

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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In the Matter of the Application of
NORTHWEST NATURAL GAS
COMPANY
For an Order Approving a Corporate
Reorganization to Create a Holding
Company, Northwest Natural Holdco, in
Connection with the Acquisition of Portland
General Electric Company by Northwest
Natural Holdco.

DOCKET NO. UG-01 _____

NORTHWEST NATURAL GAS COMPANY
DIRECT TESTIMONY OF RICHARD G. REITEN

December 4, 2001

1 **Q: Please state your name and title.**

2 A: My name is Richard G. Reiten. I am Chairman of the Board and Chief Executive Officer
3 of Northwest Natural Gas Company ("NW Natural") and Northwest Natural Holdco
4 ("NW Natural Holdco").

5 **QUALIFICATIONS**

6 **Q: Please briefly describe your background and experience in the energy business.**

7 A: My experience includes both gas and electric utility operations. I joined NW Natural on
8 January 1, 1996 as President and Chief Operating Officer. Since January 1, 1997, I have
9 been Chief Executive Officer of NW Natural and since September 2000, Chairman of the
10 Board.

11 In 1989, after serving as Director of Oregon's Economic Development
12 Department, I joined Portland General Corporation as its President. From August 1992
13 until December 1995, I served as President and Chief Operating Officer of Portland
14 General Electric Company ("PGE").

15 Prior to my involvement in the energy industry I was President, Chief Executive
16 Officer and Director of Nicolai Company, a Portland-based manufacturer of veneer and
17 residential doors.

18 **Q: Please briefly describe your community service activities.**

19 A: In 1998, I served as General Chair of the United Way Campaign. I have served as
20 chairman of the Portland Chamber of Commerce and of the Association for Portland
21 Progress. I continue to serve on both boards as a director. I am also on the board of the
22 Oregon Business Council and a trustee of The Nature Conservancy of Oregon. In the
23 past I have served as a director of the Associated Oregon Industries Foundation, the Boys

1 Club of Oregon, and the Oregon Symphony. I have also served as a trustee of Lewis and
2 Clark College, among other activities.

3 **Q: Please list your current Board of Director positions.**

4 **A:** In addition to the NW Natural Board, I am currently a director of AEGIS Insurance
5 Service, The Regence Group, and U.S. Bancorp. I also serve on the Board and currently
6 am serving as First Vice Chair of the American Gas Association.

7 **Q:** What is your educational background?

8 **A:** I hold a B.A. in business administration from the University of Washington. I have also
9 completed the Executive Programs and the Board of Directors Program at Stanford
10 University.

11 **PURPOSE OF TESTIMONY**

12 **Q: What is the purpose of your testimony?**

13 **A:** My testimony gives an overview of how this transaction benefits the Washington
14 customers of NW Natural and the shareholders of NW Natural. I discuss NW Natural
15 Holdco's proposal for how both NW Natural and PGE will continue to provide their
16 customers with safe, reliable, and improving service. I also introduce members of the
17 management team of NW Natural Holdco, some of whom testify in support of this
18 Application.

19 **Q: Please describe how you have organized your testimony.**

20 **A:** First, I explain why we decided to acquire PGE and give a brief overview of the
21 transaction. Then I describe generally our plan for managing and operating the two
22 utilities. Finally, I elaborate on some of the benefits this transaction brings to our
23 customers, our community, and the environment.

THE TRANSACTION

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Q: Please explain why NW Natural entered into this transaction.

A: Quite simply, it is good for our customers, our communities, and our shareholders for a number of reasons. From the perspective of NW Natural, we wanted to maintain and improve the cost-efficient energy service we provide our customers while ensuring that the company remains under local control.

NW Natural has an excellent record of providing safe, reliable, and cost-efficient service to our customers.

- Since I came to NW Natural, we have been able to reduce our per customer operating and maintenance costs by an average of 2.2 percent per year, excluding inflation. From 1996 to 1998, we were in the top five in the nation for lowest gas and lowest O&M costs.
- Our customer ratings based on surveys conducted locally show that approximately 90 percent of customers who have had a recent contact with the company rate us in the “satisfactory” range (7 to 10 on a scale of 10) with 60 percent rating us as “excellent” (9 to 10).
- An independent national survey by J.D. Power and Associates of 125 electric, gas, and combination utilities recently ranked NW Natural third in overall customer satisfaction. The J.D. Power data showed that NW Natural exceeded the national average in all five categories measured.

But, apart from future advances in technology, we may have reached the point beyond which there are few opportunities for NW Natural standing alone to improve efficiencies without sacrificing service and customer satisfaction. By combining our

1 efforts to provide energy service with those of another company, we will gain the
2 opportunity to further improve efficiency, to the benefit of our customers and
3 shareholders.

4 At the same time, we will ensure that NW Natural remains accountable to its local
5 communities. NW Natural's excellent customer service record, its size, and the
6 opportunities for improved efficiencies I have just described have made NW Natural an
7 attractive target for acquisition by utilities or other companies based outside the region.
8 Although an acquisition of NW Natural by such a company might result in some
9 improved efficiencies, it would weaken the important bonds between NW Natural and the
10 Northwest. I believe that a company serves its customers best when the people making
11 the important decisions see their customers every day in their neighborhoods or in
12 meetings of local civic groups. Preserving and strengthening such local bonds and
13 accountability is even more important today, given this state's recent loss of major
14 corporate headquarters to other states and countries.

15 **Q: Why is the combination of utilities attractive to NW Natural?**

16 **A:** Acquiring PGE is the ideal way for NW Natural to achieve its twin goals of improving
17 the efficiency of our service and preserving and strengthening the connection to our
18 community. In general, the model of the combined natural gas and electric utility is one
19 that works well and a growing number of customers throughout the United States now
20 receive service from combined utilities. Many such mergers have occurred in recent
21 years; in fact, most natural gas and electric customers in the United States are now being
22 served by combined utilities.

1 Eighty percent of PGE's customers are inside NW Natural's service territory and
2 65 percent of NW Natural's customers are PGE customers. Although the distribution of
3 natural gas and electricity will remain separate services, this transaction will allow us to
4 combine and streamline many common customer-service functions, such as billing and
5 the call center; as well as common administrative functions such as human resources,
6 regulatory affairs, finance, and information technology. There may also be opportunities
7 for greater efficiency on the energy supply side. If these opportunities are realized, the
8 resulting cost efficiencies will benefit both companies and the customers. Our President
9 and COO, Mark Dodson, and our Chief Financial Officer, Bruce DeBolt, address these
10 benefits and savings in more detail in their testimonies supporting this Application.

11 PGE and NW Natural are excellent companies in their own right, with records of
12 success in providing safe, reliable, and efficient service to customers. Moreover, the
13 overlap in the service territories of the two utilities offers an ideal opportunity for the
14 combined company to achieve cost efficiencies unavailable to any other potential
15 purchaser of PGE or to either utility standing alone. As I explain in more detail below,
16 the two companies have complementary strengths. We have already had success in the
17 joint trenching and joint meter-reading projects between PGE and NW Natural, which
18 help reduce costs to the customers of both companies. That experience, along with my
19 own past experience at PGE, gives me confidence that by further combining our efforts
20 we will continue to improve the quality and efficiency of our services.

21 **Q: Please briefly describe the transaction.**

22 **A:** As a first step, we have formed a holding company that will own NW Natural and PGE as
23 operating utilities. We refer to the holding company in our Application and testimony as

1 "NW Natural Holdco." As a result of the transaction, Enron will own no more than 4.9
2 percent of NW Natural Holdco voting stock. NW Natural shareholders will receive
3 voting shares in NW Natural Holdco in exchange for the shares they hold in NW Natural.
4 Our Chief Financial Officer, Bruce DeBolt, explains these aspects of the transaction in
5 more detail in his testimony supporting this Application.

6 **Q: What purpose does the transaction's structure serve?**

7 A: We carefully structured and balanced the transaction to achieve four objectives: (1) to
8 create and deliver customer benefits over time; (2) to self-finance the acquisition debt
9 taken on by NW Natural Holdco in a way that avoids a significant downgrading of PGE
10 and NW Natural debt and allows their debt ratings to improve over time; (3) to increase
11 cash flow and value to NW Natural's shareholders over time; and (4) to reduce Enron's
12 ownership position in an orderly fashion that promotes objectives (1), (2), and (3).

13 To reach these objectives, we must use the savings generated by this transaction,
14 in the near term, to improve the consolidated companies' financial condition. This
15 relationship is described in the testimony of Mr. DeBolt. The customer benefits plan,
16 also described in Mr. DeBolt's testimony, will help accomplish these objectives as well.

17 **BENEFITS**

18 **Q: What are the benefits of the transaction for customers and the community?**

19 A: The benefits to customers and the community flow directly from the goals that are
20 driving this transaction. They are both qualitative and quantitative. The quantitative
21 benefits are the savings we expect to achieve in most aspects of the two utilities' current
22 operations, particularly the customer service, administrative support, and supply
23 functions.

1 Although many of the operational costs of gas and electric distribution will
2 remain the same for each operating utility, at least in the near term, we expect to achieve
3 significant reductions in common customer service and administrative costs. The
4 testimony of Mr. DeBolt explains this in more detail.

5 Electricity and, to a greater extent, natural gas are commodities. Under current
6 tariffs, customers will benefit directly from any reductions we are able to achieve in the
7 purchase costs of these commodities, as well as from the companies' ability to manage
8 gas positions, transportation, and storage jointly.

9 On the qualitative side, the benefits first and foremost include greater convenience
10 for our customers and anyone in the community affected by the electric and natural gas
11 infrastructure. This convenience is not possible with any other combination for either
12 NW Natural or PGE.

13 In addition, the benefits of having the two utilities locally accountable are just as
14 important. As a result of the transaction, the Northwest will have a company with over
15 \$5 billion in assets headquartered in Portland, at a time when the trend in the region has
16 been to lose major corporate headquarters to other states and countries. And that
17 company will join two utilities with a combined history of 250 years of outstanding
18 service in the region. That continued and renewed local accountability will ensure that
19 the combined companies' decisions are right for the region and for our customers.

20 **Q: How will your shareholders benefit?**

21 **A:** Our shareholders must have a realistic opportunity to benefit from this transaction in
22 order to compensate them for the risk and expense this transaction requires. In the long
23 term, they have an opportunity for cash flow and earnings that are greater than NW

1 Natural could achieve by itself, even as customers benefit from cost savings. Because
2 our shareholders are bearing these risks and expenses, our customers will benefit over
3 time.

4 **MANAGEMENT OF NW NATURAL HOLDCO, NW NATURAL, AND PGE**

5 **Q: Please describe the experience of NW Natural Holdco and its affiliates in operating**
6 **a public utility.**

7 A: NW Natural has been in the gas business since even before Oregon became a state in
8 1859. It has grown from a franchised seller of manufactured gas to fuel Portland street
9 lights in the 19th century, to a distributor of natural gas throughout the state beginning in
10 the 1950s. The addition of significant liquefied natural gas storage capacity in the 1960s
11 and '70s, followed by underground gas storage capacity in the '80s and '90s, ensured the
12 system's reliability and gave us the ability to buy large volumes of gas during the
13 summer months, when prices are lower, for use in the winter months, when prices are
14 higher. That tradition of finding the most cost-effective ways to serve our customers has
15 continued to the present day, even as we have added customers in each of the last 12
16 years at rates of over four percent, nearly three times the national average. NW Natural is
17 the state's largest natural gas utility, with total assets of \$1.279 billion and \$532.1 million
18 in annual revenue for 2000.

19 Since 1889, PGE has been a leader in the electric utility industry. PGE meets its
20 region's growing demands with a diverse mix of low-cost generation facilities that
21 include water power, renewables, coal, and gas combustion. Its eight hydroelectric plants
22 and five thermal plants have a total combined generating capacity of 2,013 megawatts.
23 PGE also owns major transmission rights to the Pacific Intertie, the West Coast electrical

1 superhighway. These power exchange lines give PGE the flexibility to buy power and
2 sell it to other utilities when it is not needed by its customers. PGE is the sole purchaser
3 of wind power from the 24.9 megawatt Vansycle Ridge Wind Farm near Pendleton,
4 Oregon. PGE has seen the number of retail customers it serves grow from about 600,000
5 in 1991 to about 732,000 – a 23 percent increase over the last decade. PGE continues to
6 place a high priority on operational excellence, safety, and customer service. In fact,
7 PGE is ranked as the top performing utility in Oregon, with a very high system reliability.

8 **Q: What is NW Natural Holdco's corporate strategy?**

9 A: Our core business will continue to be our top priority. We plan to apply the excellent
10 management abilities of both companies to the key functions of energy delivery,
11 generation, and energy supply, gas storage, and wholesale trading. At the same time, we
12 will explore new ways to serve our customers and communities as we stay flexible and
13 responsive to changes in the marketplace. Above all, we will focus on safe, efficient, and
14 reliable electric and natural gas service to our customers.

15 **Q: How will NW Natural Holdco be organized and managed?**

16 A: Mark Dodson will remain President of NW Natural. We are hopeful that Peggy Fowler
17 will continue in her position as President of PGE. Both of them would also take top
18 positions working with me at NW Natural Holdco. We are still in the process of
19 developing other details of our organization and management plan. That effort is being
20 led by Mr. Dodson and Ms. Fowler. One important goal of our plan is to take advantage
21 of the excellent and complementary talents and management experience of each
22 operating utility. Other companies in our industry face the increasing problem of

1 developing a stable group of experienced, talented, and dedicated managers. We are
2 fortunate to have extraordinary depth and diversity in our combined management team.

3 Mr. Dodson explains the development of our organization and management plan
4 in more detail in his supporting testimony. He also testifies regarding his plans to operate
5 NW Natural.

6 NW Natural Holdco's headquarters will be located in Portland and will contain
7 all administrative and support services for PGE and NW Natural. These functions will be
8 combined from today's separate organizations at each utility. Utility operations will be
9 combined wherever possible to achieve efficiencies and optimum service levels. For the
10 most part, local PGE utility operations and offices will be maintained to provide the same
11 or higher levels of customer service, safety, and reliability. However, in some
12 geographical areas, field operations and facilities will be combined with those of NW
13 Natural in order to reduce costs of field services and construction. In addition, PGE will
14 abide by its exacting service quality measures, and NW Natural is proposing its own
15 service quality standards; therefore, both utilities will continue to provide outstanding
16 customer service and reliability. The main effects of the transaction will be efficiencies
17 gained from combining administrative functions, customer service activities, and
18 operations of the two utilities. Overall, the result will be a lower combined cost structure.

19 **COMMITMENT TO CUSTOMERS, COMMUNITY, AND THE ENVIRONMENT**

20 **Q: What will be NW Natural Holdco's approach to serving customers?**

21 **A:** Our approach will be no different from the approaches of NW Natural and PGE, which
22 are themselves nearly identical: Our first priority is to provide safe, reliable service.
23 Without reducing quality, we plan to offer that service more efficiently than either

1 company has been able to do in the past. At the same time, the companies will remain
2 flexible and ready to increase the value of our energy services as we respond to changes
3 in the marketplace.

4 **Q: What commitments will NW Natural Holdco make to the community?**

5 A: I can say with some pride that you would be hard pressed to find two utilities more
6 committed to the welfare of their communities than NW Natural and PGE. At NW
7 Natural, as a matter of company policy, we contribute one percent of our net income
8 before taxes to charity each year. And we donated the land on which now sits Portland's
9 spectacular Classical Chinese Garden. NW Natural Holdco intends to continue these and
10 similar activities and policies after the transaction closes. And, of course, we expect that
11 our managers and employees individually will continue to participate actively in the civic
12 life of this region.

13 **Q: What is NW Natural Holdco's corporate philosophy with respect to the**
14 **environment?**

15 A: We will maintain the philosophy of NW Natural and PGE, each of which has been
16 committed to providing efficient and environmentally sound services within their
17 respective domains. Because of PGE's experience with power generation and high
18 voltage transmission, and NW Natural's experience with siting and constructing gas
19 transmission and distribution lines, we have long and valuable experience in working
20 with a number of diverse organizations to ensure protection of the environment as we
21 continue to provide our customers with excellent service.

22 Another benefit to this transaction is that it will tend to align the combined
23 company's economic incentives with the region's conservation policy. NW Natural

1 Holdco will be able to provide its customers with information to help them choose the
2 most efficient energy source for each application, whether it is natural gas or electricity.

3 In the combined PGE/NW Natural territory, there will be no economic incentive to
4 recommend a particular fuel simply because it is the only fuel the company sells.

5 **Q: Does this conclude your direct testimony?**

6 **A: Yes.**

7 [Sea3119877]