

**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 MARK S. DODSON**

**December 4, 2001**

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

2 A: My name is Mark Dodson. I am the President and Chief Operating Officer of Northwest  
3 Natural Gas Company ("NW Natural").

4 **QUALIFICATIONS**

5 **Q: Please summarize your education and business experience.**

6 A: I came to NW Natural in 1997 as Senior Vice President of Public Affairs and General  
7 Counsel, and became President and COO in 2001. Prior to that, from 1980 to 1997, I was  
8 a partner at Ater Wynne Hewitt Dodson & Skeritt, a law firm in Portland, Oregon. I  
9 received my B.A. (magna cum laude) from Harvard University in 1967, and my J.D.  
10 from Boalt Hall School of Law, University of California at Berkeley, in 1973. In  
11 addition to my professional career, I have served on the Oregon State Board of Higher  
12 Education, as an officer on the Oregon Health Science University Board, the Linfield  
13 College Board, the Portland Chamber of Commerce Board of Directors, as well as  
14 serving in a number of political campaigns and charitable organizations.

15 **PURPOSE OF TESTIMONY**

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

17 A: I explain the commitments we are offering to ensure that the acquisition of Portland  
18 General Electric Company ("PGE") from Enron Corp. ("Enron") will not harm customers  
19 of either NW Natural or PGE and will, in fact, provide net benefits to these customers. I  
20 also explain how the holding company, which we refer to in this Application as  
21 Northwest Natural Holdco ("NW Natural Holdco") plans to integrate and manage the two

1 operating companies, with a view toward maintaining the companies' excellent customer  
2 service.

### 3 THE INTEGRATION PROCESS

4 **Q: What will be the basic structure of the companies following completion of this**  
5 **transaction?**

6 A: Both NW Natural and PGE will become utility subsidiaries of a single holding company,  
7 NW Natural Holdco. NW Natural Holdco will hold the common stock of both NW  
8 Natural and PGE. It will be exempt from registration requirements under the Public  
9 Utilities Holding Company Act of 1935.

10 **Q: How will PGE and NW Natural management and operations change with this**  
11 **structure?**

12 A: Both NW Natural and PGE will operate as independent operating utilities, much as they  
13 do now. Customer service is a priority for each company and will remain excellent. NW  
14 Natural Holdco will be headquartered in Portland and will provide all administrative and  
15 support services for PGE and NW Natural. These functions will be combined, and utility  
16 operations will be combined as well, whenever possible, to increase efficiency and  
17 provide optimum service levels. While we expect to maintain most local PGE utility  
18 operations and offices, there will be some consolidation of field operations and facilities  
19 in certain geographical areas, so that we can lower field service and construction costs.

20 **Q: How will you handle the integration process?**

21 A: We are forming a team to orchestrate both the initial transition and the ongoing process  
22 of integration. Rather than providing this team with a conclusion, we intend to make the

1 integration a thoughtful and deliberative process – so that the process itself will generate  
2 the answers, rather than be driven by preconceived results. Because that is our strategy –  
3 to allow the process to define the integration as it develops scope and detail – I cannot  
4 offer a lot of specific information about what integration will look like. However, I can  
5 tell you that the working relationship between NW Natural Holdco and the utilities will  
6 be controlled by a master services agreement that complies with all state and federal  
7 statutory conditions on affiliate transactions. Beyond that, the integration team’s primary  
8 instructions will be first to preserve both utilities’ excellent customer service during the  
9 transition, and second to control costs. Within the bounds of the law and those  
10 instructions, the team will have considerable latitude.

11 **Q: What is your rationale for using a process-driven integration strategy?**

12 A: It works. I’ve become familiar with transition processes: I was on the Carter-Reagan  
13 Transition Team representing a federal agency of over 50,000 employees; I led Neil  
14 Goldschmidt’s transition when he became Governor; and I also assisted with the  
15 transition plans for Governors Barbara Roberts and John Kitzhaber. I know from  
16 experience that an open approach is ultimately more effective than a rigid approach.

17 **Q: What details can you give us about transition planning so far?**

18 A. Early efforts in transition planning already are underway, with the understanding that  
19 prior to obtaining all regulatory approvals, these efforts are confined to planning. The  
20 transition as a whole will be under the direction of Peggy Fowler (PGE’s President and  
21 CEO) and me. Keith White of NW Natural has been named “integration executive” for  
22 transition planning. His counterpart at PGE is Tom Mathews. They will establish a

1 project office for transition planning, which will be responsible for overall project  
2 coordination and planning, benefits tracking and reporting, and transition  
3 communications.

4 The transition planning will be phased in over the next six to twelve months. At  
5 this time, a communications lead has been named from each company (Paula Coppel of  
6 NW Natural and Patrick Stupek of PGE). Grace Merchant of NW Natural will be  
7 charged with the overall organizational development plan. The office will be staffed with  
8 two people from PGE: Carol Lindenberg as project manager and Dave Sorenson as  
9 business analyst. They will keep track of integration benefits.

10 At this time, we have established five teams for organizational integration. These  
11 teams are charged with capturing the synergies in their respective areas, looking for ways  
12 to integrate work processes and to position the new company for future growth.

13 The teams that will begin planning immediately include the following subject  
14 areas: strategy and value drivers; human resources; information technology; finance and  
15 accounting; and non-energy supply chain purchasing. Three of these teams will be  
16 headed by NW Natural personnel and two by personnel from PGE.

#### 17 **BENEFITS OF THE TRANSACTION TO CUSTOMERS**

18 **Q: Please describe the general benefits of this transaction to NW Natural's Washington**  
19 **customers.**

20 **A:** Some of the primary benefits of this transaction include service quality measures,  
21 capacity optimization, and operating synergies.

1           1.       **Service Quality Measures.** NW Natural has a long history of outstanding  
2           service quality, and we have no intention of changing that as a result of this transaction.  
3           NW Natural will abide by the same Service Quality Measures under which PGE operates,  
4           modified as appropriate for a gas utility. PGE performs under specific Service Quality  
5           Measures (“SQM”) adopted in Oregon Public Utility Commission Order No. 97-196 as a  
6           condition in the Enron merger. Following this transaction, PGE will continue to abide by  
7           the SQM in Order No. 97-196, as updated and revised by PGE and the Staff of the  
8           Commission in the Sierra Pacific proceeding, Docket UM 967. NW Natural adopted  
9           these Service Quality Measures and modified them, as appropriate, for use by a gas  
10          utility. The proposed Service Quality Measures for NW Natural are provided as  
11          **Exhibit \_\_\_ (MSD-1).**

12          2.       **Capacity Optimization.** PGE generates electricity at two gas-fired power plants  
13          and holds capacity on the Northwest Pipeline to meet the firm gas transportation  
14          requirements of these plants. NW Natural is the largest shipper of natural gas on  
15          Northwest Pipeline; NW Natural also has considerable gas storage capability, notably at  
16          the Mist facilities. The combination of NW Natural’s storage assets with both  
17          companies’ contractual rights to purchase and transport gas has the potential to produce  
18          savings in supply costs, pipeline demand charges, and storage charges. Our strategy is to  
19          look carefully at the combination and determine whether there are cost-saving  
20          opportunities. We may be able to save costs through optimizing NW Natural’s and  
21          PGE’s combined upstream natural gas portfolios. Any costs we are able to save will

1 benefit utility customers directly, through NW Natural's annual purchased gas adjustment  
2 and PGE's power cost adjustment tariff.

3 **3. Operating Synergies.** Because PGE and NW Natural share customers and have  
4 overlapping service territories, the combined companies will be able to capture  
5 significant operating synergies, particularly in administrative and customer service areas.  
6 We propose a specific plan to pass these benefits on to customers. Bruce DeBolt explains  
7 the plan in his Direct Testimony (Exhibit \_\_\_\_ (BRD-T).

8 NW Natural and PGE have already established a track record of working together,  
9 as separate companies, to capture cost savings through combining operations. The two  
10 utilities set up a pilot joint meter-reading program, overcoming logistical obstacles such  
11 as scheduling, record keeping, and coordinating different computer systems. This  
12 program has been successful and will be expanded under the combined management of  
13 the two companies. The utilities also already coordinate common trenching for new  
14 construction projects. When this transaction is complete, the effort to realize operating  
15 efficiencies will, of course, increase and expand into other areas. These examples  
16 demonstrate that there is precedent for saving money through integrating what would  
17 otherwise be duplicative functions.

18 **NW NATURAL'S GUARANTEE OF NO HARM**

19 **Q: Can you explain NW Natural Holdco's and NW Natural's commitment to hold**  
20 **utility customers harmless from any adverse effects this transaction may have on**  
21 **rates or service?**

1 A: **Exhibit \_\_\_ (MSD-2)**, entitled “Proposed Conditions,” contains a set of approval  
2 conditions designed to ensure that this acquisition does not harm the customers of either  
3 PGE or NW Natural.

4 **Q: How would you generally describe the Proposed Conditions?**

5 A: These conditions fall into four categories – rates; finance; effective regulation; and  
6 customer service. Mr. DeBolt testifies concerning Proposed Conditions that relate to  
7 finance issues. I testify concerning Proposed Conditions that relate to rates, effective  
8 regulation, and customer service.

9 **Q: Please explain the rate commitments.**

10 A: NW Natural Holdco and NW Natural will hold ratepayers harmless from increases in  
11 revenue requirement as a result of this transaction. This commitment is contained in  
12 Proposed Condition 1. This condition ensures that the cost-of-service risks of this  
13 transaction are borne by NW Natural Holdco, not the customers of NW Natural. This  
14 condition is reinforced by other rate conditions. Condition 2 commits that neither the  
15 costs of completing the transaction nor the cost of goodwill will be included in NW  
16 Natural’s rates or results of operations and that the company will file preliminary and  
17 final accountings of its transaction costs. These conditions assure customers and the  
18 Commission that the costs and risks of this transaction will be borne by NW Natural  
19 Holdco and NW Natural, while the benefits will be shared with customers. Condition 3  
20 provides that NW Natural will have the burden of establishing the reasonableness of NW  
21 Natural Holdco’s costs that are allocated or directly assigned to the company, and these  
22 costs will be subject to the Commission’s approval for ratemaking purposes. Finally,



1 Condition 4 explains our Rate Benefit Plan, which is described in more detail in the  
2 Direct Testimony of Bruce R. DeBolt (Exhibit \_\_\_ (BRD-T)).

3 **Q: Please explain the regulatory commitments.**

4 A: The regulatory commitments will ensure that the creation of a holding company and  
5 acquisition of PGE by the holding company do not impair the Commission's ability to  
6 regulate NW Natural effectively. Condition 7 commits to maintaining the accounting  
7 records of NW Natural separate from the other utility, NW Natural Holdco, and other  
8 affiliates. Condition 8 assures the Commission that it or its agents may audit the accounts  
9 of NW Natural Holdco and its unregulated subsidiaries which are the bases of charges to  
10 NW Natural. NW Natural Holdco further agrees to cooperate fully with these audits.  
11 The purpose of this Condition is to ensure that the Commission will have access to the  
12 records necessary to determine the reasonableness of allocation factors and direct charges  
13 by which costs within the NW Natural Holdco holding company system are assigned or  
14 charged to NW Natural. Condition 9 states that NW Natural Holdco will directly assign  
15 transition costs to the two utilities to the extent possible, and otherwise will consolidate  
16 and allocate these costs to the two utilities on an equitable basis. Principles of cost  
17 causation will generally be used in allocating these consolidated costs. The term  
18 "transition costs" refers to the costs incurred to achieve synergy savings. These costs are  
19 expected to occur primarily after the closing of the transaction and are distinct from  
20 "transaction costs," which refer to the costs of investigating, negotiating, and completing  
21 the transaction. In Condition 10, the parties agree to develop a Master Services  
22 Agreement to govern the terms and prices for the transfer of goods and services among

1 the two regulated utilities, NW Natural Holdco, and their unregulated affiliates.

2 Condition 11 affirms that NW Natural Holdco and NW Natural will comply with the  
3 Commission's requirements regarding affiliated interest transactions, including the timely  
4 filing of reports. We understand this merely requires the companies to comply with the  
5 public utility laws and regulations. We will include in these affiliated interest reports  
6 employee transfers, both permanent and temporary, and consulting and training activities  
7 among the companies.

8 **Q: What customer service commitments are included in your Proposed Conditions?**

9 A: As set forth in Condition 12, NW Natural is proposing Service Quality Measures  
10 (Exhibit \_\_\_\_ (MSD-1)) for its gas operations and commits that it will meet or exceed  
11 these Service Quality Measures.

12 **Q. Is NW Natural proposing a commitment directed solely to its Washington  
13 customers?**

14 A. Yes. In Condition 13, the company agrees that it will maintain its service facilities in  
15 Washington through at least the end of 2008. Clark County, Washington, is still the  
16 fastest growing part of our fast-growing service territory. Although the company  
17 potentially could achieve nominal cost savings from consolidating Washington and  
18 Oregon service facilities, it currently would be impractical. Traffic congestion between  
19 Vancouver and Portland often precludes rapid movement between the two metropolitan  
20 areas at times during the day. A consolidation of service centers could impair our ability  
21 to provide the prompt customer response that customers expect and deserve, particularly  
22 when safety concerns are raised. Apart from service-related issues, Clark County has a

1 different political, economic, and customer base from Oregon that we believe requires us  
2 to maintain our local presence there, in order to provide service appropriate to  
3 Washington. We do not propose to make this condition permanent, because  
4 circumstances may change in the future. However, we want the Commission to  
5 understand our continuing commitment to Washington and so we propose to maintain  
6 physical service facilities there for the foreseeable future.

7 **PLAN FOR OBTAINING REGULATORY APPROVALS**

8 **Q: What are NW Natural Holdco's plans for obtaining necessary regulatory approvals,**  
9 **besides the approval of this Commission?**

10 A: NW Natural and NW Natural Holdco filed an application with the Public Utility  
11 Commission of Oregon on November 28, 2001 for approval of this transaction, and will  
12 make similar filings with several federal agencies over the next two or three months. We  
13 intend to file, by the end of calendar year 2001, an application with the Federal Energy  
14 Regulatory Commission, a request for approval from the Nuclear Regulatory  
15 Commission, and an application with the Securities and Exchange Commission. We will  
16 file a Hart-Scott-Rodino premerger notification with the Federal Trade Commission and  
17 the Department of Justice in early 2002. Additional filings may be required at the  
18 Oregon Energy Facility Siting Council.

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

20 A: Yes.

21 [Sea3119878]