

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
Complainant,

v.

NORTHWEST NATURAL GAS
COMPANY,

Respondent.

DOCKET UG-18____

NORTHWEST NATURAL GAS COMPANY

Direct Testimony of David H. Anderson

POLICY

Exh. DHA-1T

December 31, 2018

DIRECT TESTIMONY OF DAVID H. ANDERSON

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1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Please state your name and position with Northwest Natural Gas Company**
3 **(“NW Natural” or “the Company”).**

4 A. My name is David H. Anderson. I am the President and Chief Executive Officer of
5 NW Natural.

6 **Q. Please summarize your educational background and business experience.**

7 A. I received my Bachelor’s degree in Accounting from Texas Tech University. I am a
8 Certified Public Accountant (retired) in Oregon, Washington, and Texas. I have
9 spent over 30 years in the energy and utility industries. I joined NW Natural in 2004,
10 and became Chief Executive Officer in 2016. Prior to being CEO, I held positions
11 including President and Chief Operating Officer, Executive Vice President and Chief
12 Operating Officer, Executive Vice President of Operations and Regulation, and
13 Senior Vice President and Chief Financial Officer. Prior to joining NW Natural, I
14 worked for TXU Corporation (formerly Texas Utilities Corporation) for 16 years,
15 where I held various management and executive positions including Vice President of
16 Investor Relations and Shareholder Services, Senior Vice President and Chief
17 Accounting Officer, and Senior Vice President and CFO of TXU Gas.

18 **Q. Please summarize your testimony.**

19 A. In my testimony I:

- 20 • Describe NW Natural’s overall operating environment, as well as the Company’s
21 current efforts and goals; and

- 1 • Provide a high-level overview of the Company's application for a general rate
2 revision.

3 **II. NW NATURAL'S OVERALL OPERATING ENVIROMENT,**
4 **CURRENT EFFORTS, AND GOALS**

5 **Q. Please describe the business of Northwest Natural.**

6 A. NW Natural has provided gas service in the Pacific Northwest for 159 years.
7 Currently, NW Natural provides natural gas service as a local distribution company
8 operating in Oregon and Southwest Washington. In the State of Washington, we
9 provide service in 15 cities and neighboring communities in three southern
10 Washington counties. We have approximately 84,000 customers in Washington,
11 which accounts for about 11 percent of our total customer base.

12 **Q. As Chief Executive Officer, can you please describe NW Natural's goals as a**
13 **company?**

14 A. NW Natural strives to operate a safe and reliable gas distribution business, while
15 maintaining strong customer satisfaction, low rates for customers, financial strength,
16 and being true to our core values.

17 **Q. Can you please describe NW Natural's core values and describe how the**
18 **Company demonstrates those values?**

19 A. NW Natural's core values include: Safety, Integrity, Service Ethic, Caring, and
20 Environmental Stewardship. Each of these values have current initiatives and efforts
21 associated with them. I describe a few of those initiatives and efforts to provide
22 background on the Company's current operating environment.

1 **Safety**—NW Natural’s highest priority is to deliver our product safely and
2 reliably to our customers. We have one of the most modern systems in the country,
3 in large part due to the proactive work of our system integrity team that have worked
4 to replace all of the bare steel and cast iron piping through our entire distribution
5 system. As discussed in the testimony of Joe Karney, Director of Engineering - Field
6 Operations, we stay focused on what we can do to keep our system safe for customers
7 and employees, and are continually engaged in efforts to make our system even safer.
8 For example, we are looking at how we can establish a broader utilization of Excess
9 Flow Valves throughout our system. These valves automatically shut off a gas
10 service when pressures indicate that a line breakage or other gas leak may have
11 occurred. We currently install these devices on all new services, and offer them at
12 cost to customers that have existing services. However, we are developing a plan to
13 further facilitate installations on existing services, on an accelerated basis. We do not
14 have a regulatory request at this time, but are looking forward to collaboratively
15 engaging with the WUTC and other interested parties on this important topic.

16 **Service Ethic and Caring**—NW Natural strives to thoughtfully serve our
17 customers and community. We want to be connected with our customers and
18 responsive to their needs and their expectations of a modern utility. We seek to
19 ensure that our facilities are functional and sound, so that we can provide quality
20 service to our customers and efficient working spaces for our employees. We are
21 immeasurably proud of our emergency response crews that keep the public safe, and

1 much of their life-saving response efforts have been credited to the training they
2 receive at our training facilities.

3 In particular, our Sherwood Facility is a multi-purpose facility that meets
4 three functional business needs: (1) an integrated operations facility (2) a field and
5 inside training center and (3) a business continuity center. The training facility
6 provides a training space for field operations and service employees that
7 accommodates a variety of training methods, including classroom, practical, and
8 scenario-based training. NW Natural has also expanded its emergency response
9 training program, as this integrated facility allows for joint NW Natural and fire
10 department training and coordination using live gas in a controlled environment,
11 which has resulted in an improved joint response to gas emergencies.

12 I am proud of the devotion to our customers that the Company exhibits on a
13 daily basis. This ethic is instilled in all of our employees, and we are always
14 appreciative of our customers when our efforts to provide excellent service are
15 recognized. As an example, for the sixth year in a row, NW Natural has received the
16 highest score for large utilities in the West in the 2018 J.D. Power Gas Utility
17 Residential Customer Satisfaction Study. We also posted the third highest score in
18 the nation in 2018. Now in its 17th year, the study measures residential customer
19 satisfaction with natural gas utilities across six factors: safety and reliability, billing
20 and payment, price, corporate citizenship, communications and customer service.
21 2018 was the ninth time in 12 years that the company has ranked first in the West.

1 **Environmental Stewardship**—NW Natural has long held environmental
2 stewardship as one of its core values. This has taken many forms, including a strong
3 commitment to energy efficiency, establishing a voluntary carbon offset program that
4 our customers can participate in (Smart Energy), and our commitment to responsible
5 cleanup of the Portland Harbor, where we have sought to limit costs to protect our
6 customers, and to provide leadership where doing so furthers an overall efficient
7 process. The direct testimony of Robert Wyatt, NW Natural’s Director of Legacy
8 Environmental Program, will detail our remediation efforts to date and provide an
9 update on the regulatory proceedings that the Company has actively participated in to
10 responsibly manage these efforts.

11 **Q. Has NW Natural undertaken any recent efforts to revisit its core values,**
12 **direction, or goals?**

13 A. Yes. In 2016, we undertook a “Strategic Plan.” In this exercise, we looked at several
14 aspects of the Company, in both the near-term as well as the long-term. We
15 specifically focused on five areas:

- 16 1. A Low-Carbon Pathway;
- 17 2. Constructive Regulation;
- 18 3. Enabling Growth;
- 19 4. Superior Customer Service; and
- 20 5. Workforce of the Future.

1 In this exercise, we confirmed our core values described above, and also our
2 commitment to providing safe, reliable, and affordable energy in an environmentally
3 responsible way to better the lives of the public we serve.

4 **Q. Can you elaborate more on the Company’s low-carbon pathway?**

5 A. NW Natural expects that climate change policy will continue to shape the
6 environment within which we operate. NW Natural believes that there is a climate
7 imperative, and we plan to be an industry leader on this topic. To advance this cause,
8 we have established a voluntary goal for our Company to create carbon savings
9 equivalent to 30 percent of the Company’s 2015 emissions by the year 2035. This
10 represents a major focus for NW Natural. We are calling this our “Less We Can”
11 initiative and more information about our low carbon pathway can be found at
12 <http://www.lesswecan.com>.

13 Additionally, as part of our Low Carbon Pathway, NW Natural hired Energy
14 and Environmental Economics (E3) to conduct an economy-wide deep
15 decarbonization study for Oregon and Washington, based on E3’s experience
16 pioneering this type of work in California and throughout the U.S. A key question
17 addressed in this study is how NW Natural’s system can be used to ensure reliable
18 energy on the coldest winter days while dramatically driving down greenhouse gas
19 emissions over the next three decades. The results of the study¹ show that natural gas

¹ https://www.ethree.com/wp-content/uploads/2018/11/E3_Pacific_Northwest_Pathways_to_2050.pdf.

1 will play a pivotal role in helping the region meet dramatic emission reduction goals
2 in the most affordable and reliable pathway.

3 To date, all “deep decarbonization” studies agree that getting to an 80 percent
4 carbon reduction goal by 2050 will be challenging and must involve using energy
5 more efficiently, ramping up renewable resources, electrifying passenger vehicles,
6 and aggressively developing biofuels, including renewable natural gas. But this is the
7 first time a closer look has been taken at how energy needs can be met to serve homes
8 and businesses on the coldest winter days in the Pacific Northwest. It is important to
9 remember that the natural gas system in the Pacific Northwest delivers more energy
10 than the region’s entire hydroelectric system. It’s a critical asset to lowering
11 emissions and it’s already in place.

12 The new research shows that by adding 25 percent renewable natural gas
13 (RNG) into the existing natural gas system and delivering it to heat homes directly
14 (versus using it to generate electricity), the region can achieve its climate goals
15 without a substantial build out of costly new power plants.

16 Again, we are leading on this important topic, and are convinced that we have
17 a vital role to play due to the fact that natural gas is an affordable clean-burning fuel.
18 Moreover, we are dedicated to working with our stakeholders to solve these complex
19 issues to protect the wondrous environment of the Pacific Northwest that we are
20 privileged to call our home.

1 **III. NW NATURAL'S APPLICATION FOR GENERAL RATE REVISION**

2 **Q. Can you please summarize the company's requested rate increase?**

3 A. NW Natural is seeking to increase revenues from base rates by \$8.3 million. The rate
4 increase requested in our application would result in approximately a 13.2 percent
5 increase to revenues collected from customers' base rates. The direct testimony of
6 Kevin McVay, NW Natural's Revenue Requirement Analytics Consultant, also
7 demonstrates that without the requested increase in base rates, NW Natural's gas
8 distribution utility would expect to earn a return of only 3.14 percent in the test year.
9 The Company, therefore, needs to increase its rates in order to maintain an ability to
10 earn a reasonable return that will allow it to attract the capital that is required to run
11 its utility system for the benefit of its customers. In light of the fact that the Company
12 has not raised rates for 11 years, the Company's requested increase equates to a just
13 over one percent increase in customers' bills per year over those 11 years.

14 **Q. Can you describe the growth in NW Natural's Washington service territory and
15 how the Company has responded to keep its system safe and reliable?**

16 A. Growth in Southwest Washington has solidly outpaced nearly all other areas of our
17 system over the last decade. The recent growth in Clark County, in particular, has
18 helped fuel the economic recovery in the region after the 2008 recession. We have
19 seen rapid development of commercial and residential projects in Southwest
20 Washington, which has driven customer growth for the Company. This development
21 has led to a 10 year annual average annual growth rate for residential and commercial
22 customers of 2.2percent.

1 As discussed by Mr. Karney in his direct testimony, the Company's
2 distribution system reinforcement projects over this period were in large part
3 developed to address the growth in Southwest Washington. These investments in
4 system reliability and safety have led to a significant increase in rate base since we
5 last changed rates. Additionally, as a result of customer growth and needed
6 infrastructure updates, we are currently planning a retrofit to our Vancouver service
7 center, which serves as a local hub for field work operations in Southwest
8 Washington. We expect this retrofit to be complete after the rate effective date in this
9 case and do not currently have a request for cost recovery of the retrofit in this rate
10 case.

11 **Q. Can you please comment on the considerations NW Natural undertook before**
12 **filing this general rate revision?**

13 A. As described above, NW Natural is committed to customer satisfaction, and
14 providing natural gas service at reasonable rates for customers. We understand that
15 natural gas plays a vital role in our customers' lives, and we do not take lightly the
16 prospect of a general rate case. These cases can cause customers concern, and any
17 significant increase in overall rates can present a financial hardship for some of our
18 customers. Rate cases also cause strain on the utility's resources and personnel.
19 Finally, we recognize that not all households and businesses have natural gas service,
20 and they have other options for serving their energy needs. This means that, even as
21 a regulated utility, we compete for business with other energy providers, and
22 therefore are always motivated to keep natural gas rates as low as possible while still

1 being able to provide excellent customer service, exceed safety standards, and
2 maintain financial
3 integrity as a Company.

4 We determined, however, that after 11 years of managing the Company
5 without a request to increase rates in Washington, NW Natural would file this
6 application with the Commission seeking to revise its rates to recognize an increased
7 revenue requirement related to its provision of utility service.

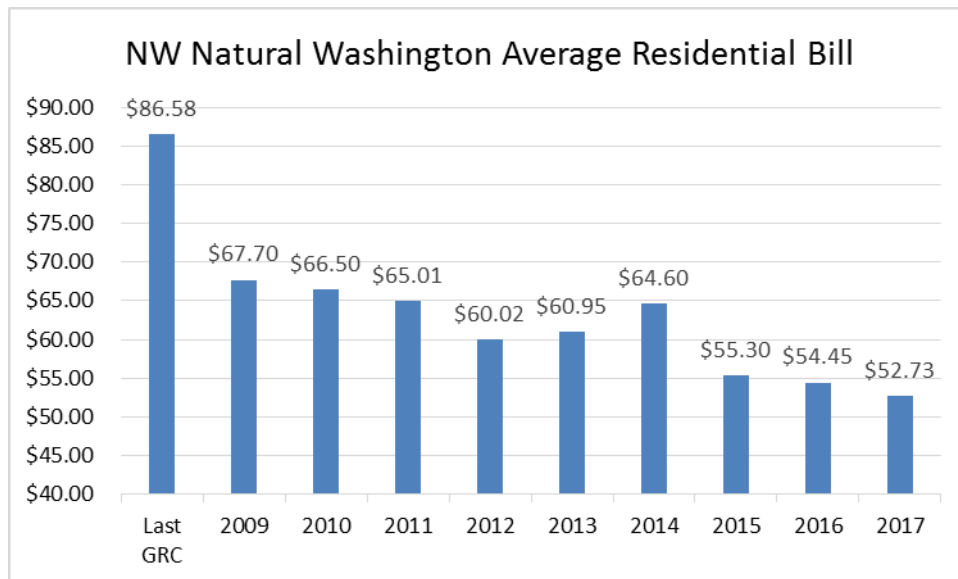
8 **Q. What factors have caused the utility a need to raise its rates?**

9 It is a combination of factors that has caused NW Natural to need to request a rate
10 increase. As noted above, we have made significant investments in our distribution
11 system to keep our system safe and reliable. Additionally, during the 11 years since
12 the Company's last rate case, inflation puts pressure on our operations and
13 maintenance (O&M) expense, which has increased over this period. We have also
14 borne increased O&M in order to retain and build our labor force needed to provide
15 utility service, and obtain the other resources necessary to address the myriad of
16 issues the utility is required to navigate in today's energy environment. As noted in
17 the testimony of Jorge Moncayo, NW Natural's Director of Budget and Planning,
18 NW Natural's "test year" O&M expense compares favorably on a per customer basis
19 to our peer utilities, and after adjusting for inflation and customer growth, our O&M
20 expense is essentially flat over the last decade.

21 **Q. Can you comment on customers' bills over the past several years, and how this**
22 **rate case may affect them?**

1 A. As stated above, NW Natural strives to provide quality service, and make the
2 necessary investments in our system, all while raising rates as infrequently as
3 practical. I wish we could do this without ever needing to raise rates because I know
4 that rate increases can be difficult for customers.

5 I am pleased, however, that NW Natural has managed to keep from raising
6 general rates for 11 years. I am also pleased that we have been able to provide
7 customers with not only stable, but decreasing overall rates for many years. Much of
8 this has come about because of decreasing natural gas commodity costs. And, NW
9 Natural has sought to manage its business in a way that allows us to avoid rate
10 increases when unnecessary. The chart below shows overall billing rates for the
11 average residential customer since our last general rate case effective January 1,
12 2009, and demonstrates that customers have been able to take gas service at rates that
13 have dramatically fallen.



14

1 As shown above, the average residential customer's bill has decreased by around 39
2 percent since our last general rate case. This fact is not the rationale for raising rates
3 in this application, but I point this out because it is relevant when evaluating the
4 impact on customers of the rates that they pay for natural gas.

5 **Q. Can you briefly describe the testimony provided by other witnesses in this**
6 **case?**

7 A. Thirteen other witnesses describe the various components of cost that demonstrate the
8 need for the requested rate increase.

9 **Brody Wilson**, Vice President, Treasurer, Chief Accounting Officer and
10 Controller, provides testimony about the Company's cost of capital. His testimony
11 provides information about the costs of the Company's short and long-term debt
12 during the Test Year. Mr. Wilson's testimony also describes the Company's balance
13 of financing the Company with debt versus equity from shareholder investments in
14 the Company. He explains that the Company continues to adhere to its policy of
15 balancing long-term debt and equity financing by targeting a 50/50 capital structure.
16 In the Test Year, however, the Company's capital structure included 2.93percent
17 short-term debt over a 13 month average. Mr. Wilson requests an adjustment to our
18 capital structure to reflect the fluctuations in short-term debt during the Test Year (as
19 low as 0 percent), and in response to a potential ratings downgrade associated with
20 the weaker cashflow metrics caused by the impending credit to customers of the net
21 benefits of federal tax reform.

1 **Bente Villadsen**, an outside expert on utility finance and required rates of
2 return for regulated companies, provides testimony about the Company's cost of
3 equity, or in other words, the return that investors in NW Natural should reasonably
4 expect to have the opportunity to earn. Her testimony provides an analysis of NW
5 Natural's cost of equity, and a range of return on equity that NW Natural should be
6 given the opportunity to earn in order to attract capital. Her testimony supports the
7 Company's request for approval to include a 10.3 percent return on equity in the
8 revenue requirement authorized in this proceeding (the mid-point of the range that
9 Ms. Villadsen has determined is reasonable for NW Natural's investors).

10 I also note that Ms. Villadsen provides additional testimony on the topic of the
11 risk presented to the local distribution company industry, and NW Natural
12 specifically, by climate change policies. I raise these risks because I think it is
13 important for the Commission and parties to understand the changing business
14 environment within which NW Natural operates, as well as the very real investment
15 that customers have made in NW Natural's system and the significant benefits from
16 that investment that our customers receive.

17 **Joe Karney**, Director of Engineering, provides testimony about some of the
18 major capital projects the Company has undertaken in order to keep our system safe,
19 reliable, and economical.

20 **Jorge Moncayo**, Director of Finance and Budget, provides testimony about
21 the operations and maintenance expense levels that the Company has been incurring

1 and expects to incur, as well as overall capital spending, for which it requests
2 recovery in this application.

3 **Melinda Rogers**, Vice President and Chief Human Resources and Diversity
4 Officer, provides testimony on our labor costs, and describes the Company's practices
5 related to compensation, which ensure that all employees receive compensation at
6 market-median rates. She sets forth the Company's request to include these costs in
7 the Company's revenue requirement.

8 **Kyle Walker**, Rates and Regulatory Analyst, provides testimony about the
9 Company's request for a decoupling mechanism that is in the public interest, and that
10 is consistent with other gas utility decoupling mechanisms in Washington.

11 **Andrew Middleton**, our consultant from Corporate Environmental Solutions,
12 LLC, explains historical manufactured gas operations as well as the Company's
13 operations that resulted environmental remediation obligations.

14 **Robert Wyatt**, Director of Legacy Environmental Program, provides
15 background of our environmental remediation efforts to date and describes the federal
16 and state environmental actions that define the scope of the Company's
17 environmental remediation obligations.

18 **Zachary Kravitz**, Director of Rates and Regulatory Affairs, describes the
19 proposed ratemaking treatment for environmental remediation costs incurred to date,
20 and he proposes a rate mechanism for future recovery of environmental remediation
21 costs.

1 **Amanda Faulk**, Accounting Manager, explains the Company's updates to its
2 Master Services Agreement and Cost Allocation Manual following the Company's
3 reorganization to form a holding company.

4 **Sean Borgerson**, Tax Director, provides background and context regarding
5 the effects of federal income tax reform. Mr. Borgerson provides calculations for the
6 Company's interim period deferral and excess deferred income tax deferral. Mr.
7 Borgerson also proposes amortization of these deferrals.

8 **Kevin McVay**, Revenue Requirement Analytics Consultant, provides the
9 calculation of the Company's revenue requirement, which represents the annual
10 dollars needed to recover prudently incurred costs of operating the utility business.

11 **Ron Amen**, an outside expert on utility cost of service studies and rate design,
12 provides the Company's cost of service study, and provides the proposed spread
13 across rates of the revenue requirement increase requested.

14 NW Natural seeks to continue to provide safe and reliable service, at
15 affordable rates for its customers. As described by these witnesses in greater detail,
16 the Company at this time seeks to revise its rates to reflect increasing costs, and
17 continued investment in its system. This application for a general rate increase is
18 important to the Company to maintain our financial strength, which is necessary to
19 continue to attract the capital, at favorable rates, to finance our utility operations.
20 Although rate increases can be difficult for customers, this rate increase is necessary
21 to ultimately benefit NW Natural's customers through maintaining the ability for the

1 Company to continue to operate a financially sound natural gas utility that will
2 continue to provide safe and reliable service.

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

4 **A. Yes it does.**