

Exhibit No. ____ (RSF-1T)

Docket UG-11_____

WITNESS: RANDOLPH S. FRIEDMAN

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of

**NORTHWEST NATURAL GAS
COMPANY, dba NW Natural,**

**Revision to Schedule ____ to include
acknowledging the recovery of the cost
of gas acquired through Gas Reserves.**

Docket UG-11_____

NORTHWEST NATURAL GAS COMPANY

DIRECT TESTIMONY OF

RANDOLPH S. FRIEDMAN

July 6, 2011

1 **Q. Please state your name, business address, and occupation.**

2 A. My name is Randolph S. Friedman. My business address is 220 NW Second
3 Avenue, Portland, Oregon 97209. My current position is Director, Gas Supply for
4 Northwest Natural Gas Company, d/b/a NW Natural (“NW Natural” or the
5 “Company”).

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

7 A. I hold Bachelor of Science degrees in Mechanical Engineering and Nuclear
8 Engineering from the University of California, Berkeley. I also hold a Master of
9 Science degree in Management from Purdue University.

10 I joined NW Natural in March 1989 as Gas Contracts Administrator. In
11 September 1992, I was promoted to the position of Manager, Gas Acquisition and
12 Pipeline Relations. Effective June 1, 1994, I became the Manager of Gas Supply,
13 which was later changed to my current title. While with NW Natural, I have
14 provided testimony in proceedings before the Federal Energy Regulatory
15 Commission (“FERC”), the Public Utility Commission of Oregon (“OPUC”), the
16 Washington Utilities and Transportation Commission (“Commission”), and the
17 National Energy Board of Canada.

18 Prior to NW Natural, I was employed for seven years with Southern
19 California Edison Company, where my duties included load and fuel price
20 forecasting, generation and transmission project evaluation, and natural gas
21 procurement. I also provided technical support and testimony before the
22 California Public Utilities Commission, California Energy Commission, and
23 FERC.

1 At NW Natural, I am responsible for evaluating, negotiating, and
2 administering natural gas supply, transportation, financial derivative and related
3 contracts for the Company, as well as performing other assignments related to gas
4 acquisition and supply planning, such as participating in regulatory proceedings.
5 My department schedules all pipeline and off-system storage supplies for our
6 sales customers, and coordinates the interstate pipeline nomination process for all
7 transportation customers on NW Natural's system. I report directly to NW
8 Natural's Vice President, Business Development & Energy Supply.

9 **Q. What is the purpose of your testimony?**

10 A. I discuss how the acquisition of natural gas reserves through a joint venture with
11 Encana Oil & Gas (USA) Inc. (hereinafter, "Encana") (the "Transaction") fits
12 within and advances the Company's overall portfolio purchasing strategy.

13 **OVERALL PORTFOLIO PURCHASING STRATEGY**

14 **Q. How will the Transaction fit with the Company's overall portfolio**
15 **purchasing strategy?**

16 A. Our goals in purchasing gas for our core utility market are reliability, lowest
17 reasonable cost, price stability, and cost recovery. An important aspect of our
18 overall gas purchasing strategy is hedging, through which we typically, at the
19 beginning of the gas year, lock in a significant portion of our annual purchasing
20 requirements with financial arrangements or through storage. By ensuring access
21 to gas at guaranteed prices we are able to provide price stability for our
22 customers. In the past, we have entered into financial hedges with terms up to
23 three years. We also have entered into longer-term physical transactions up to 15

1 years, but the prices in those transactions typically have floated with the market.
2 The Transaction will operate as a longer-term physical and financial hedge, which
3 will build longer term reliability and stability into the Company's portfolio at the
4 same time as it provides NW Natural with favorable pricing.

5 **Q. Will the Transaction increase the amount of the Company's portfolio that is**
6 **hedged?**

7 A. No, the Transaction will not increase the total proportion of the Company's
8 portfolio that is hedged. In recent years, the Company has hedged approximately
9 75 percent of its overall sales portfolio. The gas volumes associated with the
10 Transaction will replace an equivalent portion of the Company's traditionally
11 purchased and hedged gas supplies with owned reserves. In the first full year of
12 the Transaction, the gas reserve volumes will represent approximately 3 percent
13 of the Company's total portfolio. The volumes will peak at just under 15 percent
14 during year five of the Transaction, but over the first 10 years will average less
15 than 10 percent of the portfolio and then dwindle further thereafter.

16 **PRICE SAVINGS RESULTING FROM THE TRANSACTION**

17 **Q. This is the first time the Company has acquired gas through a long-term**
18 **arrangement like the one in the Transaction. Why does the Company believe**
19 **that now is an appropriate time to be entering into such a transaction?**

20 A. We believe that today's relatively low gas prices make this a particularly
21 advantageous time to consider a long term acquisition of gas reserves. Right now,
22 the Company's weighted average cost of gas ("WACOG") is back to 2004 levels
23 after experiencing dramatic surges in the 2006-2009 time period. The two main

1 drivers of the recent price declines have been the surge in domestic gas supplies,
2 led by the growth of gas produced from shale formations, along with the
3 flattening or even decline in gas demand created by the economic recession.
4 However, we don't expect such low prices will be sustained over the long term.
5 For example, gas demand will resume its upward trajectory driven by the need for
6 more gas-fired electric generation around the country, whether to meet electric
7 demand growth, supplement other resources such as wind, or to replace coal
8 generation in response to environmental concerns (*e.g.*, anticipated closure of the
9 Boardman plant in Oregon in 2020). For this reason, it makes sense to look for
10 opportunities to lock in these lower prices at the present time. We evaluated a
11 number of options for locking in low prices for the long term and determined that
12 the Transaction will provide the Company the most significant price savings.

13 **Q. Please explain how you determined that the Transaction will result in price**
14 **savings.**

15 A. In order to evaluate the savings, we compared the Transaction price with what we
16 would expect to incur on our customers' behalf in obtaining long-term gas
17 supplies in the absence of the Transaction. Given that the Transaction will serve a
18 function much like a 10-year "hedge" for our customers, and given that over 60
19 percent of the supplies are received in the first 10 years, a good comparator would
20 be a conventional 10-year hedge or other fixed price arrangement. However, 10-
21 year hedges are not generally available on the market. Therefore, for a reasonable
22 comparison we used both a 10-year fixed price hedge indication for a
23 counterparty as well as 10-year price forecasts for a variety of sources, adjusted to

1 be comparable to the price where the Company will receive the gas under the
2 terms of the Transaction.

3 **Q. What results did this analysis yield?**

4 A. The Transaction has net present value benefits to customers that are discussed in
5 the testimony of Barbara Cronise.

6 **Q. In Ms. Cronise's testimony she also mentions that the Transaction is**
7 **structured such that the Company may allow Encana to market its gas and**
8 **in turn purchase gas at market prices. Can you please describe in more**
9 **details these types of transactions?**

10 A. Yes. NW Natural entered into a marketing agreement with Encana that provides
11 the Company the option of allowing Encana to sell its gas at the Opal hub. Under
12 this scenario, Encana markets NW Natural's share of the gas at the first of month
13 index price at the Opal hub. NW Natural would then use the funds to acquire like
14 supplies at Opal or elsewhere, such as Sumas or AECO where NW Natural has
15 firm pipeline capacity (whichever location has the best price) at first of month
16 index prices.

17 **Q. Why would the Company choose to allow Encana to market its gas?**

18 A. There are several reasons. First, NW Natural expects that it can buy like
19 quantities of gas at or below the first of month Opal index at a location served by
20 NW Natural's own firm pipeline capacity. Second, having Encana market the gas
21 simplifies the logistics and administration of the Transaction.

22 **Q. Has the Company chosen to have Encana market its gas?**

23 A. Yes and it intends to do so for the foreseeable future.

1 Q. Does this conclude your testimony?

2 A. Yes.