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VIA ELECTRONIC FILING

March 30, 2017

PUC Filing Center
Public Utility Commission of Oregon
P.O. Box 1088
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**Re: UM 1804: In the Matter of NORTHWEST NATURAL GAS COMPANY dba NW
NATURAL, Application for Approval of Corporate Reorganization to Create a
Holding Company**

Attention Filing Center:

Attached for filing in docket UM 1804 is an electronic copy of Northwest Natural Gas Company's Opening Testimony of Shawn Filippi and Brody Wilson.

Please do not hesitate to contact me if you have any questions about this filing.

Very truly yours,

Wendy McIndoo
Office Manager

Attachments

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1804

In the Matter of

NORTHWEST NATURAL GAS
COMPANY,

Application for Approval of Corporate
Reorganization to Create a Holding
Company.

OPENING TESTIMONY OF SHAWN M. FILIPPI

NORTHWEST NATURAL GAS COMPANY

March 30, 2017

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INTRODUCTION AND SUMMARY

Q. Please state your name, business address, and position at Northwest Natural Gas Company.

A. My name is Shawn Filippi. My business address is 220 NW Second Avenue, Portland, Oregon 97209. My current positions at Northwest Natural Gas Company (“NW Natural”) are Vice President, Chief Compliance Officer, and Corporate Secretary.

Q. Please summarize your educational background and business experience.

A. I hold a B.S. in psychology and communication studies from Kansas State University *cum laude* and a J.D. from Northwestern School of Law of Lewis & Clark College *magna cum laude*. I also attended a Master’s Program in Communications Studies at Portland State University, where I also taught courses in Communications. My legal career began at Stoel Rives LLP, where my practice focused on corporate law, securities, finance, and mergers and acquisitions. I joined NW Natural in 2005 as Associate Legal Counsel. I later became Assistant Corporate Secretary for NW Natural and its subsidiaries and after that was promoted to Senior Legal Counsel. Since 2015, I have been Vice President and Corporate Secretary of NW Natural and its subsidiaries, and in 2016, Chief Compliance Officer was added to my other roles.

Q. What is the purpose of your testimony?

A. My testimony is offered in support of NW Natural’s Application to the Public Utility Commission of Oregon (“Commission”) in which it requests approval of its proposal to reorganize into a holding company structure (“the Reorganization”). The purpose of my testimony is to explain the reorganization process in detail and to explain why the Reorganization will benefit both the Company and its customers.

1 Company witness Brody Wilson will testify in depth about the benefits provided by
2 the commitments offered in the Company's Application.

3 **Q. Please summarize your testimony.**

4 A. NW Natural, an Oregon corporation and the entity within which the utility operates,
5 is a publicly-traded company organized under Oregon law. In this testimony, when
6 I refer to "NW Natural," I am referring to this specific corporation, through which we
7 carry out our natural gas local distribution company utility business ("Utility"). NW
8 Natural also has several non-utility subsidiaries ("Non-Utility Subsidiaries"), and
9 one subsidiary, NW Natural Gas Reserves, LLC, ("Gas Reserves") and the
10 intermediate subsidiary Northwest Energy Corporation, which were formed to hold
11 NW Natural's interests in certain gas reserves serving utility customers..¹ NW
12 Natural proposes to reorganize the consolidated structure within which it sits to a
13 holding company structure to enhance the legal and financial separations between
14 NW Natural and its Non-Utility Subsidiaries, and to provide a better structure for
15 the consolidated entity to pursue business opportunities separate and apart from
16 the utility operations, thereby strengthening the overall consolidated organization,
17 and benefiting NW Natural and its customers. The Reorganization will not result
18 in changes to NW Natural's utility operations or rates. NW Natural intends to
19 maintain the same Board of Directors and executive team, and is dedicated to
20 continuing to provide its customers with safe and reliable natural gas service, as it
21 has in the past. The holding company structure—together with the commitments
22 described in my testimony and in Mr. Wilson's testimony—will provide net benefits
23 to NW Natural's customers and will not harm Oregonians as a whole.

¹ Gas Reserves has agreed to abide by the Commission's regulation of NW Natural. See, *In re NW Natural's Application for Approval of Affiliated Interest Transactions with Encana Oil and Gas and Application for Property Transfer to Encana Oil and Gas*, UI 329 and UP 284, Order No. 13-065 (Feb. 26, 2013).

1 **CORPORATE STRUCTURE AND REORGANIZATION PROCESS**

2 **Q. Please briefly describe what a holding company is, and what it would mean**
3 **for NW Natural to form a holding company.**

4 A. Holding companies are a very common corporate structure and exist across all
5 industries. While there might be some variability across organizations, generally,
6 a holding company is a corporate entity, usually a corporation, which is created for
7 the purpose of holding other, legally separate, corporate entities. Generally,
8 companies that are referred to as holding companies do not own substantial assets
9 other than equity interests in other corporate entities, and do not have any
10 operations or other active businesses at the holding company level.

11 It might be helpful to think of a holding company in the NW Natural context
12 as a corporate layer between the Utility and shareholders. Currently, there are
13 several thousand shareholders with a direct equity interest in NW Natural. After
14 the reorganization, there will be one shareholder of NW Natural, the holding
15 company, and the several thousand shareholders will hold equity interests in the
16 holding company. As is the case within the consolidated organization currently, in
17 a holding company structure, each corporate entity is legally separate. The
18 Reorganization simply changes the manner in which those entities are organized
19 within the consolidated entity.

20 In the utility industry, holding companies have become the norm, and are
21 employed for the same purposes holding companies are used in other industries.
22 In fact, NW Natural is one of only two stand-alone local gas distribution companies
23 in the nation that is operating without a holding company structure.

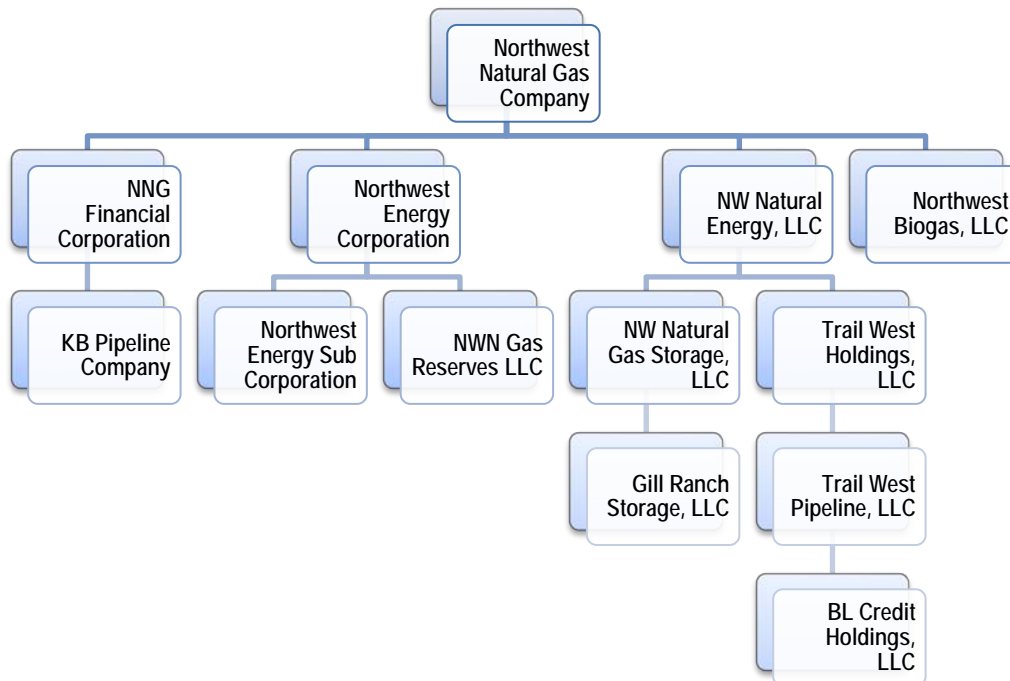
24 Under the proposed Reorganization, the proposed holding company would
25 directly own NW Natural, as well as the Non-Utility Subsidiaries. Gas Reserves,
26 and the intermediate subsidiary Northwest Energy Corporation, would remain

1 subsidiaries of NW Natural. The holding company would serve NW Natural by
2 further strengthening the overall consolidated organization. NW Natural's day-to-
3 day operations would continue to be carried out by NW Natural as they are today.
4 Currently, after the Reorganization, NW Natural would be the primary operating
5 entity owned by the holding company. The holding company could, over time, also
6 seek to acquire or develop other businesses consistent with its corporate strategy.

7 **Q. Please describe NW Natural's current corporate structure.**

8 A. Currently, NW Natural is a publicly held corporation organized under Oregon law,
9 and within which the utility operates. NW Natural holds several wholly- and
10 partially-owned subsidiaries, all of which are Non-Utility Subsidiaries. NW Natural
11 conducts the utility business, while the Non-Utility Subsidiaries, which are separate
12 and distinct legal entities, conduct other businesses.

13 NW Natural's current corporate structure is illustrated in the following
14 figure:

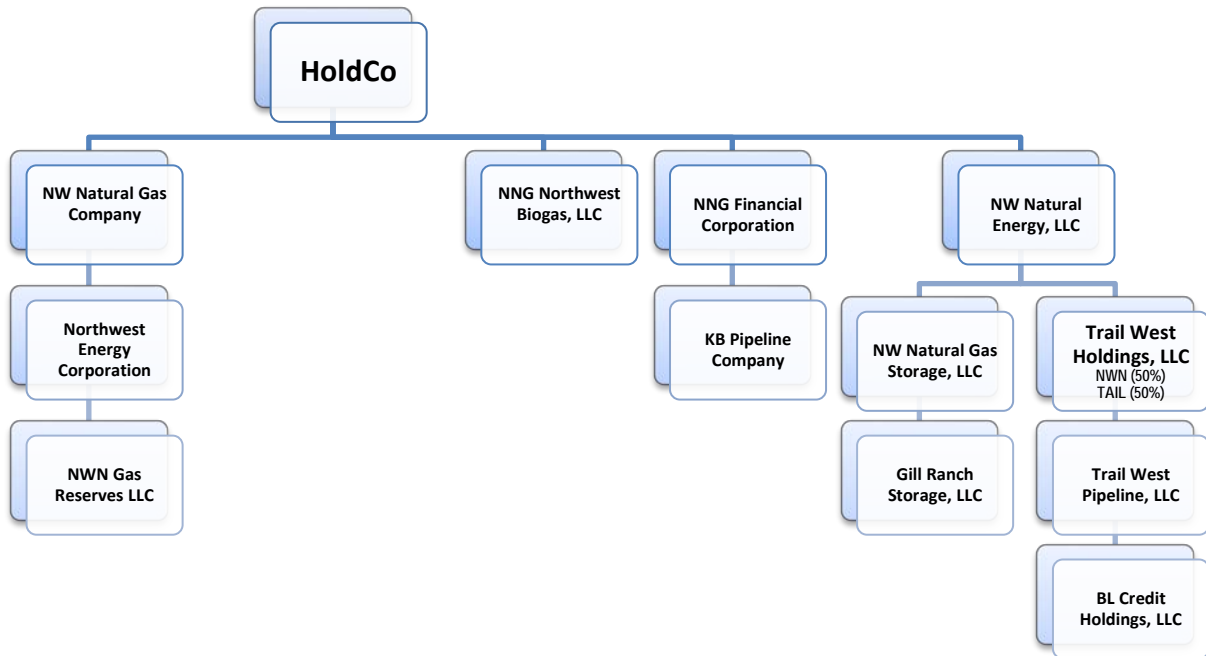


15

1 **Q. What will NW Natural’s corporate structure look like after the**
2 **Reorganization?**

3 A. After the Reorganization, the newly formed holding company (referred to as
4 “holding company” or “HoldCo”) will be owned by the public shareholders that
5 currently own NW Natural in the same proportion that they now own NW Natural,
6 and NW Natural will become a wholly-owned subsidiary of HoldCo. In addition,
7 HoldCo will acquire all of NW Natural’s interests in the Non-Utility Subsidiaries that
8 are currently NW Natural subsidiaries. NW Natural would retain Gas Reserves,
9 along with the intermediate non-operating subsidiary Northwest Energy
10 Corporation, as wholly-owned subsidiaries, as they have agreed to abide by the
11 Commission’s regulation as part of the gas reserves arrangement.

12 The following figure shows the post-reorganization corporate structure:



13
14 **Q. Will NW Natural’s operations be affected by the Reorganization?**
15 A. No. NW Natural, which is a separate and distinct corporate entity, will continue to
16 operate after the Reorganization in the same way it operates today. NW Natural

1 will continue to own all of its Utility assets and property. Its day-to-day operations
2 will remain the same, and its rates will not change. NW Natural will continue to be
3 subject to the Commission's regulatory jurisdiction over its rates, service,
4 accounting, and other general matters of Utility operations, just as it is today.

5 **Q. Please describe the reorganization process NW Natural plans to use.**

6 A. The Reorganization will be effected in four steps:

7 (1) After NW Natural receives regulatory approval from the Commission, two new
8 companies will be incorporated: HoldCo will be formed as a subsidiary of NW
9 Natural, and a merger subsidiary ("Merger Sub") will be formed as a subsidiary
10 of HoldCo.

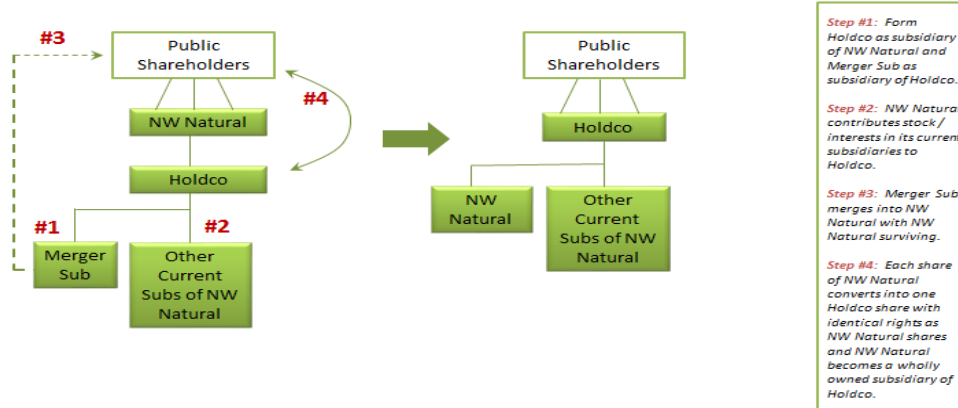
11 (2) Once HoldCo and Merger Sub are formed, NW Natural will contribute to
12 HoldCo all of its stock and its interest in its current subsidiaries.

13 (3) Merger Sub will be merged into NW Natural, with NW Natural as the surviving
14 company. Merger Sub will be utilized solely to effectuate the Reorganization
15 and will cease to exist after this step.

16 (4) By the terms of the merger and operation of law, each share of NW Natural will
17 convert into one share of HoldCo (with identical rights as NW Natural shares).
18 HoldCo's shares will be registered with the Securities and Exchange
19 Commission, and NW Natural will become a wholly-owned subsidiary of
20 HoldCo.

21 The following figure shows how the Reorganization will be accomplished.

Reorganization as a Holding Company



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3 **Q. In addition to approval by the Public Utility Commission of Oregon, are there**
4 **other regulatory and corporate approvals that must be gained before the**
5 **Reorganization can take place?**

6 A. Yes. The approval of the OPUC is a necessary condition for forming HoldCo.
7 Additionally, NW Natural must receive the approval of the Washington Utilities and
8 Transportation Commission, and is also seeking the approval of the California
9 Public Utilities Commission (given that NW Natural's wholly-owned subsidiary, Gill
10 Ranch Storage, LLC, will be moved under the Holding Company). Following the
11 regulatory proceedings, NW Natural's Board of Directors will review the conditions
12 imposed by the commissions and decide whether to approve the Reorganization.
13 If the Reorganization is approved by the Board, NW Natural must receive approval
14 of its shareholders under Oregon law.

15 **Q. Will the Reorganization affect the Commission's ability to regulate NW**
16 **Natural or its utility operations?**

17 A. No, nothing about the Reorganization will affect the Commission's ability to
18 regulate the NW Natural or its utility operations, in the same manner as the
19 Commission provides regulation today. In fact, as described in Brody Wilson's

1 testimony, the commitments proposed by NW Natural in its Application actually
2 provide the Commission with expanded authority to regulate NW Natural-- beyond
3 the authority it possesses today.

4 **BUSINESS OPERATIONS AND STRATEGY OF HOLDCO**

5 Q. **Earlier, you stated that the holding company could seek to grow over time.**
6 **Can you please provide a “high level” description of the growth strategy that**
7 **the Company hopes to accomplish through the holding company structure?**

8 A. Under our existing consolidated corporate organization, we continuously look for
9 opportunities that would build on our core competencies, and match the risk profile
10 we and our shareholders are seeking. We believe that business growth and access
11 to capital markets are key to remaining financially healthy and strong. We would
12 continue that effort under the Reorganization. In looking for growth opportunities,
13 we are seeking additional ways to invest in utility or “utility-like” business
14 opportunities, where we can focus on building or maintaining infrastructure,
15 running an efficient business with strong financial practices, and achieving
16 excellence in customer service. In short, we are looking at opportunities to expand
17 our ability to do what we believe we do best, and that for which we have been
18 consistently recognized. We continue to believe that growth in the overall
19 organization can provide enhanced financial strength, access to capital markets
20 and overall shareholder value that will support our continued efforts to provide safe
21 and reliable customer service to our Utility customers.

22 Q. **How will a holding company structure help the Company to execute this**
23 **strategy?**

24 A. A holding company will provide a better, and more efficient, platform upon which
25 the Company may pursue, finance, and oversee new business opportunities, and
26 keep these separate from NW Natural's utility operation. Having the holding

1 company structure in place prior to that growth is advantageous for NW Natural
2 and its customers, as the holding company will better support the effective growth
3 of the consolidated organization. We share the Commission's vested interest in
4 ensuring protection of the Utility. So, our goal is to establish the Reorganization
5 with appropriate protections now, to avoid disruption and movement of entities at
6 a later time, and allow us to maximize the effectiveness of our responsible growth.

7 **Q. Please explain.**

8 A. The best way for me to illustrate this point is by describing how the Company would
9 pursue its strategy for business growth, both under the existing and holding
10 company structure. Of course, in both structures, NW Natural would continue its
11 efforts to grow its business through its gas utility operations—focusing on customer
12 additions and adding to its utility services. So I will not focus on that important
13 aspect in this distinction.

14 ***Without the holding company structure***, the consolidated organization
15 would seek to expand its business growth by making investments in new business
16 opportunities consistent with the strategy I discussed above. These new
17 investments might be made through developing new businesses or possible
18 acquisitions. These new investments would likely be funded using NW Natural
19 retained earnings (earnings that have been retained by NW Natural as opposed to
20 being distributed to shareholders through dividends—commonly referred to as
21 “shareholder dollars”), or non-utility debt incurred by a Non-Utility Subsidiary. New
22 businesses developed or acquired by the consolidated entity would be held
23 through existing Non-Utility Subsidiaries, or new Non-Utility Subsidiaries.

24 In this scenario growth still occurs, but all growth is accomplished through
25 Non-Utility Subsidiaries that “roll up” to NW Natural. While there is corporate
26 separation among the entities within the consolidated group, there are no formal

1 ring-fencing provisions. So, if a Non-Utility Subsidiary were to experience financial
2 distress, or were to be impaired, that would be reflected in the consolidated
3 financial statements of NW Natural, and therefore, could affect the debt and
4 corporate ratings as well as shareholder valuation of NW Natural.

5 ***With the holding company structure in place***, the consolidated
6 organization would also seek to expand its business growth by making investments
7 in new business opportunities consistent with the strategy I discussed above.
8 These new investments might be made through developing new businesses or
9 possible acquisitions. These new investments would be funded, rather than
10 reliance solely on NW Natural retained earnings (“shareholder dollars”) or non-
11 utility debt incurred by a Non-Utility Subsidiary, through equity and/or debt
12 issuances at the holding company level, capitalizing on the efficiencies of scale
13 afforded by a holding company. New businesses developed or acquired by the
14 consolidated entity would be held through existing Non-Utility Subsidiaries, or new
15 Non-Utility Subsidiaries.

16 Under the proposed Reorganization, NW Natural’s local distribution
17 operations would be held in a separate and distinct entity from HoldCo and the
18 Non-Utility Subsidiaries, and NW Natural would not own any affiliates, except for
19 Gas Reserves and the intermediate entity Northwest Energy Corporation. Any
20 investments or acquisitions made by Holdco would be separate for both legal and
21 cost allocation purposes from NW Natural’s gas utility business. This corporate
22 separation would be enhanced under the proposed Reorganization since NW
23 Natural would be ring-fenced from Holdco and all Non-Utility Subsidiaries. For
24 example, if a Non-Utility Subsidiary were to incur a significant impairment, that
25 impairment would *not* roll through NW Natural and therefore would *not* affect the
26 stand-alone financials of NW Natural, as it would under the current structure.

1 Rather, the impairment would roll-up to the consolidated financial statements of
2 the HoldCo. In this scenario, the standalone secured debt rating of NW Natural
3 would be unaffected. This is desirable as the most typical avenue of financing at
4 NW Natural is first mortgage bonds, which would remain at NW Natural under the
5 proposed reorganization. A solid secured debt rating is good for NW Natural, and
6 it is good for NW Natural customers—the Reorganization better enables us to
7 accomplish that goal.

8 **Q. How can the Commission be assured that a financial impairment or**
9 **bankruptcy of a Non-Utility Subsidiary will not roll through to NW Natural?**

10 A. In our Application, NW Natural has committed to obtaining a non-consolidation
11 opinion so stating:

12 (15) Within 60 days of the formation of HoldCo, NW Natural will provide a non-
13 consolidation opinion to the Commission which concludes that the ring-
14 fencing provisions and other provisions of the Reorganization are sufficient
15 such that a bankruptcy court would not order the substantive consolidation
16 of the assets and liabilities of NW Natural with those of HoldCo, its affiliates
17 or subsidiaries. In the event that NW Natural is unable, for any reason, to
18 obtain such an opinion, it will consult with parties to this docket and the
19 Commission regarding this topic.

20
21 Currently, NW Natural does not have a non-consolidation opinion under our current
22 corporate structure. In this sense, if we were to pursue a growth strategy without
23 a holding company, we would have less assurance that the Utility would be
24 protected from the effects of a bankruptcy or major liability of HoldCo or one of its
25 affiliates or subsidiaries. Through this Application, we are able to provide that
26 assurance to the Commission, our customers, and our stakeholders, which is a
27 benefit to our customers under the holding company corporate structure.

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THE NET BENEFITS STANDARD

Q. ORS 757.511 requires that before a change in ownership of a public utility can take place, the purchaser must demonstrate that the transaction “will serve the public utility’s customers and is in the public interest.” Does this standard apply here, and if so, what does NW Natural need to demonstrate in order to satisfy this standard?

A. My understanding is that the standard in ORS 757.511 does apply in this instance because, even though NW Natural is not being acquired by another existing company, its ownership structure will change. Specifically, whereas NW Natural is today owned by numerous individual and institutional shareholders, after the Reorganization, NW Natural’s sole shareholder will be HoldCo (and NW Natural’s current shareholders will own HoldCo). In short, even though the same individuals will have the same effective ownership in NW Natural before and after the formation of HoldCo, the legal entity that owns NW Natural is changing.

With respect to the standard outlined in ORS 757.511, my understanding is that the Commission has interpreted this to mean that the Reorganization must provide a net benefit to consumers and pose no harm to Oregonians as a whole. In other words, consumers must be better off in the future with the Holding Company structure in place than they would be without it. My understanding is that the Commission has determined that “net benefits” need not take the form of a financial benefit—instead, the Commission will consider all relevant facts and circumstances, and make a determination about public interest on a case-by-case basis.

Q. Does the Company’s proposal meet the net benefits standard?

A. Yes. I have explained above how the holding company structure in and of itself will benefit NW Natural customers in the future by: (1) separating and insulating

1 NW Natural more strongly from the consolidated organization's non-gas utility
2 businesses; (2) protecting NW Natural's strong debt rating and investment profile;
3 and (3) positioning the consolidated entity to pursue the appropriate growth that
4 we believe will keep NW Natural a strong, independent and local company.

5 In addition to the inherent benefits of a holding company structure, NW
6 Natural is making a comprehensive set of commitments that it proposes be
7 adopted as conditions to approval of the Reorganization. In addition to the
8 commitment to provide a non-consolidation opinion described in my testimony, Mr.
9 Wilson will describe NW Natural's proposed set of commitments that not only
10 mitigate any risks related to the Reorganization, but will provide NW Natural's
11 customers with additional benefits above and beyond what they have today, and
12 that they would not have but for the proposed Reorganization.

13 **Q. Will NW Natural's Reorganization harm Oregonians as a whole?**

14 A. No. There is no means by which the proposed Reorganization will harm
15 Oregonians as a whole, because it will not negatively affect the natural gas utility
16 operation of NW Natural (and will in fact benefit it), and does not impose other
17 burdens or obligations on Oregonians in general. Although not necessary to
18 demonstrating compliance with the Commission's rules or regulations, NW Natural
19 hopes that the Reorganization will **benefit** Oregonians as a whole, by helping
20 ensure the financial strength of a long-lived Oregon-based company, and
21 expanding the Company's influence and efficiencies to other investments within
22 the state and region.

23 **Q. Does this conclude your opening testimony?**

24 A. Yes.

NWN/200
Witness: WILSON

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1804

In the Matter of

NORTHWEST NATURAL GAS
COMPANY,

Application for Approval of Corporate
Reorganization to Create a Holding
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OPENING TESTIMONY OF BRODY WILSON

NORTHWEST NATURAL GAS COMPANY

March 30, 2017

1 holding company (“HoldCo”) and non-utility subsidiaries that are currently held by
2 NW Natural, and would be held by the HoldCo after the Reorganization. The
3 commitments offer customers significant benefits that they would not receive but
4 for the Reorganization and are intended to ensure that utility customers are
5 protected from any risks associated with Non-Utility Subsidiaries or HoldCo.
6 Together, the proposed conditions and the Reorganization will ensure that
7 customers will enjoy net benefits from the Reorganization and that the general
8 public will not be harmed.

9 **NW NATURAL’S COMMITMENTS**

10 **Q. Why has the Company included commitments in its application?**

11 A. As discussed in the testimony of Shawn Filippi, NW Natural’s proposed
12 Reorganization will not change NW Natural’s regulated utility operations or impose
13 any new costs on customers. Additionally, we expect NW Natural to maintain its
14 strong credit ratings after the Reorganization. Indeed, utilities that have ring-
15 fencing provisions, such as those proposed in NW Natural’s Application, and
16 discussed later in my testimony, have historically continued to enjoy strong credit
17 ratings. That said, NW Natural recognizes that a holding company does represent
18 a change in ownership structure. Thus, the commitments offered by NW Natural
19 help ensure that the Utility is protected from non-utility businesses, and that
20 customers will not experience any negative impact from that change in ownership.
21 To ensure that customers benefit from the Reorganization, the Commission
22 historically has imposed conditions to approval. The Company offers
23 commitments in its Application to ensure that the Reorganization will benefit NW
24 Natural’s customers and will not harm the general public.

25

1 **Q. What types of commitments does the Company make?**

2 A. In its Application, NW Natural offers a comprehensive list of commitments, which
3 are designed to mitigate risk, insulate the Utility, and offer customer benefits.
4 These commitments can be divided into four categories: First, the access to
5 records commitments ensure that the Commission has continued access to the
6 information that it may find helpful in regulating NW Natural. Second, the cost
7 allocation commitments ensure the continued appropriate allocation of costs
8 among NW Natural and its affiliates, and provide protection from any subsidization
9 of non-utility activities by the Utility. Third, the financial commitments ensure that
10 NW Natural will remain a financially strong after the Reorganization. And fourth,
11 the final commitment ensures that HoldCo will abide by all commitments, even
12 though it has not yet been formed.

13 **Access to Records Commitments**

14 **Q. What commitments does the Company offer regarding the provision of**
15 **information to the Commission?**

16 A. NW Natural makes the following commitments that will ensure the Commission
17 has permanent expanded access to information relevant to its regulation of NW
18 Natural, even when that information may be in the possession of HoldCo or its
19 subsidiaries:

20 (1) NW Natural will provide the Commission with access to all books of account
21 as well as all documents, data, and records of NW Natural, HoldCo, and its
22 affiliated interests, which pertain to transactions between NW Natural and its
23 affiliated interests or which are otherwise relevant to the business of NW
24 Natural.

25 (2) NW Natural, HoldCo, and any affiliates will make their employees, officers,
26 directors and agents available to testify before the Commission to provide
27 information relevant to matters within the jurisdiction of the Commission.

1 (3) NW Natural and HoldCo will provide the Commission access to corporate
2 minutes, including Board of Director's minutes and all committee minutes
3 with relevant information regarding NW Natural.¹

4 **Q. What is the purpose of these commitments?**

5 A. As mentioned above, these commitments provide transparency by ensuring that
6 the Commission will continue to have access to all information relevant to the
7 business of NW Natural, even such information belonging to HoldCo and its other
8 subsidiaries. Currently, the Commission has the right to access information that is
9 in a utility's possession. However, the Commission does not have the right to
10 access information from a utility's unregulated affiliates. These commitments
11 ensure that after the Reorganization the Commission will have the ability to inspect
12 relevant books and records belonging not only to NW Natural, but also to HoldCo
13 and its other subsidiaries. In this respect, the commitments regarding access to
14 records provide the Commission with greater authority to obtain information than
15 it presently possesses, or would possess, if NW Natural were to expand its
16 business without a holding company structure.

17 **Q. How does NW Natural anticipate providing the Commission access to**
18 **confidential information residing at HoldCo or one of its subsidiaries?**

19 A. A fourth point regarding "access to records," listed in the application, reserves the
20 right to protect confidential information held at HoldCo or its subsidiaries, so that
21 the Commission can access that confidential information relevant to NW Natural's
22 business. This point states:

23 (4) Nothing in these Reorganization commitments will be interpreted as a waiver
24 of NW Natural's or HoldCo's rights to request confidential treatment for
25 information that is the subject of any of these commitments.
26

¹ For ease of reference, the commitments are numbered the same in my testimony as they are in the Application, although I will discuss some of the commitments out of numerical order.

1 In the event the Commission seeks access to confidential information, NW Natural
2 or HoldCo will use the same Commission processes to identify and protect
3 confidential information as are currently provided to the regulated utilities.

4 **Cost Allocation Commitments**

5 **Q. What commitments does the Company offer regarding cost allocation?**

6 A. NW Natural makes the following commitments:

7 (5) Any allocation of costs, corporate and affiliate investments, expenses, or
8 overheads between NW Natural and HoldCo or an affiliate of HoldCo will
9 comply with the following principles:

10 a. For services rendered to NW Natural or each cost category subject to
11 allocation to NW Natural by HoldCo or any of its affiliates, NW Natural
12 must be able to demonstrate that such service or cost category is
13 necessary to NW Natural for the reasonable performance of its regulated
14 operations, is not duplicative of services already being performed within
15 NW Natural, and is reasonable and prudent.

16 b. Cost allocations to NW Natural will be directly charged whenever
17 possible, and shared or indirect costs will be allocated based upon the
18 primary cost-driving factors.

19 c. HoldCo and its subsidiaries will have in place an accounting system
20 adequate to support the allocation and assignment of costs of executives
21 and other relevant personnel to or from NW Natural.

22 d. All costs subject to allocation will be auditable, such that they can be
23 specifically identified, particularly with respect to their origin.

24 e. Any corporate cost allocation methodology used for rate setting, and
25 subsequent changes thereto, will be submitted to the Commission for
26 approval. The Company's Master Services Agreement will be updated
27 to include the corporate and affiliate cost allocation methodologies
28 between HoldCo, NW Natural and their affiliates. The Master Services
29 Agreement will be filed with the Commission for review, no later than 90
30 days after close of the transaction. Approval of the Master Service
31 Agreement will be requested, but approval for ratemaking purposes will
32 not be requested in such filing. Amendments to the Master Service
33 Agreement will also be filed with the Commission.

34 f. NW Natural and HoldCo commit to using asymmetrical pricing as
35 required by OAR 860-027-0048(4).

36 (6) The Commission may audit the accounting records of HoldCo and its
37 subsidiaries or affiliates that are the bases for charges to NW Natural to
38 determine the reasonableness of allocation factors used by HoldCo to assign

1 costs to NW Natural and amounts subject to allocation or direct charges.
2 HoldCo will cooperate fully with such Commission audits.

3 (7) No organizational and start-up costs associated with the creation of HoldCo
4 will be allocated to NW Natural's customers.

5 (13) NW Natural and HoldCo will comply with all applicable Commission statutes
6 and regulations regarding affiliated interest transactions, including timely
7 filing of applications and reports.

8 **Q. What is the purpose of these commitments?**

9 A. These commitments are intended to ensure the separation of accounting for costs
10 between NW Natural, HoldCo, and its subsidiaries, to provide the Commission the
11 ability to audit not only NW Natural's, but also HoldCo's and its subsidiaries'
12 records related to NW Natural's cost allocations, and to ensure that our utility
13 customers will not bear the costs of the formation of HoldCo and other non-utility
14 services provided to HoldCo and its subsidiaries. The commitments guarantee
15 that HoldCo and its subsidiaries and affiliates will maintain the records required for
16 the Commission to audit cost allocations and that these entities will cooperate in
17 making affiliated interest filings and will adhere to Commission allocations
18 standards. Like the access-to-records commitments I discussed previously, the
19 commitment allowing the Commission to audit the accounting records of HoldCo
20 and its subsidiaries or affiliates, insofar as these records are the bases for charges
21 to NW Natural, gives the Commission oversight capabilities of NW Natural's
22 affiliates that it does not currently possess. For that reason, the commitment will
23 actually provide the Commission with expanded authority to review books and
24 records of NW Natural's unregulated affiliates, thus strengthening the
25 Commission's oversight over NW Natural, and providing an additional benefit to
26 customers.

27 Further, following the formation of HoldCo, NW Natural will update its
28 Master Services Agreement and Cost Allocation Manual to reflect the

1 reorganization. NW Natural will file the Master Services Agreement with the
2 Commission within 90 days of the Reorganization. Our updated Cost Allocation
3 Manual will also be available to the Commission upon request. Additionally, after
4 the Reorganization, NW Natural will continue to file its annual Affiliated Interest
5 Report with the Commission, detailing all transactions between NW Natural and
6 its affiliates.

7 **Q. Will the Reorganization result in more complicated cost allocations among**
8 **NW Natural and its affiliates?**

9 A. No, the allocation of costs among NW Natural and its affiliates will remain largely
10 the same as it is today. Immediately after the Reorganization is completed, NW
11 Natural and its affiliates all will be subsidiaries of HoldCo, but the corporate group
12 still will be composed of the same entities that exist now and the cost allocations
13 among those entities will not change. Because the holding company is a non-
14 operating entity, we do not anticipate any services or functions to be carried out at
15 HoldCo. That said, there may be certain costs incurred at NW Natural that will be
16 allocable to HoldCo.

17 **Commitments to Ensure NW Natural's Financial**
18 **Independence and Financial Health**

19 **Q. What financial commitments does NW Natural offer?**

20 A. The financial commitments offered by the Company fall into two separate but
21 related categories: (1) those aimed at maintaining financial separations between
22 NW Natural on one hand, and HoldCo and non-regulated affiliates on the other;
23 and (2) those aimed at ensuring NW Natural's continued financial health.

24 **Q. What are the commitments aimed at maintaining financial separations?**

25 A. There are three. The first "separations" commitments relate to NW Natural's
26 books, records, and accounting. NW Natural commits:

1 (8) NW Natural will maintain its own books and records, separate from the books
2 and records of HoldCo. NW Natural's financial books and records and state
3 and federal regulatory filings and documents will continue to be available to
4 the Commission, upon request.

5 (12) The assets of NW Natural and HoldCo and its subsidiaries or affiliates will be
6 accounted for separately.

7 **Q. What purpose do these commitments serve?**

8 A. These commitments serve two purposes. First and foremost, they ensure that NW
9 Natural and HoldCo will maintain appropriate corporate separations, such that the
10 two entities will be viewed as legally distinct and will not be responsible for each
11 other's financial obligations. In addition, separate books, records, and accounts
12 will ensure that the Commission easily can find and review information that is
13 relevant to its regulation of NW Natural. Commitment 8 also reiterates NW
14 Natural's obligation under Oregon law² to make its books and records accessible
15 to the Commission.

16 **Q. What is the third commitment regarding separations?**

17 A. The other commitment regarding separations is as follows:

18 (9) NW Natural will maintain separate debt, and if outstanding, preferred stock
19 ratings. NW Natural will maintain its own corporate credit rating, as well as
20 ratings for each long-term debt (and preferred stock (if any)) issuance that
21 would otherwise be rated.

22 **Q. What is the purpose of this commitment?**

23 A. Maintaining separate debt, preferred stock (if any is outstanding), and credit
24 ratings, will further reinforce the separation between the finances of NW Natural
25 and HoldCo. Also, NW Natural's separate credit ratings will ensure that customers'
26 debt costs (as reflected in the Utility's cost of capital) are based on the Utility's
27 finances, and not affected by the Company's affiliates. We believe these
28 commitments will further strengthen the ratings of NW Natural and provide

² ORS 757.120.

1 downside protection against any negative financial impacts of any non-utility
2 subsidiaries.

3 **Q. What are the commitments designed to ensure NW Natural's financial**
4 **health?**

5 A. NW Natural proposes two commitments that are designed to ensure the
6 Company's financial health going forward. These "ring-fencing" commitments
7 restrict the Company from paying dividends to its parent company, HoldCo, in
8 specific circumstances. The first prohibits dividends that would cause the Utility's
9 equity to drop below a specific level, and the second prohibits the Utility from
10 paying dividends when and if its credit ratings fall below investment grade. These
11 ring-fencing provisions ensure that adequate funds are kept within NW Natural for
12 strong Utility operations. These provisions go above and beyond the control the
13 Commission has today over financial distributions by NW Natural to its
14 shareholders. Currently, NW Natural has the ability to pay dividends to
15 shareholders provided it can meet the corporate statutory test under Oregon law,
16 with no additional restrictions related to equity ratios or credit ratings. Providing
17 the Commission with additional restrictions, further buffers and strengthens the
18 Utility and protects NW Natural customers.

19 **Q. What dividend restriction does NW Natural propose to safeguard the**
20 **Company's capital structure?**

21 A. NW Natural proposes the following:
22 (10) NW Natural shall not be permitted to declare or make any distributions
23 unless, on the date of such distribution, the NW Natural common equity ratio
24 after giving effect to such distribution is not less than 40 percent of total NW
25 Natural capital, except to the extent a lower equity ratio is established for
26 ratemaking purposes by the Commission, or unless otherwise ordered by the
27 Commission.

28

1 **Q. What is the purpose of this commitment?**

2 A. The purpose of this commitment is to ensure that dividends are only made when
3 the Utility's capital structure is at a reasonable level to support the dividend. By
4 way of context, I would emphasize that NW Natural has always been incented to
5 maintain a healthy capital structure, and NW Natural's management has diligently
6 pursued this objective to maintain its financial strength. the Utility maintains a
7 capital structure of approximately 50% equity and 50% debt, and the
8 Reorganization will not affect it. That said, there is currently no legal requirement
9 preventing the Utility from issuing dividends that would reduce its equity below
10 40%. For this reason, this commitment goes beyond existing regulatory
11 mechanisms further mitigating risks for the Utility. This commitment offers
12 customers an important protection that they do not have today and demonstrates
13 an additional important way that customers will benefit from the Reorganization.

14 **Q. What other commitment does NW Natural make to ensure its continued**
15 **financial health?**

16 A. The Company agrees to further restrict dividends as follows:

17 (11) NW Natural and HoldCo commit that NW Natural will not make any dividends
18 to HoldCo if NW Natural's secured debt rating falls below investment grade,
19 unless otherwise ordered by the Commission.

20 **Q. What is the purpose of this commitment?**

21 A. This commitment protects NW Natural by ensuring that the Company will make a
22 dividend to HoldCo only when NW Natural's credit rating is at investment grade. I
23 am not aware of any time that our secured debt rating has ever fallen below
24 investment grade, but this restriction is designed to protect the Utility in the unlikely
25 event that that happens. This commitment also provides NW Natural's customers
26 with a new benefit by placing a limitation on NW Natural's ability to issue dividends,

1 which does not currently exist. This commitment ensures that NW Natural will only
2 issue dividends when it has good, cost-effective access to capital markets.

3 **Q. How did the Company determine that these were appropriate restrictions on**
4 **its ability to pay dividends?**

5 A. In selecting an “equity floor” for the purposes of the dividend restriction, NW
6 Natural was looking for the point that marks the lower bounds of a reasonable
7 capital structure that could exist on a temporary basis. To be clear, NW Natural's
8 goal for the Utility is to be capitalized with 50% equity and 50% debt. However,
9 there is a natural fluctuation in these numbers that can occur on a temporary basis
10 over time, but which does not represent a meaningful departure from the Utility's
11 capitalization goal. So long as the Utility is capitalized at 40% equity, and its debt
12 is rated as investment grade, the Utility is in a financial position that presents a
13 ready path for returning to the desired capitalization goals within a reasonable time
14 period, and on a sustained basis. During these times, the Utility would still be able
15 to access the capital markets efficiently and avoid any near or long-term liquidity
16 issues.

17 **Q. If NW Natural has managed its dividends and other financial affairs to protect**
18 **the Company's capital structure and credit ratings, why would these ring-**
19 **fencing conditions be required in conjunction with the Reorganization?**

20 A. NW Natural has always conducted its financial affairs to protect the Company's
21 capital structure and credit ratings, and will continue to do so. That said, the
22 purpose of ring-fencing is to protect the Utility even if the unexpected occurs, and
23 regardless of the consolidated organization's financial conditions or actions.

24

1 **Q. Are there any other commitments made by NW Natural in its Application that**
2 **are not described in your testimony?**

3 A. Yes, Ms. Filippi describes in her testimony that NW Natural is committing to
4 obtaining a non-consolidation opinion that provides assurance to NW Natural that
5 it will be protected from the effects of a bankruptcy or major liability of HoldCo or
6 one of its affiliates or subsidiaries

7 **Agreement of HoldCo Commitment**

8 **Q. Given that HoldCo is not a regulated entity, how can NW Natural guarantee**
9 **that HoldCo will agree to the commitments involving it, even though HoldCo**
10 **has not yet been formed?**

11 A. By entering an agreement incorporating the commitments. We have committed to
12 this:

13 (14) NW Natural and HoldCo will enter into an agreement that incorporates the
14 ring-fencing provisions set forth herein. This agreement will be binding on
15 NW Natural and HoldCo, and their respective Boards of Directors. This
16 agreement will be filed with the Commission within 90 days of the
17 transaction's closing. NW Natural and HoldCo commit that no amendments,
18 revisions, or modifications will be made to this agreement or any ring-fencing
19 provisions without prior Commission approval.

20 This commitment will ensure that HoldCo will be bound by the same commitments
21 as NW Natural, even though HoldCo has not yet been formed. This provides a
22 method for the Commission to make this requirement of HoldCo, even though it
23 may not otherwise have the ability to force such an agreement upon the owner of
24 a Utility. NW Natural and HoldCo will not alter any of the commitments described
25 in my testimony unless they receive the Commission's prior approval.

26

CONCLUSION

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Q. What is the net effect of the commitments you have discussed in your testimony?

A. NW Natural's commitments protect the Utility's financial health and independence and ensure that it will maintain appropriate separation from its Non-Utility Subsidiaries and from HoldCo. The commitments ensure the continued appropriate allocation of costs among NW Natural and its affiliates and ensure that the Utility in no way subsidizes non-utility activities. The commitments also guarantee that the Commission will have greater access to records relevant to the Utility that reside at HoldCo or its affiliates and subsidiaries that it could not otherwise access. In total, NW Natural's commitments will protect its customers, insulate the Utility from potential risks associated with Non-Utility Subsidiaries, and offer additional benefits and protections to Utility customers that are not presently in place. Overall, the Reorganization, together with the commitments, will ensure that NW Natural and Utility customers will be better off after the completion of the transaction, than they would be without it.

Q. Does this conclude your opening testimony?

A. Yes.