

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Complainant,

v.

NORTHWEST NATURAL GAS
COMPANY,

Respondent.

DOCKET UG-_____

NORTHWEST NATURAL GAS COMPANY

Direct Testimony of Melinda B. Rogers

COMPENSATION & BENEFITS

Exh. MBR-1T

December 18, 2020

DIRECT TESTIMONY OF MELINDA B. ROGERS

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1 **I. INTRODUCTION AND SUMMARY**

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

4 A. My name is Melinda B. Rogers. My title is Vice President, Chief Human Resources
5 and Diversity Officer. I am responsible for overseeing various administrative functions
6 at NW Natural, including Human Resources, Diversity, Equity and Inclusion, Safety,
7 Labor Relations, and Payroll.

8 **Q. Please describe your education and employment background.**

9 A. I received a Bachelor of Business Administration from Bryant University in 1987.
10 Prior to NW Natural, I was employed by the Atkinson Graduate School at Willamette
11 for three years as Director of Executive Education. Before joining Willamette, I served
12 as Vice President of Enterprise Learning and the Vice President of Human Resources
13 for four years at Knowledge Universe in Portland. I was employed in other senior
14 human resource roles and management positions at Qualcomm and Hewlett Packard
15 for 14 years prior to joining Knowledge Universe. I joined NW Natural in September
16 of 2015 and have been an officer for the Company since August of 2018.

17 **Q. Please summarize your testimony.**

18 A. In my testimony, I:

- 19 • Describe the Company’s compensation practices, which result in total
20 compensation that is at the market median for comparable companies;
21 • Describe the employee benefits program offered by NW Natural,
22 demonstrate that it is aligned with the market, and that the Company has
23 carefully managed benefits to ensure reasonable costs; and

- 1 • Describe the overall level of compensation and benefits costs included in
2 the Company's requested revenue requirement.

3 **II. NW NATURAL'S COMPENSATION PHILOSOPHY**

4 **Q. What is NW Natural's approach to determining the compensation it provides to**
5 **its employees?**

6 A. NW Natural's approach is to provide a level of total compensation that is necessary to
7 attract, motivate, and retain qualified employees needed to run a safe and reliable
8 natural gas delivery business, with good customer service and at a cost that is
9 reasonable. In order to do this, we determine and provide a competitive total
10 compensation package for the employees who we need to hire and retain.

11 **Q. Please explain what you mean by "competitive total compensation."**

12 A. Total compensation is the combination of base pay, merit-based incentive payments (or
13 "pay-at-risk"), medical benefits, and retirement benefits. Total compensation is
14 competitive when its total value is at the median level for total compensation offered
15 in the marketplace for comparable jobs. It is through offering a competitive total
16 compensation package that NW Natural is able to compete in the job market to attract,
17 hire and retain the employees it requires to run a safe, reliable, customer service-
18 focused gas utility.

19 **Q. How does NW Natural determine that its total compensation is at the median**
20 **level?**

21 A. As I will explain in my testimony, the Company performs research to ensure that each
22 aspect of its compensation is at the median level and is therefore competitive with the
23 compensation offered by its competitors for comparable jobs.

1 **Q. Are there established practices that allow you to be confident that you are offering**
2 **a competitive total compensation, and not more?**

3 A. Yes. There are well-established methodologies that we employ in order to ensure that
4 we offer competitive compensation, based on comparable jobs. I will describe those in
5 more detail in my testimony.

6 **III. BASE PAY**

7 **Q. You mentioned that “base pay” is a major component of offering competitive total**
8 **compensation. How are you defining base pay?**

9 A. Base pay is the guaranteed financial compensation provided to employees for the work
10 performed. It is delivered on either an hourly or salaried basis. Base pay excludes the
11 other important components of compensation (*e.g.*, pay-at-risk) that are not guaranteed
12 and are not paid on a regular interval but are nevertheless a critical component of
13 offering competitive compensation to attract qualified employees.

14 **Q. How does the Company determine its employees’ base pay?**

15 A. NW Natural purchases and regularly analyzes comprehensive survey data to ensure
16 that its base pay is aligned with the median of the market for comparable jobs with
17 other companies that would typically compete with NW Natural for employee talent.
18 NW Natural’s most recent analysis, as completed by the Company in 2019 is attached
19 as Exh. MBR-2. The analysis demonstrates that NW Natural’s base pay midpoints for
20 non-bargaining unit (“NBU”) jobs are at the median of comparable companies. This
21 well-established process confirms that NW Natural is offering an appropriate level of
22 base pay to its employees as a component of competitive total compensation.

1 For bargaining unit (“BU”) employees, total compensation—including base
2 pay—is determined through a negotiated process. The Company and the union that
3 represents BU employees—the Office and Professional Employees International
4 Union, Local 11, AFL-CIO (“Union”)—have jointly agreed to utilize selected market
5 survey data sources and union contracts, primarily of Northwest gas utility companies,
6 as the points of comparison for setting BU wage steps. Using the agreed-upon sources
7 of competitive pay data, the average is used to determine pay grades. Pay increase
8 trend data and union contracts are consulted when negotiating annual wage increases
9 throughout the term of the contract. As with any labor negotiations, trade-offs are
10 negotiated for other terms and conditions in the contract.

11 **Q. How does NW Natural determine competitive compensation for Company**
12 **officers?**

13 A. As with other employees, NW Natural uses competitive compensation data to
14 determine compensation for Company officers. However, in the case of officers,
15 competitive compensation data is collected and analyzed by an independent
16 compensation consultant, Pay Governance, using peer company and survey data. Pay
17 Governance’s analysis, which is attached as Exh. MBR-3, demonstrates that the
18 Company’s compensation for officers is within the market competitive range of peer
19 and survey data.

20 **Q. What is the cost of utility employees’ base pay for the Test Year (October 1, 2019**
21 **to September 30, 2020) on a Washington-allocated basis?**

22 A. Table 1 below provides the cost of base pay for the Test Year on a Washington-
23 allocated basis.

1

Table 1

Utility Employee Total Base Pay (Wages & Salaries) – Washington-Allocated (\$000)

Type of Utility Employee	Cost of Base Pay
Bargaining Unit (BU) Employees	\$5,066
NBU Employees	\$6,113
Officers	\$428
Total	\$11,605

2

Table 1 includes only the cost for gas utility employees of NW Natural.

3 **Q.**

Does the Company propose to adjust the actual Test Year base pay levels?

4 **A.**

Yes. As described below, the Company has adjusted actual Test Year base pay amounts to reflect annualizations of past pay increases, as well as known and measurable increases after the end of the Test Year.

7 **Q.**

How did the Company adjust the total base pay of BU employees?

8 **A.**

The Company adjusted BU employee base pay for the Test Year in accordance with the terms of the Collective Bargaining Agreement (“Agreement”), which was established through a negotiated process between the Company and the Union. *See* Exh. MBR-4. This adjustment reflects: 1) a one-time pay increase, effective December 1, 2019, 2) periodic pay increases that are effective through June 1, 2021, and 3) an increase to account for BU employees’ promotions.

14 **Q.**

Please describe the one-time pay increase that was effective on December 1, 2019.

15 **A.**

The Agreement established a one-time pay grade change for BU employee base wages to bring those wages more in line with current market pay levels. In making these changes, the Union and the Company agreed to utilize select market survey data sources and other Union contracts, primarily of Northwest gas utility companies, as points of comparison. Pay grades were determined based on averages calculated using these agreed-upon sources of competitive pay data. While this grade change affected

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1 individual BU employees differently, it increased the Company's total BU employee
2 base pay costs by 3.5 percent. Because the increase occurred early in the Test Year,
3 the adjustment to annualize this change was only for the two months of the Test Year
4 prior to the change.

5 **Q. Please describe the periodic pay increases that are effective through June 1,**
6 **2021.**

7 A. The Agreement also provides for increases that generally occur once per calendar year
8 through the term of the Agreement. The first is an increase of 1.5 percent, which
9 occurred on December 1, 2019. This is in addition to the costs associated with the pay
10 grade change discussed above that increased the Company's BU base pay costs by 3.5
11 percent and that took effect on the same date. The second is an increase of 2 percent,
12 which occurred on June 1, 2020. The Union and the Company specifically agreed to
13 undertake this two-step approach to shift the Agreement from a December 1 renewal
14 date to a June 1 renewal date. The third is an increase of 3.5 percent, which will occur
15 on June 1, 2021. Since the Agreement provides for this increase, it is known and
16 measurable. As described earlier, the increases prior to the end of the Test Year were
17 limited to annualizations of the increases.

18 **Q. Please describe the increase to account for BU employees' promotions.**

19 A. The Company's costs for BU base pay incorporate an increase of 0.80 percent each
20 year to account for BU employee movement through training steps, from the entry rate
21 to the experienced rate, as well as promotions and adjustments. These occasional base
22 pay changes for individual BU employees are necessary to implement the terms of the

1 Agreement, and the Company calculated the average annual collective cost impact
2 associated with implementing these changes based upon past experience.

3 **Q. How did the Company adjust the total base pay of NBU employees?**

4 A. For NBU employees, we adjusted Test Year base pay to annualize the increase that
5 occurred on March 1, 2020, and also to account for the wage increase of 3 percent
6 planned for March 1, 2021. The wage increase also assumes an additional 0.60 percent
7 for promotions and adjustments that have historically occurred throughout the year.

8 **Q. In adjusting BU and NBU employees' base pay as described above, did the
9 Company use the average number of employees employed during the Test Year?**

10 A. Yes. The Company used the average number of full-time equivalents ("FTEs") that
11 NW Natural employed during the Test Year—1,164.5—to adjust BU and NBU
12 employees' base pay.-

13 **Q. In its 2019 Washington rate proceeding, did the Company calculate the number
14 of FTEs in the same manner?**

15 A. No. In the 2019 Washington rate proceeding, the Company used the number of FTEs
16 employed at the end of the historical Test Year (September 30, 2018) to adjust utility
17 employees' Washington-allocated benefits and compensation. Due to the impacts of
18 COVID-19, however, the Company is instead using the average number of FTEs
19 employed during the Test Year in this proceeding (October 2019 through September
20 2020). This change results in 7.1 more FTEs than the end of Test Year amount. This
21 methodology is appropriate because COVID-19 has disrupted the Company's normal
22 hiring patterns during the historical Test Year. The Company has taken steps to control
23 costs, including implementing a hiring freeze for non-essential employees. This action

1 has resulted in slightly lower FTE counts in 2020 than the Company expects to maintain
2 in more stable times. We do not expect this hiring freeze to continue into 2021, and
3 the average count more accurately reflects the FTE count when rates are changed at the
4 end of next year.

5 **IV. PAY-AT-RISK**

6 **Q. In describing competitive total compensation, you stated that “pay-at-risk” is an**
7 **important component. Please define what you mean by this term.**

8 A. Pay-at-risk is compensation made to employees only if certain performance goals are
9 met within a defined timeframe. Pay-at-risk is not guaranteed for employees, and is
10 intended to foster high performance. It represents an essential part of competitive total
11 compensation, as it is necessary in order for NW Natural to compete in the job market
12 to attract and retain the employees that it requires to run its utility business.
13 Importantly, the inclusion of the pay-at-risk component does not result in above-market
14 median compensation. Rather, as explained above, pay-at-risk is a component of total
15 compensation, which is targeted to align with market median compensation.

16 **Q. Please describe the pay-at-risk that NW Natural provides to NBU employees.**

17 A. NW Natural provides pay-at-risk as a proportion of competitive total compensation that
18 is in line with industry practice. The Company offers a “Goals Incentive Program” to
19 NBU non-officer employees. This program recognizes and rewards employees who
20 have demonstrated strong individual performance, and rewards the performers for the
21 plan year who achieve or exceed their annual performance objectives.

1 **Q. Does NW Natural have a pay-at-risk-program for BU employees?**

2 A. No. Under the previous collective bargaining agreement with the Union, the Company
3 offered pay-at-risk compensation for BU employees through its “Key Goals Program.”
4 This program linked employee total compensation to the achievement of overall
5 Company goals and clarified for employees how their job and work group contributed
6 to the Company’s success. In the current Agreement, which took effect on December
7 1, 2019, we agreed to eliminate our Key Goals Program, and move that portion of the
8 BU compensation to base pay. As a result, the BU total compensation package remains
9 competitive and in the market median. We have excluded the Key Goals Program from
10 revenue requirement and included the updated BU base pay to reflect the changes made
11 in the current Agreement.

12 **Q. Does NW Natural have a separate pay-at-risk program for officers?**

13 A. Yes. NW Natural has separate short-term and long-term incentive programs for
14 officers. These programs are designed to attract and retain individuals with the
15 experience necessary both to manage NW Natural’s business and to navigate any
16 challenges facing the utility and its customers.

17 **Q. Please describe the Company’s short-term incentive program for officers.**

18 A. The short-term incentive program for officers is called the Executive Annual Incentive
19 Plan. The Executive Annual Incentive Plan is based upon three separate components:
20 net income (50 percent), operational goals (20 percent), and individual goals specific
21 to the officer (30 percent). An example of individual goals includes ensuring smooth
22 and timely installation of new services.

1 **Q. Please describe the four operational goals that underlie the Company's short-term**
2 **incentive program and explain how customers benefit when the Company meets**
3 **these goals.**

4 A. The Company's short-term incentive program includes an operational component with
5 the following four goals: (1) customer satisfaction, (2) Company growth, (3) public
6 safety and (4) employee safety, described in more detail as follows:

- 7 • Customer satisfaction has two components—satisfaction with the Company as a
8 whole, and satisfaction with employee interaction. Company satisfaction is
9 measured by JD Power rankings and employee interaction is measured by customer
10 surveys. NW Natural employees further customer satisfaction by providing
11 efficient, courteous, and knowledgeable service in customer interactions and by
12 representing the Company positively through community involvement. Customers
13 benefit from employee behavior that increases customer satisfaction.
- 14 • Company growth measures the number of new meter sets for customers. NW
15 Natural employees contribute to this goal by providing timely hook-ups for new
16 customers. New customers benefit when their meters are installed in a timely
17 manner, and existing customers benefit from growth because costs are shared
18 among a larger customer base.
- 19 • The public safety goal has two components—damage call response time and odor
20 call response time. Both are measured in percent of calls responded to in less than
21 45 minutes. Customers benefit when the Company works quickly to resolve leaks
22 and other potentially dangerous situations.

- 1 • The employee safety goal has two components—Days Away Restricted Time
2 (“DART” rate) and number of Preventable Motor Vehicles Collisions (“PMVC”).
3 The DART rate is measured by percent of time away due to on-the-job injuries and
4 the PMVC is measured by number of preventable collisions.

5 All of these operational goals promote the Company’s provision of safe, reliable,
6 efficient, and timely natural gas service and customer service to its customers.

7 **Q. Please explain the long-term portion of the Company’s executive incentive**
8 **compensation program.**

9 A. The long-term portion of the Company’s executive compensation program applies to
10 select high-performing managers, officers, and key employees. Qualifying executives
11 receive two components of long-term incentive compensation: restricted stock units
12 (“RSUs”) and performance shares. RSUs are stock units that vest over time if certain
13 retention and financial performance threshold conditions are satisfied. Performance
14 shares are a promise of Company stock units earned if NW Natural achieves certain
15 performance goals during a three-year cycle. Officers receive 35 percent of their long-
16 term incentive opportunity in the form of RSUs and 65 percent in the form of
17 performance shares.

18 NW Natural, like other utilities around the country, believes that pay-at-risk is
19 important in promoting high performance among all employees, however, it is even
20 more critical for the officers of the Company. These pay-at-risk benefits are earned if
21 the executive can deliver results that benefit all stakeholders in the Company. This is
22 especially true when a utility’s pay-at-risk is designed to incentivize efficiencies that
23 benefit the utility’s provision of safe and reliable service at reasonable costs. And, even

1 in cases where pay-at-risk is tied to the Company's financial goals, it is important to
2 recognize that customers benefit from, and the Commission should encourage, utilities
3 maintaining good financial metrics. Strong financial metrics enable the utility to
4 efficiently raise the capital necessary to operate its business at rates that are favorable
5 to utility customers, who ultimately pay the utility's cost of capital as part of the
6 utility's revenue requirement. *See* Exh. BJW-1T.

7 **Q. What percent of an officer's total pay is "at risk"?**

8 A. The amount of total pay-at-risk varies by officer position and competitive market
9 practice. The chief executive officer typically has about 70 percent of pay-at-risk
10 whereas other officers have about 50 percent of pay-at-risk. In all cases, the total pay-
11 at-risk is comprised of short- and long-term opportunities.

12 **Q. What is the total cost of at-risk pay that NW Natural has sought to recover as part
13 of its revenue requirement in this rate case?**

14 A. That amount, by employee type, is shown in the table below:

15 **Table 2**
Washington-Allocated Utility Employee Target Pay-At-Risk (\$000)

Type of Utility Employee	Test Year
Bargaining Unit (BU) Employees	\$0
Non-Bargaining Unit (NBU) Employees	\$818
Officers	\$248
Total	\$1,066

16 **V. MEDICAL BENEFITS**

17 **Q. Please describe the medical benefits NW Natural provides to its utility employees.**

18 A. NW Natural provides medical and pharmacy insurance to its employees through Cigna
19 and Kaiser Permanente for its NBU employees. BU employees receive medical and

1 pharmacy insurance from Regence and Kaiser Permanente through the Western States
2 Health and Welfare Trust Fund of the OPEIU, a multi-employer union trust.

3 **Q. Please explain why NW Natural provides its employees with these medical**
4 **benefits.**

5 A. NW Natural needs to provide competitive medical benefits to its employees in order to
6 attract and retain a skilled, reliable workforce and because medical benefits are part of
7 the package required to get to median total compensation levels. Additionally, quality
8 medical benefits are necessary to ensure employees are receiving good care in a timely
9 fashion. Good and timely care prevents the development of more serious health
10 problems that would lead to more costly claims and higher employee absentee rates.
11 Customers depend on receiving the safe, efficient, and reliable service that can only be
12 delivered through a healthy and present workforce.

13 **Q. How did the Company develop the medical benefits expense proposed for**
14 **recovery in this case?**

15 A. The Company has included \$2.2 million (Washington allocated) of medical and dental
16 benefits costs experienced in the historical Test Year. We then added the premium
17 increase of \$197 thousand that will occur for 2021.

18 **Q. Have costs increased for medical coverage in the last few years?**

19 A. Yes. NW Natural compares renewal rate increases to both national and local trend
20 factors. Based on periodic survey data provided by Willis Towers Watson (“WTW”),
21 the national trend was 5.0 percent for 2020. *See* Exh. MBR-5. At the local level, the
22 trend was reported at 7.8 percent for Medical PPO plans (which is the type of plan the
23 majority of NW Natural’s employees enroll in) and 6.5 percent for Medical HMO

1 plans. National and local trend factors for 2021 are difficult to predict due to the
2 changing response to COVID-19. Generally, health care consultants and actuaries
3 expect higher cost trends in 2021 due to delayed care from the pandemic.

4 During the last few years, NW Natural's active non-bargaining employees'
5 medical expenses have been increasing at a rate that has been in line with trend factors.
6 In 2020, the increase of 5.9 percent was slightly higher than the trend due to high claims
7 experienced on the PPO Plan, but other years stayed close to trend or came in below
8 trend. *See* Exh. MBR-5. In the case of bargaining unit employees, medical increases
9 have been below the trends for the last three out of four years.

10 **Q. What are the key factors that influence increases in medical costs?**

11 A. The Company's medical benefits rates are greatly influenced by the medical experience
12 of the population being insured. Specifically, for NBU employees, Cigna increases
13 rates based entirely (100 percent) on the experience for our actual insured population.
14 On the other hand, Kaiser Permanente utilizes a combination of both manual rating and
15 actual NW Natural experience. They place 80 percent of the formula on their book of
16 business (manual rating) and 20 percent on the actual claims of the plan participants.

17 In addition to claims experience, we also know that other factors impact medical
18 costs including age, gender, family size, and geography. Based on the 2019 "Willis
19 Towers Watson High Performance Insights in Health Care" report, which includes
20 2,168 companies in 18 industry groups, we know that NW Natural's average age under
21 the pre-65 covered NBU participants in 2019 was 51.4 years old, compared to the
22 database that indicated an average age of 44.9 for the same time period. *See* Exh. MBR-
23 6. Having a higher average age means our population is more expensive to insure than

1 a younger workforce and is more likely to have more serious medical issues than would
2 be seen on average with a younger workforce. In addition, the report showed NW
3 Natural has 34 percent female enrollment, versus 42 percent for the database. Based
4 on these two factors, the report notes “[t]he custom benchmark will be increased by 10
5 percent due to age and gender demographics”. We also learned from this report that
6 NW Natural’s plan has dependent enrollment of 69 percent compared to the database
7 which has 50 percent. This difference increases the benchmark by 17 percent due to
8 the family size of our population.

9 The final area in which there is a slight variance is in the geographic location
10 of the medical providers. NW Natural has a favorable outcome on this comparison
11 with a slightly lower cost than the database (0.94 versus 1.0). The report notes that the
12 benchmark decreased by 6 percent based on where NW Natural employees live. The
13 overall results of all of these factors showed that NW Natural’s medical premiums are
14 expected to be 22 percent higher when compared to the database.

15 **Q. Has the Company taken any actions to manage medical costs?**

16 A. Yes. The Company has done a number of things to control its health care costs.

17 First, NBU employees will pay for a greater share of Medical PPO and Medical
18 HMO Plans. Currently the Company pays 80 percent of the premium under these plans
19 and NBU employees pay 20 percent. In 2021, the Company’s share will drop to 78
20 percent and the employees’ share will increase to 22 percent. Overall, this will reduce
21 the Company’s medical costs by \$111 thousand (Washington allocated).

22 Second, the Company has a practice of regularly conducting requests for
23 proposals (“RFPs”) from medical insurance providers to ensure that our providers’

1 prices are competitive. RFPs are generally issued every five years, but will be issued
2 sooner upon notice of a significant increase in premiums from a current medical
3 insurance provider.

4 Third, NW Natural regularly meets with its benefits broker/consultant, WTW,
5 to review plan designs offered to ensure they remain market competitive with other
6 utilities and up to date with innovative designs to effectively control rising medical and
7 prescription costs. For instance, effective January 1, 2015, bargaining employees
8 transitioned from contributing a flat dollar amount to paying a percent of the actual
9 premium for medical and dental coverage. Bargaining unit employees pay 20 percent
10 of premiums and the Company pays 80 percent. However, if the employee participates
11 in an annual health screening, the employee contributes 15 percent of premiums and
12 the Company pays 85 percent. Based on this approach, employees experience an
13 increase in cost when their premiums rise, and a decrease in costs when their premiums
14 go down. It provides an incentive to employees to stay healthy, thereby keeping their
15 claims costs down.

16 Fourth, critical to cost management was the closure of NW Natural's retiree
17 medical plans. This plan was closed to new NBU employees hired after December 31,
18 2006, and to BU employees hired after December 31, 2009. Since that change
19 occurred, only 39 percent of active NBU employees and 40 percent of active BU
20 employees are eligible for retiree medical benefits. NW Natural has also implemented
21 caps to control medical costs (\$2,400 per retiree per calendar year for those over 65
22 and \$4,800 for retirees younger than 65), which have remained constant since 2006.

1 Capping retirement medical costs alone has reduced NW Natural's projected benefits
2 obligation for retirees by approximately \$8.5 million.

3 Finally, in 2012 NW Natural introduced Consumer Directed Health Plans
4 ("CDHPs") to active NBU employees from both carriers, Cigna and Kaiser. These
5 plans continue to be a popular choice for employees looking to have more control over
6 their health care expenses such as choosing to take a generic drug rather than a brand
7 name drug. They offer a lower premium because cost is incurred when care is needed
8 rather than paying for coverage that may not be required. CDHPs also allow NW
9 Natural to provide plan participants with Health Savings Accounts (HSA), which also
10 serve as savings vehicles for health care expenses well into retirement. Since
11 implementation, NW Natural continues to have year-over-year favorable claims
12 experience for these plans, which has allowed premiums to stay low for those who elect
13 to participate.

14 **Q. How does the design of NW Natural's medical plans compare with that of other**
15 **companies?**

16 A. In 2019, WTW completed an analysis of the Company's medical benefits relative to 12
17 peer utilities and 81 other utility/energy companies in their Energy database for the
18 non-bargaining group, and 46 energy companies for comparison purposes for the
19 bargaining group. *See* Exh. MBR-7. In this comparison, WTW utilized the following
20 rating categories: Equal, Worse or Better. NW Natural's medical benefits were rated
21 by WTW on an overall basis to be Equal to both the 12 peer companies and the overall
22 Energy data base. This analysis compared everything from deductibles, to coinsurance
23 (premium sharing), to co-pays for office visits and prescriptions. There was a range of

1 ratings depending upon the specific item being rated, although the overall rating was
2 Equal.

3 **Q. Are the other health benefits being offered also market competitive?**

4 A. Yes. While medical benefits (medical and pharmacy) make up 95.5 percent of the total
5 health care costs, the same survey source noted above for medical benefits also
6 evaluated the competitiveness of other health care benefits including dental, vision,
7 life, and disability. The majority of benefits plans were rated Equal to both the 12 peer
8 utility companies as well as the overall Energy data base provided in the WTW survey.
9 While there were some variations in certain categories, overall the WTW survey
10 indicated that NW Natural's benefits plans were substantially at market when compared
11 to other utilities.

12 **VI. RETIREMENT BENEFITS**

13 **Q. Please provide an overview of your retirement benefits.**

14 A. Table 3 shows the retirement income benefits programs, which provide market median
15 retirement offerings to employees:

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Table 3: Retirement Benefits

Retirement Program	Eligible Employees	Summary Description of Benefits
Retirement K Savings Plan (401k)-Employee Savings	All employees	Defined Contribution Savings plan with match: Match is 50 percent of first 8 percent saved by BU employee and 60 percent of first 8 percent saved by NBU employee
Retirement K Savings Plan (401k)-Enhanced	NBU employees hired after December 31, 2006 and BU employees hired after December 31, 2009 (covers employees not eligible for pension benefits)	Contribution made by Company into "Enhanced" account-no employee contribution required Contribution is 5 percent for NBU; 4 percent for BU
NW Natural Pension Plan for BU and NBU Employees (NW Natural Retirement Plan) (closed)	Non-bargaining (NBU) and Bargaining (BU) employees	Defined benefit plan that was closed to new NBU employees hired after 12/31/06 and BU hired after 12/31/09.

2 **Q. Are there significant changes that NW Natural has made since the Company's last**
3 **rate case?**

4 A. Yes. As a result of the current Agreement, the Retirement K Savings Plan (401k)
5 Company match for BU employees has changed from 50 percent of the first 6 percent
6 saved to 50 percent of the first 8 percent saved effective January 1, 2020.

7 **Q. How do NW Natural's retirement benefits compare to the benefits provided by**
8 **other companies?**

9 A. In 2019, the Company asked WTW to analyze the Company's 401(k) defined
10 contribution retirement benefits relative to other utilities (using the Equal, Better, or
11 Worse classification described above). WTW concluded that NW Natural's 401(k)

1 defined contribution match benefits were worse for BU employees when compared to
2 the Energy database. WTW also concluded that the NBU employees were Equal when
3 compared to the Energy database, but Worse when compared to the 12 target
4 companies. *See* Exh. MBR-7.

5 The Enhanced 401(k), for those hired after the Pension Plan was closed, and
6 the Retirement K Savings Plan (401k) for those participating, were shown to be Equal
7 for both the bargaining and non-bargaining groups when compared to both the total
8 database and the 12 target companies used for the non-bargaining population. *See* Exh.
9 MBR-7.

10 **Q. Please explain the total retirement benefits included for recovery in the Test Year.**

11 A. Table 4 shows the amount requested for recovery in the Test Year revenue requirement.

12 **Table 4**
Utility Total Retirement Benefits– Washington-Allocated (\$000)

Component	Test Year
RKSP-Matching Contribution	\$524
RKSP-Enhanced Contribution	\$329
Western States Pension-withdrawal liability	\$63
Total	\$916

13 **VII. AFFILIATED COMPANY COSTS**

14 **Q. Are you seeking to recover any costs related to employees of NW Natural**
15 **subsidiaries or affiliates?**

16 A. No. All amounts described in this testimony reflect gas utility-only costs, and not the
17 costs of subsidiaries or affiliates.

1

VIII. CONCLUSION

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

3 **A. Yes, it does.**

IX. LIST OF EXHIBITS

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Exh. MBR-2 2019 NBU Market Analysis

Exh. MBR-3 Pay Governance Analysis

Exh. MBR-4 BU Collective Bargaining Agreement

Exh. MBR-5 Medical Benchmark Trend

Exh. MBR-6 WTW High Performance Insights in
Health Care

Exh. MBR-7 Non-Bargaining and Bargained Benefits
Benchmarking