

1
2
3
4
5
6
7
8

UG-__ – Advertising
Table of Contents

I. Introduction & Summary 1

II. Communicating with Customers in Today’s Environment 1

III. Communicating to Meet Pipeline Safety Requirements..... 3

IV. Communicating Across a Diverse Customer Base..... 5

V. Proposed Consumer Information Expense..... 8

VI. Qualifications 11

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. Introduction & Summary

Q. Please state your name and position at NW Natural.

A. My name is Kimberly A. Heiting. I am the Director of Consumer Information and Internet Services. My qualifications appear at the end of this testimony.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and explain the company's expenses for consumer information and communications. *See, Exhibit No. ____ (KAH-2).* Specifically, I will explain why the company's test period expense of \$70,313 is not representative of the appropriate level of communications during the test year for NW Natural's Washington customers. A test year amount of \$136,000 or \$2.67 per customer, is the minimum necessary to meet NW Natural's communications goals — first, to provide customers the information they specifically want and need; second, to satisfy federal requirements for broadcasting safety messaging; and third, to reach an increasingly diverse customer base.

II. Communicating with Customers in Today's Environment

Q. Has the content of NW Natural's communications to customers changed in the past four years?

A. Yes. In the past, the company has concentrated on promotional and image messaging, but we have learned that our customers now expect something different. Primarily, customers want and need information about natural gas and the energy industry. In response, NW Natural has changed its messaging to be more issues-driven.

1 **Q. How do you account for customers' increasing need for issue-specific,**
2 **informational communications?**

3 A. The 2000-2001 energy crisis caused a noticeable shift in the information
4 customers expected from NW Natural about utility service. Research revealed
5 that customers felt it was the utilities' responsibility to inform them on a variety
6 of topics including rate and price issues, conservation and energy efficiency, and
7 energy efficiency incentives. *See, Exhibit No. ____ (KAH-3).* The company's
8 own experience verified that customers were seeking this information from NW
9 Natural in greater numbers than prior to the energy crisis.

10 The energy crisis probably led customers to seek specific information on
11 price and conservation, but it has also become clear to the company that
12 customers expect their gas utility to consistently provide other types of specific
13 information as well. For example, customers want to know details about
14 programs and services, such as bill payment options and assistance resources,
15 audit programs and weatherization tips. They also expect their utility to provide
16 safety information, which I discuss in Part III below.

17 As a result of both the company's research and its direct experience of
18 customer preferences, NW Natural has revised its communications to provide
19 what customers are seeking. By way of example, the company partnered with
20 regional furnace equipment distributors to offer customers a \$200 incentive — in
21 addition to a \$200 incentive from NW Natural — for upgrading to select high
22 efficiency equipment. This incentive was extremely well received by customers

1 and resulted in about a 250 percent increase in high efficiency furnace adoptions
2 throughout our system.

3 **Q. How does NW Natural know that its communications influenced customers**
4 **to use high efficiency equipment?**

5 A. We tracked the timing of our communications and program education efforts with
6 the timing of customer rebate applications. The results showed both a dramatic
7 increase in our customers' use of high efficiency furnaces and also a shift in the
8 timing of customers' activity adopting high efficiency furnaces. Customer
9 activity tracks very closely with the launch and conclusion of each of our
10 communications efforts. *See, Exhibit No. ____ (KAH-4).* This measurement
11 capability allowed us to quantify both the impact of an additional incentive, and
12 the impact of our message on customer behavior. While media coverage of
13 energy prices likely had a role in the 2001 results, this same approach continued
14 to reap results in 2002, even though the economy remained sluggish and gas
15 prices had fallen.

16 **III. Communicating to Meet Pipeline Safety Requirements**

17 **Q. How have pipeline safety issues influenced NW Natural's test year**
18 **communications strategies?**

19 A. Since NW Natural's last general rate filing in Washington, pipeline safety has
20 become an issue of national attention. NW Natural has made a particular effort to
21 increase safety communications to our customers over the last few years. Even
22 so, our efforts were not sufficient to meet the existing public education
23 requirements of federal regulations. *See, Exhibit No. ____ (KAH-5).*

1 Now, however, public safety messages are even more important. Pipeline
2 incidents in Edison, New Jersey, Bellingham, Washington, and Carlsbad, New
3 Mexico have changed the pipeline safety environment, in terms of both federal
4 regulation and heightened public awareness. On November 15, 2002, Congress
5 passed the Pipeline Safety Improvement Act of 2002. The Act itself requires
6 owners and operators of gas pipelines to review and modify their existing public
7 education programs. *See, 49 USC § 60116.* In addition, new federal safety rules
8 have been proposed that will apply to gas transmission operators like NW Natural
9 and will contain guidelines for natural gas utilities to address public safety
10 awareness. These new rules will drive the safety education programs of LDCs
11 nation-wide, including NW Natural. Adhering to these “Recommended Practice”
12 guidelines requires a considerable increase in funding to enable gas distribution
13 companies to target the right audiences. *See, Exhibit No. ____ (KAH-6).* The
14 Commission should be aware that these guidelines, currently being finalized, will
15 influence NW Natural’s messaging — and its communications expenses — going
16 forward.

17 **Q. Please explain these requirements in more detail.**

18 A. The guidelines provide for communication of a variety of safety messages to the
19 public generally, and specifically to residents near storage facilities, to residents
20 and business located on transmission lines, to landowners, to places of
21 congregation, to emergency responders, to excavators, and to public officials
22 within each company’s service territory. The recommended message content of
23 these programs includes, but is not limited to, the following:

- 1 (a) potential hazards of natural gas;
- 2 (b) how to recognize a pipeline leak;
- 3 (c) what to do and what not to do if you believe there is a gas leak;
- 4 (d) pipeline damage prevention information;
- 5 (e) pipeline purpose, reliability, maintenance and safety record information, and;
- 6 (f) the existence of natural gas pipelines to those in potentially affected locations
- 7 or “high consequence” areas.
- 8

9 The vast amount of information that needs to be covered will require a
10 range of creative executions and a utilization of a variety of media channels. The
11 guidelines further suggest that LDCs use a variety of measurement procedures to
12 gauge the effectiveness of safety communications, including self-assessments,
13 qualitative surveys, and focus groups.

14 **Q. Why hasn’t the company requested funding for safety communications in**
15 **earlier general rate cases?**

16 A. Until recently, NW Natural considered its safety record and communications
17 efforts to be sufficient. However, the new legislative and regulatory climate,
18 increased political and public interest in pipeline safety issues and potential
19 dangers, and national homeland security activities dictate a more comprehensive
20 safety communications effort that targets customer and non-customer audiences
21 alike. The new obligations necessitate a material change to our test year funding
22 level.

23 **IV. Communicating Across a Diverse Customer Base**

24 **Q. What other factors have influenced how NW Natural will communicate to**
25 **consumers?**

26 A. Increasingly, NW Natural must communicate with a diverse customer base.
27 Specifically, customers in different classes have much different information needs

1 and channels of communication. Within customer classes, cultural and linguistic
2 diversity creates additional communications challenges.

3 **Q. Please explain how communications differ between customer classes.**

4 A. The recent energy crisis served to demonstrate how the company's approach to
5 communications must be tailored to individual customer groups. In particular, the
6 information needs of commercial and industrial customers are quite different from
7 the needs of residential customers. For example, large energy price increases
8 caused severe impacts on business customers, which in turn caused much higher
9 demand from these customers for ongoing communications about their service,
10 service options, conservation, and other general energy-related information.

11 Because of application and equipment differences, the communication appropriate
12 to address these topics for industrial and business customers differs from that of
13 residential.

14 What is important for the Commission to understand about
15 communicating to business customers is that this heterogeneous group is more
16 difficult and expensive to address than the residential market. First, this group in
17 general is hard to reach, because getting to the energy decision-maker rather than
18 a financial or clerical contact requires us to utilize targeted channels that are
19 independent of the channels we use for billing. Second, there are significant
20 differences between types of business customers. A small business customer, for
21 instance, has very different information needs than a large industrial customer.

22 To be relevant and meaningful to each audience, the company must tailor its

1 communications and media purchases to individual customer classes. This has
2 additional cost implications.

3 **Q. Please explain how cultural and linguistic diversity makes customer**
4 **communication challenging.**

5 A. The company's ability to reach consumers of differing cultural and linguistic
6 characteristics is another growing challenge. *Exhibit No. ____ (KAH-7)* and
7 *Exhibit No. ____ (KAH-8)*, demonstrate the growing diversity of our service
8 territory. In fact, of the 323 "Metro Markets" defined by the US Census Bureau,
9 the Portland/Vancouver area ranked 27th in the nation for total population, 24th
10 for Asian and Pacific Islander population, and 44th for Hispanic origin
11 population.

12 **Q. What is the significance of these changes in the composition of the**
13 **population?**

14 A. The changes are significant because, quite simply, they increase NW Natural's
15 cost to communicate within its service territory. Despite the additional expense,
16 we nevertheless *must* communicate with our customers. For example, current
17 federal regulations require us to conduct a public education program about
18 pipeline safety, specifying that "[t]he program must be conducted in English and
19 in other languages commonly understood by a significant number and
20 concentration of the non-English speaking population in the operator's area."
21 *See, 49 CFR § 192.616.* Whether our message is safety- or service- related,
22 reaching a diverse audience and non-English speaking populations requires
23 additional funding. Not only do those customers often use culturally targeted

1 channels, we need creative material that is properly translated and culturally
2 acceptable.

3 **V. Proposed Consumer Information Expense**

4 **Q. Please describe NW Natural's test year expense for consumer**
5 **communications.**

6 A. The company's test year expense level was \$70,313. However, the company is
7 requesting a rate year allocation of \$136,000 to cover increases in media and other
8 costs driven by the challenges outlined in this testimony. An expense level of
9 \$111,000 would support customer communications on the following topics:

- 10 ▪ Wise and efficient use of energy
- 11 ▪ Payment options and programs for customers
- 12 ▪ Phone numbers and contact information
- 13 ▪ On-line customer service options and information
- 14 ▪ Natural gas price changes
- 15 ▪ Energy and environmental issues.

16 To meet the new safety awareness requirements, the company requests an
17 additional \$25,000 to support customer and general public communications about
18 natural gas safety and pipeline issues.

19 **Q. How does NW Natural's proposed rate year request compare to the level that**
20 **would be allowed under the Washington allocation?**

21 A. NW Natural's Clark County district is the fastest-growing area in our service
22 territory. Because of price volatility and safety issues during the test period, the
23 company had to increase the level of communications to our Washington

1 customers about rate, conservation, energy efficiency, and safety information in
2 the most cost-effective way possible. The Test Year Expenses allowed through
3 the allocation (\$70,313) provide less than \$1.38 per customer for all
4 communications required during the test year period. Today, you can't even buy
5 four stamps with that amount.

6 In order to communicate to our Washington customer base on all the
7 topics outlined -- and given the challenges referenced in this testimony -- NW
8 Natural seeks an allowance that is equivalent to \$2.67 per customer, which brings
9 our total request to \$136,000. This amount would bring our per customer
10 allocation to a level that could more adequately support our communications
11 obligations.

12 **Q. Besides the issues and challenges you have covered, are there other reasons**
13 **for the increase in customer communications expense?**

14 A. Yes. Advertising costs have increased significantly across all media.

15 **Q. Explain how media costs have changed.**

16 A. Regarding print media, newspapers increase the column inch rate by about five
17 percent per year in our service territory. For example, applying the *average*
18 yearly increase to an annual print media budget, a purchase of advertising in 2001
19 for \$153,000 would cost \$161,000 in 2002 for the very same message. The
20 Oregonian, which accounts for more than a third of the NW Natural's print media
21 budget (and has a healthy subscription rate for Vancouver residents), has
22 increased its rates by three to four percent in each year since May 1998. The
23 Columbian has raised its rates four percent each year since 1999.

1 Radio media costs have also increased. Spot Advertising Radio Cost
2 (SPARC), a spot radio cost-per-point survey that looks at the top advertisers in the
3 markets and averages the cost they pay in a market, gives the following costs for
4 the Portland/Vancouver market, the only market in our service territory with data
5 available:

- 6 • The cost per rating point for the 25 to 54 age-demographic.

7	1999	\$75.00	
8	2000	\$80.00	6.67% increase
9	2001	\$86.00	7.5% increase
10	2002	\$92.00	6.9% increase
11	2003	\$98.00	6.5% increase

- 12 • Across demographics, Cost Per Points (CPP) have increased an average of
13 seven percent per year.

- 14 • Applying the average yearly increase to an annual radio media budget of
15 \$503,000 (as in 2001) means that the same advertising buy would cost
16 \$538,000 the next year.

17 Printing costs have also increased. Graphic Arts Center, which has printed
18 the vast majority of NW Natural projects, has increased their costs for printing,
19 film prep, and bindery two percent each year since 1999. This is consistent with
20 other area printers. There have been postage cost increases. Postage rates for
21 third class mailings have increased as follows:

22	January 1, 2000	5.63%
23	July 1, 2001	1.2%

