a performance-based mechanism, but it
12 has aspects of -- of ensuring that the Company is -- is
13 operating efficiently. So I would just add that as
14 well. Thank you.

15 COMMISSIONER RENDAHL: Thank you.

16 Do my colleagues have any follow-up?

17 CHAIR DANNER: Well, I do. And I know we're
18 going to talk about the -- the year two revenue cap
19 later, but since we are talking about efficiencies now,
20 I mean, I just want to be clear because under a
21 portfolio basis approach, if a project isn't in service
22 by November of '22 and it's removed from the revenue
23 requirement, is that really an incentive, because it
24 seems like those cost savings could be negated by cost
25 overruns from other projects. And so you're -- as long

1 as you're not going over the 3 million cap, you can
2 spend inefficiently under the 3 million cap. How do you
3 deal with that?

4 MR. BALL: This is Jason. I will take
5 another crack at that question first. In my view, the
6 utilities' financial health and its ability to manage
7 its costs are determined by more than just its
8 investment spending. There is a lot of different
9 factors that go into play there. For instance, cash
10 flow is a really important factor into financial health
11 and its ability to secure funding from the capital --
12 from the investment community.

13 The placement of a cap on the revenues caps
14 cash flow, it makes -- it creates a limit outside of
15 one-off filings. That in and of itself effectively
16 creates a performance measure because it is forcing the
17 utility to manage its operations in a certain way so
18 that it doesn't result in certain financial metrics and
19 measures going down and the financial community
20 penalizing them for it.

21 There are -- there's counterbalanced
22 incentives, you're absolutely right, which are, you
23 know, the portfolio approach with the hard cap and
24 that's based upon the entire portfolio rather than the
25 individual project, and the utility then has the ability

1 to either overrun or underrun certain projects.

2 Those would all come up in a prudency
3 review. Those would all be subject to questions about
4 the prudency review, and the management of those
5 projects would be -- would fall into question, which is
6 what we've done before. And in those circumstances, you
7 might see a request for a disallowance even though the
8 costs of the project -- the total cost coming in, at, or
9 below -- or at or above the -- the cap. But make no
10 mistake, a company getting hit with a prudency
11 disallowance is still a hit, and it will continue to
12 carry forward for years.

13 So there's -- it's a little clunky, these
14 kinds of rate plans. I'll admit that. It's one of the
15 reasons why we're really excited for performance-based
16 ratemaking and regulation. But for what we have and
17 what we've negotiated at the time, I think it's a pretty
18 good solution.

19 MR. MULLINS: This is Brad Mullins with
20 AWEC, and I will just jump in as well if that's okay.
21 You know, one of the things that we did with the cap was
22 it was actually less than the -- the -- the total
23 expected capital that was going into service by -- I
24 don't have the exact number offhand. Mr. Kravitz
25 probably knows it. But, you know, so they were

1 already -- Northwest Natural already agreed to reduce it
2 from -- from what they expected to come into service in
3 year two.

4 And, you know, I guess it's a fair point
5 that if they're -- you know, if they're underneath the
6 cap, that that doesn't, you know, necessarily provide a
7 whole lot of incentives at that level. But I guess if
8 they are under the cap, then, you know, it will have a
9 lower revenue requirement as a result.

10 So -- you know, so but this is kind of the
11 solution that we -- we negotiated and I think it ends up
12 being a pretty -- pretty fair outcome kind of for both
13 sides.

14 CHAIR DANNER: Thank you.

15 COMMISSIONER RENDAHL: Okay. And,
16 Mr. Kravitz, just to follow up on something that
17 Mr. Callaghan also mentioned in the -- in his opening
18 statement about the stay-out. So there was no specific
19 stay-out provision in your original testimony. You
20 discussed that the Company's original proposal included
21 a rate case stay-out provision that would preclude the
22 Company from filing a new rate case with a rate
23 effective date prior to October 21st, 2023. But the
24 settlement agreement doesn't specifically include a
25 stay-out provision. And so is it the parties' intent

1 that the Company will not file a new rate case with a
2 rate effective date prior to October 31st, 2023?

3 MR. KRAVITZ: Yes, thank you, Commissioner
4 Rendahl, for that question and clarification. It was
5 our intent as with my initial testimony to keep that
6 stay-out in place. And so I can confirm that -- that as
7 part of this agreement, we would -- we would stick with
8 that.

9 COMMISSIONER RENDAHL: Okay. And
10 Mr. Callaghan also mentioned that -- and I don't know
11 whether this is his opinion or whether the parties have
12 agreed to this -- that the earliest filing for a general
13 rate case would be December 2022. Is that -- is that
14 when Northwest Natural plans to file its next general
15 rate case or is that that still up in the air?

16 MR. KRAVITZ: So that date in particular
17 is -- would be the date that -- the earliest date that
18 we would file, that we could file at this point. I -- I
19 can't say with -- with certainty whether we will. We
20 are -- we are regularly evaluating those types of
21 financial considerations. So I -- I think as far as I
22 can say such, that is the earliest date that we -- we
23 haven't said whether or not we would.

24 COMMISSIONER RENDAHL: Okay. Thank you.

25 So I have a series of questions and I'm

1 happy to -- Commissioner -- Chair Danner, Commissioner
2 Balasbas, if -- if any of these questions spur follow-on
3 questions for you, please just jump in, raise your hand,
4 I can see you on the screen. And this is about the
5 two-year -- the year two review and reconciliation
6 process and mostly focused on the process that is in the
7 settlement agreement and in the joint testimony.

8 So the paragraph 17 of the settlement
9 agreement and in the joint testimony that -- provides
10 that the non-Company parties can provide discovery and I
11 use the quote similar to an adjudication. And so what
12 does that mean? Similar is not the same, but how is --
13 how is discovery in this retroactive review the same or
14 different than discovery in the current case or existing
15 adjudications?

16 MR. BALL: This is Jason. I believe that
17 language was there to just highlight that unless this
18 proceeding became fully litigated, it wouldn't be
19 subject to the procedural rules that the Commission has
20 set for adjudications. So we were just trying to say we
21 would follow the same kinds of processes. Other parties
22 feel free to correct me if I misspoke.

23 MR. KRAVITZ: This is Zach Kravitz with
24 Northwest Natural. It was our understanding that during
25 the review process that the parties could pursue

1 discovery in the same way that they could as -- as I did
2 throughout this case. Mr. Ball identified that -- that
3 nuance there that maybe that some procedural rules
4 weren't necessarily applicable, but it was our
5 understanding that yes, discovery would be ongoing
6 through that process, and -- and it was no different
7 from how it's going through this rate case.

8 CHAIR DANNER: So does that mean, then, if
9 there's problems in discovery, a party objects or
10 whatever, then we're going to use the review process
11 that we currently have for adjudications; is that what
12 you're envisioning?

13 MR. BALL: If it becomes -- if it comes to
14 that, yes, I think what would happen is -- if it becomes
15 significantly contentious and parties can't work it out
16 amongst ourselves, we would bring it to the Commission
17 and we would ask for an adjudication through a
18 prehearing conference and a -- either a -- I'm not
19 entirely sure if the tariffs would need to be suspended
20 because I believe it would be a petition, but it's
21 administrative. We would seek an adjudication and an
22 adjudicative process, yes.

23 COMMISSIONER RENDAHL: Okay. So paragraph
24 18 of the settlement agreement provides that the Company
25 can -- may provide evidence to the parties as projects

1 are completed to expedite the review process. And so if
2 that process -- so this is the process that the
3 non-Company parties would have an opportunity to use
4 similar discovery, right? So the Company would submit
5 the information and -- to the record, and then the
6 companies can use some sort of -- I mean the parties can
7 use some sort of discovery process to inquire about that
8 information, correct?

9 MR. BALL: Yes.

10 COMMISSIONER RENDAHL: Okay. And is this --
11 because the evidence is going to be submitted to the --
12 I'm assuming the evidence is going to be submitted to
13 this docket so that the Commission and its advisors and
14 the ALJs would have an opportunity to review this
15 information just as the parties would, correct?

16 MR. BALL: Yes.

17 COMMISSIONER RENDAHL: But the data requests
18 that the parties would propound to the Company would
19 not -- I would assume similar to litigation would not be
20 available and would not be filed in the docket, correct?

21 MR. BALL: Correct, unless those parties
22 chose to present them to the docket in some manner,
23 either through an informational filing or through a
24 request for litigation, et cetera.

25 COMMISSIONER RENDAHL: Okay. So in order

1 to -- so the Company can file this information as
2 projects are completed, the companies will do -- I mean
3 the parties will conduct discovery and then after the
4 Company's final comprehensive filing, if there's any
5 additional information that needs to be filed by I guess
6 that date is February -- February 2022 -- '23, then the
7 other parties have an opportunity within four months to
8 make some filing with the Commission, correct? About
9 whether they agree or don't agree with that information?

10 MR. KRAVITZ: This is Zach Kravitz with
11 Northwest Natural. Yes, that is -- that is my
12 understanding of the process as the -- the stipulation
13 lays out. We have the opportunity to file with each
14 year two project as it is completed. Notice of that
15 and -- and further evidentiary support for prudence of
16 that -- of each project. And we designed it this way so
17 the parties could have -- and the Commission could have
18 the opportunity to -- to review those projects as they
19 are completed so that -- that -- that not all of the
20 projects come all at once in the final filing and -- but
21 at the -- when all of the projects are complete and are
22 in service, and we agreed that all of those projects
23 must be in service by that year two rate effective date.

24 We would have a comprehensive filing that
25 packages all of that information together and -- and we

1 would have up to that February 28 of 2023 date to get
2 that final filing in at which point that four-month
3 process would be triggered for the parties to do further
4 review as needed. And -- and so I think I may have just
5 steered it back to you what you said, but I'm in
6 agreement with it.

7 COMMISSIONER RENDAHL: Just trying to
8 confirm that that's the process. Is there an estimated
9 schedule for those submissions? I'm assuming it's based
10 on when the plant comes into service, but that -- that
11 there's no specific schedule for that?

12 MR. KRAVITZ: There is not a specific
13 schedule for when any of the filings before that
14 comprehensive filing is -- is made. So yeah, it would
15 just depend on when that project is done and by the
16 timing to get a filing together. But we haven't laid
17 out exactly when those are made.

18 COMMISSIONER RENDAHL: And so how are the
19 non-Company parties going to be communicating that I
20 guess at that four-month period? Maybe this is a
21 question for you, Mr. Ball, or other parties. What form
22 does that take? Is it like a comment or a pleading or
23 something that's filed in the docket?

24 MR. BALL: In terms of communicating to the
25 Commission or to the Company?

1 COMMISSIONER RENDAHL: To the Commission.

2 MR. BALL: I believe it would be -- and
3 you're -- let me make sure I'm answering the right
4 question. You're asking how will the companies -- how
5 will the -- how will the settling parties attest to the
6 review and agree to the -- the change in rates?

7 COMMISSIONER RENDAHL: Correct. What -- is
8 that testimony with exhibits, is that comments, is
9 that -- is there any -- has there been thought as to
10 what that attestation filing would look like?

11 MR. BALL: Not necessarily. We wanted to
12 keep our options open so that we could do this in the
13 most administratively -- or in the least
14 administratively burdensome way possible. And so there
15 are different forms it could take. For instance, if we
16 just have -- if we have no comments to provide, we could
17 just provide a letter and say we looked at everything,
18 nothing looked out of the ordinary, everything looks
19 fine, this is good. And then it's just a letter and
20 it's very easy for everyone to go about their business.

21 If we have a couple of comments or
22 questions, we could file a little bit more elaborate
23 comments, or if we've got something that's seriously
24 questionable and we definitely need to have some long
25 conversations about it, that's when I think it would

1 morph into either a petition or just testimony with the
2 response detailing exactly what our concerns are and
3 what our proposed solutions are.

4 The design behind this process is to be as
5 flexible and as open as possible in order to give the
6 Commission that same flexibility as well as to keep
7 this -- the administrative burden as low as possible.

8 COMMISSIONER RENDAHL: Okay. I want to give
9 other parties an opportunity to answer that question
10 too, but before I do that, Mr. Kravitz, is there an
11 opportunity built in for the Company to file some kind
12 of rebuttal if it has issues, if it -- if there are
13 questions or concerns? We didn't see that in the
14 settlement agreement specifically, so is that something
15 the parties envisioned?

16 MR. KRAVITZ: Thanks, Commissioner Rendahl.
17 I was -- I was about to jump in and hit that point as
18 well. And so after we file our -- that comprehensive
19 pro forma year two filing, as Mr. Ball indicated, that
20 the parties would have that opportunity to provide a
21 response in the docket. And -- and to Mr. Ball's point,
22 we didn't agree upon any form of that response, but
23 we -- I guess by not, we agreed to let the parties have
24 discretion in doing so. And then in that response, in
25 the event that it is -- parties have raised an issue

1 where the current amount that we would be -- that we
2 would be -- let me say that -- rephrase that.

3 The current amount that we would be setting
4 in rates in this proceeding if a party were based on the
5 review of the evidence saying, well, actually, we have
6 an issue with this or that and we think that revenue
7 requirement should not be three million, it should be
8 something less than that, then it is -- at that point,
9 we think the process in WAC 480-07-875 would trigger
10 at -- at which point we would have to come to the
11 Commission and -- and seek out a process whereby the
12 parties could adjudicate this in front of the Commission
13 in the event that there is a dispute there that couldn't
14 be resolved.

15 And so it would be that point where we would
16 seek a process set by the Commission when we -- when we
17 make that petition to amend the file order at some point
18 in that -- after we file the comprehensive review. So
19 it -- it leaves the process open, but we did want to
20 ensure that there could be a process available for
21 rebuttal at some point in time.

22 COMMISSIONER RENDAHL: Okay. So do other
23 parties have any additional thoughts on that in addition
24 to what Mr. Ball and Mr. Kravitz just mentioned?

25 MR. MULLINS: This is Brad with AWEC, and I

1 think we envisioned it pretty much the same as what
2 Mr. Kravitz had said. So, you know, we will file, you
3 know, a letter or, you know, some sort of document with
4 the -- in the docket saying whether we accept or contest
5 the final costs. And if we do contest those amounts,
6 then that will trigger a sort of follow-on procedure,
7 and I don't think we -- we necessarily, you know,
8 decided on what that procedure will look like. But, you
9 know, presumably there would be rebuttal and responses
10 and all of that. So I think we're on the same page with
11 Mr. Kravitz and Mr. Ball.

12 COMMISSIONER RENDAHL: Thank you.

13 Any other thoughts from other parties?

14 So in paragraph 19 of the settlement, it
15 says -- and, Mr. Kravitz, this is what you just alluded
16 to -- that if there's a dispute, that -- that Northwest
17 Natural will communicate that to the Commission and
18 whether further process is required. But wouldn't we
19 know that if the parties file objections to some of the
20 information or concerns as Mr. Ball stated when they
21 filed their four-month period? Or would it be possible
22 that at that point in parties would -- would be in
23 negotiation again? So I guess I'm just -- seems to me
24 that we will know, just like the Company, when and if
25 any party is disputing the -- the -- the information and

1 the evidence that the Company provided.

2 MR. KRAVITZ: I -- I think that's right, and
3 I -- I guess it's yes to -- to both of the possibilities
4 that you laid out there. Yes, we -- we could hear the
5 information coming from the parties and potentially be
6 engaging in that type of resolution, negotiation,
7 discussion. At the same time the Commission could be
8 finding out at the same time we are that there is a
9 potential dispute that's arising.

10 So it is -- you make a good point, that it
11 is really at that time that those responses are filed we
12 would know likely whether other not further process is
13 needed. I'm not -- I'm not sure how that -- if that
14 changes anything, but I -- I -- I do think that we
15 would -- we would have a higher likelihood that there
16 would be more process needed at that point.

17 COMMISSIONER RENDAHL: Okay. Chair Danner,
18 Commissioner Balasbas, any follow-up questions on that
19 line?

20 CHAIR DANNER: No, not on that line. Thank
21 you.

22 COMMISSIONER RENDAHL: All right. I think I
23 just have one other question, then. This is for you,
24 Mr. Ball, and it has to do with the same issue of the
25 Company filing a petition to amend the order in the

1 docket.

2 So do the parties believe that the final
3 order would need to be amended to allow the Company to
4 file the tariff revision to implement year two rates?
5 Is there any reason why we can't use the compliance
6 filing process under WAC 480-07-880 as opposed to the
7 reopening process under 875?

8 MR. BALL: I don't think so. I don't think
9 there's any limitation. It's a very large aspect that
10 I'm not a lawyer, so I -- I would probably ask my
11 counsel to weigh in on that one. But I don't think
12 there's any limitation, and assuming that there's
13 nothing wrong and if the -- there is no question about
14 prudence, the order could just stand as it is and we
15 could just approve the tariffs through a compliance
16 filing.

17 MR. KRAVITZ: And if I may add onto that a
18 little bit. One of -- one of the reasons why -- why we
19 thought that that process may be appropriate was because
20 the -- the amounts that we included, the in-service
21 dates that we anticipated for the year two projects,
22 high likelihood that if they're not -- they're
23 estimates, they're not going to be exact. And so to the
24 extent that this order is -- is approving the projects
25 that are in year two, this would give the Commission and

1 the parties the opportunity to true those up so that the
2 actuals are included as part of the order.

3 So that was -- that was one reason, and then
4 the -- this particular provision in the WAC, it -- it
5 kind of captured everything for us and in that it also
6 gave us this opportunity, if needed, for process in the
7 future. So it -- it seemed like a -- and I give credit
8 to Mr. Callaghan -- but an elegant kind of solution to
9 take into account a lot of different scenarios, and so
10 that's why we chose this.

11 COMMISSIONER RENDAHL: Okay. But you
12 wouldn't be opposed to using the compliance process if,
13 in fact, there were no objections to the information and
14 evidence that the Company put forward?

15 MR. KRAVITZ: Northwest Natural would not be
16 opposed to that.

17 COMMISSIONER RENDAHL: Any other parties
18 have concerns about that?

19 MR. MULLINS: No concerns from AWEC.

20 COMMISSIONER RENDAHL: I see Mr. Callaghan
21 has his hand raised.

22 MR. CALLAGHAN: Thank you, Your Honor.
23 Obviously I'm an attorney, so I can't testify at this
24 hearing; however, Your Honor, if you're -- if you have
25 additional questions that you feel haven't been

1 answered, Staff could certainly provide a more detailed
2 answer to this question in a response to a bench request
3 if you'd like.

4 COMMISSIONER RENDAHL: All right. Well, we
5 will decide if we need further information on that, but
6 thank you very much.

7 MR. CALLAGHAN: Thank you.

8 COMMISSIONER RENDAHL: Okay. Anything else?
9 I think I'm done with this line of questions and happy
10 to turn it over to my colleagues. I appreciate you all
11 bearing with me. There's a lot of potential process
12 issues with this -- with this settlement, so just wanted
13 to flesh out some of those issues. So thanks very much.
14 Anything further before I cede time to my colleagues?
15 All right.

16 JUDGE DOYLE: Great. And with that, I
17 believe we're looking at the year two revenue cap. And
18 I believe that Commissioner Balasbas would like to start
19 off on the questioning with that.

20 COMMISSIONER BALASBAS: Yes, thank you,
21 Judge Doyle. And same for my colleagues as for the
22 couple of questions that I have, if there is any
23 follow-up or if anything spurs, please feel free to jump
24 in.

25 So this is a question to anyone on the panel

1 who would like to weigh in here. So in paragraph 20 of
2 the settlement agreement, it provides that recovery of
3 any prudent cost above the \$3 million year two revenue
4 cap can be requested to be recovered in a subsequent
5 GRC. So my question here is, so are any of the settling
6 parties petitioning to defer these costs or are they --
7 or will they be included in this subsequent GRC test
8 year results of operations?

9 MR. MULLINS: This is Brad with AWEC and
10 I -- you know, our understanding was the latter of
11 those, that they wouldn't be deferred necessarily, but
12 they would just be included in -- potentially included
13 in the next rate case result of operation.

14 MR. BALL: This is Jason with Staff, and I
15 agree.

16 MR. KRAVITZ: Northwest Natural concurs as
17 well.

18 COMMISSIONER BALASBAS: Okay. Thank you.
19 Appreciate that clarification.

20 So for any of the eight provisional
21 projects, if they do not go into service by
22 November 1st, 2022, can the Company again request
23 recovery of these projects in a subsequent GRC?

24 MR. KRAVITZ: This is Zach at Northwest
25 Natural. I -- I believe the understanding was that yes,

1 any -- any project that -- that exceeded the cap could
2 be requested in the next GRC that we would file.

3 COMMISSIONER BALASBAS: But what if it does
4 not go into service, then that would --

5 MR. KRAVITZ: Yeah, I'm sorry. Yes, any
6 project that was -- if it did not go into service, let
7 me answer your question, it -- we could request that in
8 a future rate case.

9 COMMISSIONER BALASBAS: All right. I see
10 other parties' head nods, so I assume they do not have
11 anything to add here.

12 So then I guess my last question on this
13 piece here is, is the year two revenue cap, is it
14 indifferent to the number of provisional plants that's
15 actually used and useful by the year two rate effective
16 date?

17 MR. BALL: Can you -- forgive me for
18 answering a question with a question, but can you
19 clarify what you mean by "the number"? Do you mean the
20 costs or the -- the quantity of projects?

21 COMMISSIONER BALASBAS: I'm referring to the
22 quantity of projects. I know they -- I know they are
23 listed in -- you know, in the settlement agreement, but
24 given that, you know, it's not project-by-project but
25 rather on this portfolio basis, so is that -- I mean, is

1 effectively the 3 million -- the \$3 million cap, is
2 that -- could that be more than projects that are listed
3 in the settlement agreement is what I'm asking.

4 MR. BALL: I don't believe so. I believe
5 that the intention behind the cap and the portfolio
6 approach was to tie it to those specific projects. And
7 that because the specific projects exceed the cap,
8 that's why we have it in there is so that we're limiting
9 the amount of potential revenue increase that can occur
10 while recognizing that the sum of the projects exceeds
11 the cap.

12 And, Zach, I want to make sure I answered
13 that correctly.

14 MR. KRAVITZ: Thanks. Yes, I -- I think you
15 did. If -- if a -- and to be clear, if a project -- so
16 the revenue requirement, a full revenue requirement of
17 all of the projects and the O&M and then through
18 negotiations we also included the Horizon deferral as
19 well, those come to a revenue requirement of
20 approximately 3.3 million. The revenue requirement cap
21 is 3 million.

22 So if a -- if a significant project was not
23 completed by that -- that year two rate effective date,
24 the full revenue requirement of that project would come
25 out. And to be very clear about how we discussed this

1 process, if the -- so I'm going to give just a couple
2 numbers here. But if we were -- the full amount of
3 revenue requirement is 3.3 and we use a hypothetical, if
4 a project had a million dollars of revenue requirement
5 was not completed, then that portfolio would go down to
6 \$2.3 million, and that's how much revenue requirement we
7 would include in year two.

8 And it would be in that instance where we
9 would likely have a revenue subject to refund situation
10 depending on how long the process would take, but then
11 there would be that \$700,000 of refund that would be
12 necessary.

13 And then -- and in a situation where let's
14 say a really small project wasn't in service and it had
15 a hundred thousand dollars of revenue requirement, so in
16 that instance, we would have originally an anticipated
17 3.3 million of revenue requirement, a \$3 million cap.
18 We would reduce the overall revenue requirement to 3.2
19 million removing that project, but the cap would still
20 be hit and there would be \$3 million in rates.

21 I don't know if that helped answer that
22 question, Commissioner Balasbas. Happy to take any
23 others there.

24 COMMISSIONER BALASBAS: Actually, it looks
25 like Mr. Ball was about to weigh in or Chair Danner was

1 about to weight in as well, so I'll let that play out,
2 and then I do have just a short follow-up.

3 MR. BALL: I was just going to reiterate
4 that it is tied to those specific projects that were
5 listed in attachment 1. So it is that specific grouping
6 of projects.

7 CHAIR DANNER: So I just wanted to clarify.
8 So if there is a reduction in the revenue requirement
9 because the project is not going into service, would
10 that be offset by cost overruns of another project and
11 then that would be something that we wouldn't review?

12 MR. BALL: No, sorry. The answer to the
13 first question is potentially it could be offset.

14 The answer to the second question of whether
15 we would review it is no, we would absolutely review it,
16 and there would be quite a number of questions related
17 to it and -- which is in line with what we have done
18 previously.

19 CHAIR DANNER: Okay. And then when the
20 project comes to us at a subsequent rate case, we're
21 looking only at that specific project, we're not able to
22 go back and look at the portfolio; is that your
23 understanding?

24 MR. BALL: Well, so my understanding from
25 the -- from this is we're going to evaluate all of these

1 projects. So let's assume that all of the projects went
2 into service. We will evaluate them now and the
3 judgment call on prudence will be determined now.

4 So in a future rate case, the Company is
5 free to seek the cost recovery, but the prudence
6 determination is done. If we take the example of
7 there's a million dollars worth of a project that wasn't
8 in service, and we have to do a subject -- do a refund
9 now, then that million dollars of project that wasn't in
10 service, we can't do a prudence evaluation now, so it
11 would be determined in the future.

12 In the third scenario where if you -- using
13 the same number, if you had a million dollars worth of a
14 project, but that million dollars of a project isn't
15 prudent, then we would have a question about prudence
16 determination. And if the Commission determined that it
17 was not a prudent action, that million dollars is out
18 forever.

19 COMMISSIONER RENDAHL: So, Mr. Ball, just to
20 follow up on that, thinking about one of your examples,
21 so you're saying the prudence review is done in this
22 case, but that there may be additional costs for that
23 project in a future rate case. Isn't a prudence review
24 ongoing so you could think that the project excels, it's
25 appropriate, but there's an ongoing review of prudence,

1 so that further expense in another rate case, we're not
2 tying our hands in agreeing to the settlement to save
3 that additional expense later? Do you see what I'm
4 saying? I'm differentiating between the project and the
5 expense for the project.

6 MR. BALL: Yes, yes, and absolutely. We're
7 not tying our hands. What I meant to say was that if --
8 if a project isn't in service, then the prudence
9 determination will be done later. The only prudence
10 that would be done in this case is project is completed,
11 it's in service, it's used and useful, known and
12 measurable, then we're good.

13 If a project needed to be -- if a project
14 got delayed and wasn't subject to this process because
15 it was delayed and wasn't in service, the prudence
16 determination would be held over into the next general
17 rate case. And we would continue to do it as we've
18 always done it, on an after-the-fact basis.

19 COMMISSIONER RENDAHL: Great. Thank you for
20 that. Appreciate it.

21 COMMISSIONER BALASBAS: And then, Mr. Ball,
22 I think you had answered the follow-up question that I
23 had, so just to -- just to quickly clarify and maybe
24 reiterate what you said before, when it comes to pro
25 forma plant in year two, is only the projects listed in

1 attachment 1 of the settlement agreement that will be
2 the pro forma plant considered as part of the revenue
3 cap in year two?

4 MR. BALL: Correct. And to circle back to
5 Chair Danner's question at the beginning, one of the
6 rationales for that was the cost control measures that
7 come into place we are trying to tie to the specific
8 actions of the utility and not all of the general actions
9 they can take.

10 COMMISSIONER BALASBAS: Right. And so then
11 just to clarify with the question that Chair Danner had
12 asked about, you know, if there was a cost overrun if
13 only within that universe of those eight projects where
14 a cost overrun could offset an underrun in another
15 project but just among those projects listed in that
16 attachment?

17 MR. BALL: Correct.

18 COMMISSIONER BALASBAS: All right. Okay.
19 Thank you.

20 I do have one question related to the
21 offsetting factors consideration in the year two review
22 process. So in -- in the Commission's used and useful
23 policy statement, it talks about accounting for all
24 offsetting factors. And the settlement agreement here
25 in paragraph 23 limits those year two offsetting factors

1 to those that might occur directly because of Northwest
2 Natural's investment.

3 So I'm just -- and this is to any of the
4 parties who want to weigh in. I just want to get a
5 better understanding of why the settlement used just the
6 term direct offsetting factors instead of all offsetting
7 factors.

8 MR. BALL: Zach, do you want to take this
9 one?

10 MR. KRAVITZ: Sure. And with diving into
11 the kind of back and forth in -- in negotiations, I
12 think I can say that it was something that the parties
13 agreed in terms of the review of the project for year
14 two, that the offsetting factors had been accounted for
15 and on balance with the cap that we included, it was
16 agreed that -- that those offsetting factors were --
17 were set for the purposes of this settlement.

18 And then we did agree that with the projects
19 that -- that are in that year two list of projects, that
20 to the extent anything new is discovered or materialized
21 where the -- the Company or the parties say, hey, well,
22 this is new information that you brought forward in your
23 evidentiary review. It looks as though there could be
24 some savings here. You need to include that as part of
25 the year two revenue requirement. And so it would be

1 based on -- on the projects that we are bringing
2 forward. That was -- that was kind of the direct
3 language that we were using. And it was anything that
4 hadn't been reviewed currently, but as that -- that year
5 two review process unfolds, any -- any new savings or
6 offsetting factors were identified, those -- those could
7 be captured.

8 So that -- that was the thought process
9 there, and I guess I'll let any other parties add or --
10 or correct if needed.

11 MR. BALL: This is Jason. I just want to
12 emphasize that it's -- it was a negotiation, and that's
13 what we were trying to get at was -- was a deal that
14 worked for all the parties, and I think that's what we
15 ultimately created.

16 COMMISSIONER BALASBAS: So but the -- just
17 to follow up. So what I'm hearing from Mr. Kravitz'
18 answer, then, is that the -- at least it is the intent
19 when the -- when the projects -- when the pro forma
20 projects in year two are brought forward, that all known
21 offsetting factors will be presented as part of that --
22 as part of the information presented to all of the
23 parties about those projects; am I correct in my
24 understanding?

25 MR. BALL: Yes, I believe so.

1 MR. KRAVITZ: Yes, I -- I would agree with
2 that as well.

3 COMMISSIONER BALASBAS: Okay. All right.
4 Thank you.

5 CHAIR DANNER: So if I may, just to follow
6 up. There are a few other places where what -- the
7 settlement is not consistent with the used and useful
8 policy statement. There's a requirement that all
9 offsetting factors be actual and verified, and yet the
10 settlement limits the review to direct offsetting
11 factors. And so -- and, of course, you know, the used
12 and useful doesn't contemplate a portfolio basis
13 concept.

14 So I guess what I am -- what I want to say
15 is, I mean, was this -- were you conscious of the
16 inconsistencies with used and useful policy statement,
17 and is what you have, are there any concerns that that
18 policy statement is not being followed to the letter?

19 MR. BALL: That's a tricky question. Yes, I
20 think we were aware that it -- it skirted the boundaries
21 of what was directly in the policy statement. And I
22 think we did that not -- not because we didn't want to
23 follow the policy statement, but because we were trying
24 to find a solution. And here it ultimate -- that
25 solution was ultimately a trade. And this trade was

1 we're trading certain offsetting factors for a cap
2 essentially.

3 And so it's limiting the potential risk for
4 both the Company and for ratepayers, and it's doing it
5 by limiting the amount of things that we can bring back
6 into the proceeding to offset cost increases.

7 I would point out, though, that this is
8 the -- this is only the second case where we've actually
9 dealt with a process that invokes the used and useful
10 policy statement, and it will probably be the last case
11 where we use the used and useful policy statement,
12 because the next ones will be subject to multiyear rate
13 plan law that was written. And so we'll have to
14 incorporate all those changes into it as well.

15 So it -- it really was us trying to flesh
16 out and understand and deal with the complexities of
17 these rate plans on the, you know, second time we've
18 ever done it and the first time still not even being
19 complete.

20 MR. KRAVITZ: And this is Zach at Northwest
21 Natural. I would add to what Mr. Ball said and agree
22 with it. But I -- I would say in terms of the policy
23 statement, we -- we did endeavor to really be consistent
24 with the policy. And -- and as with the policy
25 statement, I -- I -- maybe this is my view, but there

1 is -- you try to be consistent, but every case that
2 comes before the Commission is going to be a little bit
3 different and have a different factor that you are
4 accounting for. And sometimes the settlements that --
5 that develop are specific to some of these unique
6 circumstances in each settlement.

7 And I think we did have a situation here
8 where -- where that -- that is -- is what happened.
9 And -- and especially with our year two, as we brought
10 it forward, this was not a situation where we were
11 bringing forward a full year of cost of service into
12 year two, which is really I think what the policy
13 statement is -- is driving at. And what we did was
14 bring forward a much limited in scope of a -- of a year
15 two adjustment really associated to -- or related to
16 those certain projects that we identified.

17 And so it -- that year two is much smaller
18 in scope than I -- I think what -- what a full scale
19 rate plan would -- would envision. And as a result of
20 that, that raised some questions for the parties to
21 wrestle with in terms of what are the appropriate
22 offsetting factors to -- to identify and it -- does this
23 case present something a little bit different than --
24 than other cases. And I guess without speaking
25 completely for the parties, I think it was understood

1 that -- that this one did and that's -- that's why we
2 came up with the cap for one, which was I know a new
3 proposal, but given what we brought forward, we thought
4 that was an appropriate mechanism to put in place that
5 kind of balanced some of these questions that we were
6 having thinking about the offsetting factors moving
7 forward.

8 MR. MULLINS: And this is Brad. I will just
9 add one additional thing. I think limiting it to sort
10 of that narrower group of offsetting factors also, you
11 know, makes the process a little bit more streamlined in
12 the second year. And, you know, in the end we were, you
13 know, kind of okay with that sort of narrower view --
14 view of those, you know, I guess in terms of the overall
15 settlement.

16 COMMISSIONER BALASBAS: Thank you. I mean,
17 unless -- unless my colleagues have other questions, at
18 least on this topic, Judge Doyle, I do not have any
19 further questions, and I would also maybe like to
20 suggest a short break here at this juncture.

21 JUDGE DOYLE: Unless there's any issues from
22 the Commissioners, should we take just a five- or a
23 ten-minute break? Commissioner Balasbas, what were
24 you...

25 COMMISSIONER BALASBAS: I am good either

1 way.

2 JUDGE DOYLE: Okay. Let's do a five-minute
3 break. It is 10:26. Let's say we'll do 10:31 or 32.
4 And with that, we will be off the record for a short
5 break. Thank you, everyone.

6 (A break was taken from
7 10:26 a.m. to 10:36 a.m.)

8 JUDGE DOYLE: And with that, let's be back
9 on the record. And before we go on to next line of
10 questioning, Staff wanted to follow up in regards to the
11 used and useful policy line of questioning, I believe.
12 Or he had a follow-up. Apologies.

13 Mr. Ball, go right ahead and take it from
14 here.

15 MR. BALL: Thank you. I was reading my --
16 reading the joint testimony of the settlement agreement
17 over the break. I just wanted to make sure it was very
18 clear, because it might not have been in the testimony,
19 the offsetting factors and limitations we have placed on
20 that was a voluntary limitation amongst the parties. It
21 is in no way being asked that the Commission constrain
22 itself or constrain its own review of those factors. It
23 is just the parties are agreeing to limit what we review
24 in the year two process.

25 JUDGE DOYLE: And if the Commissioners --

1 oh, go ahead.

2 COMMISSIONER RENDAHL: I was just going to
3 say -- (audio interruption.) Okay. Chair Danner, did
4 you want to go ahead and ask these questions? I can go
5 ahead and ask them.

6 CHAIR DANNER: I'm fine asking them. So,
7 Mr. Wyman, good morning, the settlement states or
8 actually in -- in the testimony, it says that settlement
9 provides rate spread that recognizes certain customer
10 classes including large customers are materially above
11 parity in Northwest Natural's cost of service study.
12 Then it says while these customers are still subject to
13 material rate increases -- increases, a slightly smaller
14 amount of revenues are allocated to those classes
15 bringing them closer to parity.

16 So my question to you, Mr. Wyman, how far
17 out of parity are the proposed rate schedules? And
18 perhaps the parties can provide a parity comparison
19 between the current cost of service study parity results
20 and the rate parity resulting from this settlement
21 agreement, would that be something that -- that you
22 could do?

23 MR. WYMAN: Hi, Commissioners. This is
24 Robert Wyman. Do I need to be sworn in for this line of
25 questioning?

1 CHAIR DANNER: You haven't been sworn in
2 yet?

3 MR. WYMAN: No, I have not.

4 JUDGE DOYLE: So, Mr. Wyman, yes, you would
5 need to be sworn in.

6 (Robert Wyman sworn.)

7 JUDGE DOYLE: Thank you.

8 MR. WYMAN: Thank you. The Company's filed
9 rates spread -- or sorry, cost of service model had the
10 large industrial schedules paying the higher cost --
11 cost of service. They had parity ratios that ranged
12 about 1.6 to 1.8. I should point out that in the all --
13 the multiparty settlement, we -- the parties did not
14 accept the results of the filed cost of service model.

15 Given that the -- the settled rate spread
16 does take into consideration some of the aspects of that
17 cost of service study as well as some of the
18 negotiations between the parties, and the settled rate
19 spread does kind of move us a little bit closer to
20 parity by having a smaller than equal percent of margin
21 increase for the industrial schedules as well as some of
22 the large commercial schedules, whereas the residential
23 schedules have a slightly higher than equal percent of
24 margin increase. Does that answer your question?

25 CHAIR DANNER: Well, so the operative word

1 is "slightly," so you call this is it de minimis or is
2 it -- is it more than de minimus but less than
3 significant? I mean, where -- just trying to get an
4 idea what the difference is.

5 MR. WYMAN: I would say that I don't have
6 the exact numbers in front of me, but I -- I would say
7 that it -- it moves us closer to parity. It is not a
8 substantial increase. I think that -- and in my initial
9 testimony I discuss that the reason we propose an equal
10 percent of margin was because we did not have the load
11 study.

12 I think that once we are able to get the
13 data from a load study, kind of get more informed on the
14 results of that study, then we would look to perhaps do
15 a little -- a little more of a deeper dive into the
16 schedules and their relative parities to one another and
17 maybe move closer in those directions, but for this,
18 it's kind of more just an incremental approach.

19 CHAIR DANNER: All right. Thank you. And I
20 will follow up to that, concerning the settlement
21 doesn't have, doesn't propose adjustments to the rate
22 spread with relation to parity, does the Company still
23 plan on proposing a modified rate spread and rate design
24 after the AMI installations that will allow sort of
25 daily usage collection from the representative sample of

1 customers? Is that something --

2 MR. WYMAN: Not for this case. For year one
3 or year two, we are not going to propose a different
4 rate spread than what we have shown in attachment 2 of
5 the settlement.

6 CHAIR DANNER: Okay. But it's something
7 that we might see in the future?

8 MR. WYMAN: Yes, that's correct. It may
9 inform our next general rate case once we are able to
10 get the AMR data and pro forma statistical random
11 sampling of it.

12 CHAIR DANNER: All right. Thank you.
13 Judge, that's all the questions we have.

14 JUDGE DOYLE: On that one?

15 CHAIR DANNER: That's all the questions I
16 have. Yeah.

17 JUDGE DOYLE: Okay. Then let's move on to
18 the gas residential energy assistance tariff rate and
19 the low income evaluation study. The Commissioners have
20 any questions on this one?

21 CHAIR DANNER: So yeah, on this -- on this
22 one, the -- the question on the -- I have, I think we
23 all have, is how is this low income evaluation study as
24 a great program going to address equity issues? Will --
25 will the evaluation study and report, is it going to

1 include discussions related to equity and what
2 specifically -- how are you going to go about that?

3 MR. COLLINS: I can go ahead and answer
4 this, Chair. Shawn Collins here with The Energy
5 Project. You know, I think when we were developing the
6 settlement terms, we were specifically looking at the --
7 the previous evaluation studies that have been conducted
8 with Puget Sound Energy, Avista, Cascade Natural Gas as
9 reference points to better understanding those being
10 served in terms of the effectiveness of the programs at
11 reducing energy burden. And also -- and I think this
12 probably more specifically gets at your question --
13 those who are not being served.

14 So in this case, Northwest Natural's service
15 territory, we want to know more about those who are not
16 receiving the assistance program and how to reach them.
17 And so I think to that extent, we are addressing issues
18 because we have, you know, overall in this state with
19 the investor-owned utility funding serving a small
20 portion of those eligible. And so we want to know more
21 about how we can be reaching those who have not
22 participated in the program to better inform both the
23 program structure as well as the outreach associated
24 with that.

25 So I think we're certainly -- this is not an

1 exhaustive study on equity, but it does -- it will focus
2 on those not being served, which I think is the core to
3 the equity discussion in particular. And so while we're
4 using those previous studies as kind of benchmarks or
5 baselines for -- for this work, I think, you know, the
6 continued discussion about equity, particularly related
7 to CETA, does -- it will play a role, though. This
8 study's certainly not a -- as I mentioned, it won't be
9 exhaustive, it won't be the end of that discussion.

10 CHAIR DANNER: When you say won't be
11 exhaustive, is it that there are some areas that -- what
12 are you -- what are you going to exclude by design or is
13 it just that you're not going to be able to go as deep
14 on all of the areas as you would like?

15 MR. COLLINS: Yeah, I think the -- probably
16 the latter. In terms of the analysis that this study's
17 going to provide, it's going to be geographic areas
18 where there are underserved communities, there will be,
19 you know, analysis of energy burden reduction. You
20 know, with -- not going into more qualitative analysis,
21 you know, looking at best methodologies for reaching
22 underserved communities, you know, some of those, I
23 guess, more advanced probably surveys of customers, that
24 type of analysis has been -- not what is being proposed
25 here.

1 I mean, certainly would be open to including
2 that, but in terms of what we have here in front of you
3 with the settlement, we're looking at some of the more
4 quantitative analysis rather than the deeper qualitative
5 here.

6 CHAIR DANNER: All right. Thank you.

7 I see Mr. Dahl has his hand up.

8 MR. DAHL: Yeah, I just wanted to tag onto
9 Shawn's comments about the -- the needs assessment here.
10 Yeah, I do think that the previous utility studies are a
11 bit of a guidepost, but it's my understanding that
12 this -- the assessment will be developed in consultation
13 with the advisory group.

14 And so there is -- there is some leeway and
15 ability for members of the advisory group to help design
16 exactly what the needs assessment will look at. If the
17 Commission is interested in including a particular view
18 towards the equity impacts of the current programs and,
19 you know, where there are areas of improvement that, you
20 know, the group and the utilities should look toward
21 filling in those gaps, that that is something that
22 Public Counsel strongly supports and is definitely
23 something that's in the public interest.

24 Of course -- I'm going to add on here -- as
25 everyone's aware, Public Counsel is not a party to the

1 settlement, but the low income-related terms were among
2 those that we identified as -- as something that were
3 positive in our view.

4 CHAIR DANNER: So there are a number of
5 areas that we have discussed internally, I'm just
6 wondering if I were to run through a laundry list you
7 could tell me -- maybe this is for Mr. Collins -- you
8 know, if this is something intended to cover. For
9 example, assessing language access and the need for more
10 languages.

11 MR. COLLINS: That is certainly an issue
12 that we are concerned with. In terms of the -- what has
13 been submitted in the settlement for examples of topics
14 to cover, that's not included. I think -- well, I will
15 say, recent conversations with Northwest Natural have
16 indicated that they're in the process of preparing an
17 RFP for this effort. So I do think that this
18 conversation -- and there is time to include these
19 elements in there. But to my understanding, that
20 particular topic is not discussed at this -- at this
21 time.

22 CHAIR DANNER: All right. But would there
23 be an opportunity to make that part of the discussion
24 going forward?

25 MR. COLLINS: I believe so, and I'd

1 certainly defer to -- to the Company to -- to
2 Mr. Kravitz to answer that.

3 CHAIR DANNER: All right. Well, I'm not
4 going to go through a laundry list. I just -- I think
5 that we will have advisory group that's going to be
6 participating in this, I hope. So I will leave it at
7 that.

8 MR. COLLINS: Okay.

9 JUDGE DOYLE: Okay. And if that is all from
10 the great program and the evaluation, let's go ahead and
11 move on to issues relating to the revenue requirement
12 for year one and year two. And I believe Commissioner
13 Balasbas will start us off with that.

14 COMMISSIONER BALASBAS: Yes, thank you,
15 Judge Doyle.

16 So in the -- so we understand in the
17 settlement agreement that the year one revenue
18 requirement is \$5 million, but in column C in attachment
19 2 of the settlement agreement, it shows a revenue
20 requirement of about five and a half million dollars
21 with what looks like to be a corresponding half a
22 million dollar EDIT amortization credit to offset that
23 five and a half million.

24 So I have a series of questions probably
25 directed at you, Mr. Walker, about these pieces here.

1 So if you could bear with me and I'll tick through them
2 here.

3 So let's start with, what is the actual year
4 one revenue requirement?

5 MR. WALKER: Thanks for the questions. This
6 is Kyle Walker for the record. The actual would be net
7 of that EDIT amount, so it would be the \$5 million. The
8 reason we separate that column out from ratemaking is
9 because it's on a separate adjustment schedule so we can
10 track that through time. Because as in this case, it
11 actually changed slightly from our last rate case by a
12 minimal amount of 25,000 to keep us within kind of those
13 parameters of generally accepted accounting principals.
14 So that -- that's why we have it kind of as a separate
15 column, but the net, like I said, would be 5 million.

16 COMMISSIONER BALASBAS: Okay. But just to
17 clarify, before the netting of the EDIT credit, it is
18 five and a half million is what we were talking about?

19 MR. WALKER: Yes, but in our filed case, the
20 EDIT credits were already included, so really it's kind
21 of more of a ratemaking kind of separate kind of in the
22 weeds analysis, if you will.

23 COMMISSIONER BALASBAS: Okay. All right.
24 And then if you could provide just a brief summary of
25 the EDIT credit such as over how many years is it being

1 amortized and are the amounts related to protected or
2 unprotected or a little bit of both?

3 MR. WALKER: Yeah, absolutely. So in our
4 last general rate case a couple years ago, we did
5 identify the dollar amounts that were needed to get back
6 to customers via credits. And in that rate case, we
7 determined there were no unprotected and the only
8 credits to go back to customers were protected. So
9 that's all we really have for Washington customers is
10 the protected EDIT.

11 And from there, the amortization amount,
12 it's pretty long in nature. I don't know the exact
13 amount. It's related to the underlying assets, but as
14 you can imagine, our -- our protected EDIT, the plans
15 associated with that, is kind of longer lived assets.
16 So our tax team is constantly monitoring this to make
17 sure that the credits that we're giving back to
18 Washington customers are within the parameters of a --
19 that ARAM methodology.

20 COMMISSIONER BALASBAS: Okay. Thank you.
21 So why does -- why do we not, then, see an EDIT
22 amortization credit in the year two revenue requirement
23 as part of the \$3 million cap?

24 MR. WALKER: Yeah, it has to be vetted in
25 there. And it kind of flows through, you know, after

1 the year one, it stays within rates. We don't propose
2 to remove those amounts. So it was actually kind of
3 imbedded in the 3 million.

4 COMMISSIONER BALASBAS: Okay. All right.
5 Okay. I believe I am following you on that.

6 And then so then -- so since the settlement
7 revenue requirement, my understanding and our
8 understanding, is that's not a black box for the revenue
9 requirement piece here. So would the settling parties
10 provide the Commission with a fully functional
11 settlement revenue requirement model that separately
12 states the year one -- I'm sorry, that separately states
13 the year two revenue requirement, you know, with all of
14 those provisional pro forma adjustments?

15 MR. WALKER: So my -- my understanding is
16 that I would say that the revenue requirement is a black
17 box. That being said, I can produce a revenue
18 requirement model that would have the adjustment to
19 where the revenue requirement would be 5 million in year
20 one and 3 million in year two. But I do think that, you
21 know, there's -- there's a lot of different aspects of
22 the revenue requirement and all the settling parties
23 have different views on that. So I think the 5 million
24 and 3 million is a settled negotiated revenue
25 requirement amount that can't be tied to any specific

1 item if that makes sense.

2 COMMISSIONER BALASBAS: It does. I see
3 Mr. Kravitz nodding, and I would assume from the other
4 parties, maybe Mr. Ball or Mr. Mullins, then, you would
5 agree with Mr. Walker's statement that revenue
6 requirement is a black box?

7 MR. MULLINS: This is Brad. Yes, we
8 would -- we would agree with that. You know, we had our
9 sort of own adjustments that we kind of used to get to
10 that level, but those weren't specifically identified in
11 the -- in the settlement, so...

12 MR. BALL: This is Jason. I also would
13 agree.

14 COMMISSIONER BALASBAS: Okay. All right.
15 Thank you. I -- at this point, I do not have any other
16 questions on this topic, Judge Doyle, unless my
17 colleagues do.

18 JUDGE DOYLE: Okay. Great. Then -- oh, go
19 right ahead. Pardon me.

20 CHAIR DANNER: I was -- I don't have any
21 questions.

22 COMMISSIONER BALASBAS: Okay. So then maybe
23 moving to the year one pro forma plant topic, and I
24 believe this may -- I think we maybe just discussed this
25 a little but -- and this is a question to any of the

1 settling parties here is, why does the revenue
2 requirement in year one not specify all of the
3 investments proposed by Northwest Natural? I mean, I'm
4 just curious to understand why it's specified in year
5 two but not in year one?

6 MR. MULLINS: Well -- this is Brad with
7 AWEC, and I can just jump in, I guess, a little bit.
8 So, you know, at the time we were doing the settlement,
9 I think with the exception of this, you know, the -- the
10 Mist, some of the Mist project that was discussed
11 earlier today, you know, all of the -- all of the
12 projects were -- were in service or going to be in
13 service. And so, you know, at least when we looked at
14 the revenue requirement, we -- we considered those as
15 being included in the revenue requirement.

16 As to why, you know, we didn't specify
17 whether they were included or not, you know, I guess I
18 don't have a good -- good reason for, you know, why we
19 didn't specify them -- specify them as being included or
20 not. You know, but I think the -- at least from our
21 perspective, you know, they -- they are included, and I
22 think that, you know, Mr. Kravitz has -- has mentioned
23 that he would -- is going to file an attestation on, you
24 know, the one project that has not been placed in
25 service.

1 So I think we were -- we were comfortable
2 with the list of projects, which is why we -- I reached
3 that term. So I will turn it over to others if they
4 have other comments.

5 COMMISSIONER RENDAHL: So, Commissioner
6 Balasbas, can I jump in here for a minute? So there is
7 an Excel format of the attachment 1 to the settlement
8 agreement that identifies all of the year one pro forma
9 investments. And so I guess that was the curiosity is
10 if -- if that attachment listed all of those pro forma
11 plant and year one, why the revenue requirement was a
12 black box, but understand that there are other things
13 that go into a revenue requirement other than plant. So
14 maybe -- Mr. Walker is nodding his head, maybe you can
15 address that issue?

16 MR. WALKER: Sure, I can give you my
17 thoughts on that. Thank you for the question. The way
18 that I look at it is in year one especially it calls
19 into play also all of the O & M expenses, the rate of
20 return to the shareholders, so all of that is considered
21 the revenue requirement. Now, all the parties to this
22 settlement, you know, they have different views and they
23 look at things differently, so we thought that given all
24 of that, the \$5 million was a reasonable kind of ending
25 point.

1 It's hard when you get into year one versus
2 year two because year two, the Company really only asked
3 for kind of those eight projects plus a little bit of
4 O & M for our ITNS project, Horizon 1.

5 So the year one is -- the scope of year one
6 is much larger because there comes -- there's a lot more
7 in play with the revenue requirement than year two.

8 COMMISSIONER RENDAHL: Okay. Thank you. I
9 think that helped clarify. So there is specificity to
10 the capital projects that are included in year one, but
11 the revenue requirement as a whole is a black box, so
12 that makes sense. Thank you.

13 MR. WALKER: Sure.

14 COMMISSIONER BALASBAS: Yes, thank you,
15 Commissioner Rendahl, for that -- that clarification,
16 and that was a helpful -- that was a helpful response.

17 At this point, unless my colleagues do, I do
18 not have any other questions in this -- in this topic
19 area.

20 COMMISSIONER RENDAHL: No, especially since
21 the Company's agreed to provide the bench request with
22 the in-service dates of those year projects, I think
23 that addresses some of the questions we had.

24 JUDGE DOYLE: Okay. Did we want to discuss
25 any of the issues related to Horizon 1 operating and

1 maintenance cost as well, then? Do you feel that's
2 covered?

3 CHAIR DANNER: So yeah, I want to just be
4 crystal year on this one. Again, getting back to the
5 used and useful policy statement, you know, it addresses
6 capital costs, but it doesn't address the recovery of
7 provisional O & M expenses. And for the Horizon 1
8 O & M expenses, just basically are we going to be able
9 to deal with those if they don't materialize? Is it the
10 same process for the capital additions?

11 MR. KRAVITZ: Yes, and this is Zach with
12 Northwest Natural. Yes, the settlement agreement we
13 were really focused on the capital pieces, but you made
14 a great point. We did include O & M associated with our
15 Horizon project, and -- and we do intend to -- in that
16 year two review process to also demonstrate that -- that
17 we are -- that -- that those -- that O & M is known and
18 measurable and -- and demonstrate the prudence of the
19 decisions we made in relation to our choices for -- for
20 really it's a lot of software expense for the project.
21 So we will bring that forward as well.

22 CHAIR DANNER: All right. Thanks.

23 MR. BALL: This is Jason. If I could just
24 add one other thing to that is, part of the rationale
25 for including the O & M expenses is because these are

1 software packages and principally built around a lot of
2 IT infrastructure, O & M is very intricately related to
3 those types of projects. And we wanted to make sure we
4 were capturing closest as possible the direct benefits
5 and the direct costs that were associated with it.

6 So by including the O & M in there, we are
7 also capturing a lot of the savings that these projects
8 are going to produce for the Company and for ratepayers.

9 JUDGE DOYLE: Okay. If that's all the
10 Commissioners have for this line of issues, looks like
11 we have questions related to the rate mitigation, and I
12 believe, Commissioner Balasbas, would you like to begin?

13 COMMISSIONER BALASBAS: Sure, unless my
14 colleagues would like to jump in here on any of these?

15 Okay. All right. So as one of the three
16 rate mitigation proposals -- rate mitigation proposals,
17 the settling parties are agreeing to suspend the
18 amortization of the regulatory asset related to the
19 energy efficiency program. So I'd just like anyone who
20 would like to answer this just to clarify if the
21 settlement is agreeing to suspend just the amortization
22 for year one and then spread that out over both rate
23 years or is it for both years one and two?

24 MR. KRAVITZ: Kyle, you want to take that
25 one?

1 MR. WALKER: Sure. Yeah, so the proposal
2 here in the settlement is to suspend, which the annual
3 amortization is about 1.4 million, and suspend that and
4 basically stretch that 1.4 million over the two years.
5 So essentially you're suspending the amortization for
6 two years, both year one and year two, but the benefits
7 would be half of the 1.4. So, you know, a little over
8 700,000 per year.

9 COMMISSIONER BALASBAS: Okay. All right.
10 Okay. And then so then maybe just a short follow-up, so
11 will the suspension of year one, then, impact the rates
12 in year two?

13 MR. WALKER: It would not because that
14 suspension would stay in place versus if you were going
15 to remove that, then essentially would feel like an
16 increase to rates if you took away or you basically
17 would be starting to amortize an asset back. So it
18 effectively doesn't change from year one to year two,
19 but by keeping it there it doesn't change. If you had
20 it only in year one, then year two you would see a rate
21 increase.

22 COMMISSIONER BALASBAS: Okay. Thank you.
23 That is all I have here on that particular piece.

24 COMMISSIONER RENDAHL: Just a follow-up. So
25 this is just for the two-year period of the rate plan,

1 and going forward, there's no carryover of the amount
2 that wasn't recovered from that suspension of the year
3 one and spreading over year two, it's just encapsulated
4 within that two-year period?

5 MR. WALKER: Right. And then it would
6 revert back to full amortization in that year after year
7 two. So we still need to recover the regulatory assets
8 that was created from the last rate case. So this is
9 simply just suspending that to help reduce the rate
10 impact to customers for year one and year two and then
11 after that, amortization would resume.

12 COMMISSIONER RENDAHL: But with that
13 amortization resuming, it's not going to increase the
14 amount, then, to customers in future years, is it? Or
15 is it -- so I'm just curious what the impact is going
16 beyond this two-year period if you're suspending now,
17 then obviously it might increase later?

18 MR. WALKER: Yeah, that's correct. It would
19 then increase later through a temporary rate because
20 this is -- this is not associated with base rates. This
21 is simply a temporary until we fully amortize that
22 deferral that essentially was created from the last rate
23 case.

24 COMMISSIONER RENDAHL: Okay. Thanks.

25 MR. BALL: This is Jason. I just want to

1 make sure our answers were abundantly -- were very clear
2 there. It's basically just pushing the amortization two
3 years and putting a delay in the middle.

4 MR. WALKER: That's correct. That's my
5 understanding.

6 COMMISSIONER RENDAHL: Okay. Thanks.

7 JUDGE DOYLE: All right. If that's
8 everything on that topic, I believe we just have one
9 last issue relating to the accounting petition
10 UG-200995, the petition for depreciation and
11 amortization of rates for the investment of certain
12 software.

13 CHAIR DANNER: I'll take this one. So
14 basically ten years -- an amortization schedule of ten
15 years, which is what you have for the project's expected
16 life cycle, seems a bit long for IT-related systems.
17 Does the agreement between the Company and the cloud
18 computing provider include the option for system and
19 software upgrades that may be required within those ten
20 years?

21 MR. KRAVITZ: So the -- the -- let me start
22 with the accounting for that -- the cloud assets
23 associated with Horizon, they start -- the Horizon
24 project, which is SPA, they start with that without
25 making this change for ten years the initial software

1 life. So it's rather short. Could be between three and
2 five years. We -- we requested the -- the lengthier
3 period so that really for -- to mitigate some of the
4 impact of this because it is a substantial project and
5 we wanted to extend it.

6 As part of such a large overhaul at our
7 company, it -- we do intend to use this service for ten
8 years, and so we do think it will be useful for that
9 full ten years. And as we move forward, I think the --
10 any upgrades or packages associated with that, we
11 would -- we would do those things to keep the system
12 current, but the length of this initial investment that
13 we're bringing in, we -- we -- we want to hold ourselves
14 to getting the most out of such a big project and extend
15 it for that ten-year life.

16 CHAIR DANNER: Okay. You're not concerned
17 about the software being obsolete after a few years
18 or -- you're feeling pretty good about it?

19 MR. KRAVITZ: We -- we are -- we are feeling
20 good about it. It is such a -- a -- a significant
21 overhaul of our existing system. It is a -- a large
22 transition affecting the entire company that it is
23 really something that we do intend to use for -- for a
24 decade. And it's also, you know, part of moving to the
25 cloud -- I'm sorry, Chair Danner, did you want to jump

1 in?

2 CHAIR DANNER: What's the length of the
3 service contract; is it ten years?

4 MR. KRAVITZ: No, the length of the service
5 contract would not be initially. It would be -- it's
6 shorter. It's in the three to five range, and there may
7 be multiple different cloud components where we're
8 signing contracts that would be a bit shorter in length.
9 But all of those cloud assets we would extent to that
10 ten-year timeframe. And that reflects also the prior
11 SIT system the life of that that we had, which was
12 roughly ten years, maybe a bit longer.

13 CHAIR DANNER: And then my -- another
14 question I have, this is really a larger general
15 question is, what in these contracts is capital and what
16 is O & M? I know there's software that needs to be
17 developed, it might be a capital, but I mean, you've got
18 a contract for cloud computing services, wouldn't that
19 be more in the O & M category?

20 MR. KRAVITZ: Yes, and a lot of the
21 implementation for this project, so we -- it is -- we
22 would capitalize it whether it's cloud-based or whether
23 it's on prem, and we still have some on-premises
24 technology associated with this move. And then a lot of
25 the ongoing software contracts beyond the implementation

1 phase, but ongoing software contracts would be
2 O & M.

3 And -- and those are -- are as Mr. Ball was
4 describing, I think, they are new to us, they reflect
5 what would otherwise would have likely been capital
6 historically, it's -- it's moving over to -- to an
7 expense line, and it's -- it's quite lumpy in nature as
8 a result of that. And so by capturing some of it, the
9 step-ups and O & M, it's not like kind of the
10 inflationary escalation that we see with some of our
11 other O & M, but these are kind of chunks, and that's
12 why we wanted to ensure that that was also brought
13 forward as part of year two. Kyle -- oh, go ahead,
14 Chair.

15 CHAIR DANNER: No, that's all right. Go
16 ahead, finish.

17 MR. KRAVITZ: Well, I was going to offer the
18 floor to Kyle to -- who actually is a CPA and let him
19 maybe add anything to the statements that I made.

20 CHAIR DANNER: Well, before we do that, just
21 let me complete my follow-on with this. So the contract
22 for the cloud services, even though you may have in the
23 past done that kind of stuff in house rate base but now
24 it's being done through a third party provider, and is
25 that still being deemed to be a capital expenditure even

1 though it's being provided by an outside vendor or is
2 that -- is that simply an O & M expense at this point?
3 In other words, would we need rate basing services
4 provided by a third party?

5 MR. KRAVITZ: So the third party -- so we
6 have system integrators that -- that are -- are coming
7 in and helping us with the implementation of -- of the
8 project. And they are -- all of that implementation
9 work would still remain capital, although it's on a
10 different life than it otherwise would be on prem.

11 Kyle, you want to jump in with -- with any
12 of the software, specifically answer Chair Danner's
13 question?

14 MR. WALKER: Yeah, I can give you a little
15 bit more color, especially on the breakdown of the
16 costs. We do have internal folks that are obviously
17 experts in this area on how to classify this from an
18 accounting perspective. As Zach mentioned, I'm a CPA,
19 but this is not my expertise. But what -- what we have
20 in the case and how we broke down the Horizon 1 project,
21 is it's about 8.2 million in capital that would be
22 allocated to Washington, and then the ongoing O & M
23 costs would be about 460,000. And that's net of the
24 O & M savings that we've discussed, you know, earlier in
25 the hearing. And that capital of the 8.2 includes both

1 cloud and on prem. That's kind of the full bucket, if
2 you will.

3 CHAIR DANNER: So, again, my question is
4 really, you know, the cloud computing services for which
5 you are contracting to a third party, it sounds like you
6 are identifying those as capital; is that correct?

7 MR. WALKER: There's definitely some parts
8 that are capital for sure, and then there would be some
9 pieces that are O & M.

10 CHAIR DANNER: And so what is the
11 justification for those that are being classified as
12 capital since this is not really something that you're
13 building, it's something that you're contracting for
14 that is living outside, it's kind of an off-the-shelf
15 service, why wouldn't that be an O & M expense?

16 MR. WALKER: Well, there is substantial
17 costs that are incurred from the implementation team,
18 and those costs are generally capitalizable. That's
19 where the 8.2 million is generally coming from for those
20 pieces. And so I mean, I wouldn't say it's necessarily
21 off the shelf. There's a lot of things that need to
22 happen to make sure that it integrates with Northwest
23 Natural's systems if they need to integrate with them.
24 So there is some customizing to this project, so I
25 believe those would be capital.

1 MR. KRAVITZ: And but one thing I want to
2 make clear is that the decisions between capital O & M,
3 I mean, that decision we're following GAAP. It's --
4 it's the request to extend the life to ten years that --
5 that -- that is the reason for the accounting order. So
6 to the extent, Chair, you want additional -- I apologize
7 for offering -- maybe offering this if you didn't want
8 it -- but follow-up in terms of the GAAP analysis of --
9 of capital versus O & M, we are -- we are happy to
10 provide that if -- if necessary.

11 So I just wanted to make that point clear
12 that we are aren't trying to introduce a new kind of
13 regulatory of principal around whether to capitalize
14 O & M. We are purely following GAAP.

15 CHAIR DANNER: All right. No, that's
16 helpful. What I didn't want to have is some kind of
17 precedent where we are doing this. And I know that this
18 has been a discussion in some national forums. But I --
19 I am just concerned that you're not rate basing
20 expenses. And so I also wanted to make clear that we're
21 not wanting to establish some sort of the precedent in
22 this settlement going forward that we're doing that. So
23 your answers are -- are -- we will take this under
24 advisement. Thank you. I have no further questions.

25 JUDGE DOYLE: I think with that, we have

1 gone through all of the issues. Oh, looks like,
2 Mr. Collins, did you want --

3 MR. COLLINS: I want to just follow up with
4 the previous questioning from Chair Danner. Wanted to
5 make Energy Project available to utilize the list of
6 areas that the Commission was interested in seeing in
7 the study, and so wanted to see what the best way for
8 accessing that and including that in the low income
9 analysis.

10 CHAIR DANNER: Mr. Collins, honestly just,
11 you know, work with the advisory groups.

12 MR. COLLINS: Okay. Okay. Thank you. I
13 appreciate that.

14 JUDGE DOYLE: Okay. Thank you so much. All
15 right. Well, that concludes our questioning. Thank you
16 to the panel of witnesses. We appreciate you being here
17 and giving testimony. Is there anything further from
18 counsel at this point with respect to the settlement
19 agreement? And go ahead, Mr. Callaghan.

20 MR. CALLAGHAN: Thank you, Your Honor. I
21 just wanted to quickly offer, there have been a lot of
22 questions regarding the legal process that was proposed
23 in the settlement as well as the consistency with used
24 and useful policy statements. I wanted to make sure
25 that the Commissioners' questions and any concerns that

1 they had were fully addressed. So I don't want to offer
2 to create extra work for anyone else, but if the
3 Commissioners have any concerns or questions related to
4 those topics, I would just volunteer myself to provide
5 some kind of written response if that's something that
6 they would be interested in.

7 COMMISSIONER RENDAHL: So speaking for
8 myself, I have no further questions. I think the
9 discussion this morning has been very extensive on both
10 of those, and I have nothing further that I need, but my
11 colleagues may.

12 CHAIR DANNER: No, not at this time. And,
13 Mr. Callaghan, of course we know how to reach you and
14 all the other lawyers, so we will do so if we need to.

15 COMMISSIONER BALASBAS: And I agree with
16 that as well.

17 JUDGE DOYLE: Okay. And I saw that we've
18 got a couple raised hands here. Let's see here,
19 Ms. Gafken, I believe yours was up first if you want to
20 go ahead.

21 MS. GAFKEN: Yes, thank you. At the top of
22 the hearing, I had indicated in my opening comments that
23 Public Counsel may need to change their position from
24 being neutral to maybe perhaps being opposed based on
25 some of the ongoing developing information that we might

1 hear during this hearing. I have not heard anything
2 that would take me out of the neutral stance,
3 particularly since the Company did confirm on the record
4 that all of the year one projects aside from the Mist
5 300, 400 compression project have gone into service. Of
6 course, we'll be interested in looking at the response
7 to the bench request for those in-service dates, but at
8 this time, Public Counsel does remain neutral on the
9 settlement. Thank you.

10 JUDGE DOYLE: Great. Thank you for that
11 follow-up.

12 And, Ms. Pease, it looks like you also would
13 like to --

14 MS. PEASE: I -- thank you, Your Honor. I
15 did, but actually Ms. Gafken's statement has clarified
16 the question that I had. So I appreciate that. Thank
17 you.

18 JUDGE DOYLE: Great. Thank you both.

19 So with that, I just want to repeat the
20 bench request one last time for the benefit of the
21 parties, and that was BR-1, that the public comment
22 exhibit will be in on the close of business on
23 August 30th, 2021, next Monday, and that the service
24 dates of the year one projects will be Bench Request 2,
25 BR-2. When can the Company file those by?

1 MR. KRAVITZ: Hi, this is Zach. I -- I
2 think we can get this filed by the end of the week if
3 that works?

4 JUDGE DOYLE: Okay. So I believe that's the
5 27th?

6 MR. KRAVITZ: I have no reason to disagree,
7 but I'm not looking at the calendar.

8 JUDGE DOYLE: Okay. Great. So we will make
9 those due Friday, the 27th, at close of business as
10 well.

11 And if there's nothing else, I think that
12 concludes today's settlement hearing. Thank you
13 everyone, and we'll adjourn and be off the record.

14 (Adjourned at 11:24 a.m.)

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C E R T I F I C A T E

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STATE OF WASHINGTON
COUNTY OF THURSTON

I, Tayler Garlinghouse, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript is true and accurate to the best of my knowledge, skill and ability.

Tayler Garlinghouse



Tayler Garlinghouse, CCR 3358