

BEFORE THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION

In the Matter of the Application of:)	
)	DOCKET NO. UG-13-_____
)	
NORTHWEST NATURAL GAS)	
COMPANY)	
)	APPLICATION
For an Order Determining that the)	
Central Property is No Longer Useful or,)	
in the Alternative, an Order Authorizing)	
the Sale of the Central Property.)	
.....		

1. Northwest Natural Gas Company (“NW Natural” or the “Company”) hereby applies for an order of the Washington Utilities and Transportation Commission (“WUTC” or the “Commission”), pursuant to RCW 80.12.020 and WAC 480-143-120, approving of the sale of a portion of certain real property commonly known as the Central Service Center, located at 904 SE Division St., Portland, Oregon 97202, and more fully described below (the “Central Property”) and finding the sale to be consistent with the public interest pursuant to WAC 480-143-170. Alternatively, NW Natural requests an order under WAC 480-143-180 finding that the portion of the Central Property that is the subject of this application is no longer necessary or useful.

2. NW Natural proposes to sell a portion of the Central Property to the Tri-County Metropolitan Transportation District of Oregon (“Tri-Met”). Tri-Met has the authority to acquire property through eminent domain¹ and has identified a need to acquire a portion of the Central Property to construct the Milwaukie Light Rail project. The Company has negotiated with Tri-

¹ ORS 465.255(3)(a)(B); 42 U.S.C. § 9607(b)(3); and 42 U.S.C. § 9601(35)(A).

Met for the sale of the relevant portion of the Central Property and requests Commission approval of the sale.

3. Because this transaction is expected to close on October 1, 2013, NW Natural respectfully requests approval by no later than September 30, 2013.

Background on the Sale and Purpose for the Sale

4. The transaction involves the sale of a portion of the Central Property, which has been used as a service center and consists of 5.20 acres in inner Southeast Portland. This property has been used by NW Natural as a central service dispatch and repair center. NW Natural has moved or will move these operations to the Company's Sherwood Center. The Central Property houses three buildings that are affected by this Application: Building A, which is currently being used by NW Natural's Communications Department; Building B, which is not currently being used and formerly served as a vehicle maintenance facility; and Building C, which is not currently being used but was formerly used as office space. Exhibit A provides a map of the Central Property specifying the portion of the property, consisting of 0.90 acres, which the Company plans to sell to Tri-Met upon Commission authorization. The transfer to Tri-Met will include a temporary construction easement that is also designated on Exhibit A.

5. In 2012, Tri-Met identified a need to acquire a portion of the Central Property in order to construct a portion of the Milwaukie Light Rail project. The Company entered into negotiations with Tri-Met to determine whether the parties could come to an agreement on a purchase price for the property interests sought by Tri-Met, or whether Tri-Met would condemn the property through eminent domain. Because Tri-Met determined that its construction at the Central Property would damage Buildings A, B, and C on the property, the parties also discussed compensation to NW Natural for the damage to the buildings.

6. The purchase price for the relevant portion of the Central Property was negotiated based on independent appraisals conducted by Tri-Met and NW Natural. On July 25, 2012, Tri-Met completed an appraisal of the desired portion of the Central Property. Tri-Met's appraisal is attached hereto as Exhibit B-1. Tri-Met's appraisal determined that the fair market value of the relevant portion of the Central Property, a temporary construction easement, and compensation for damages to improvements located thereon was \$2,030,225. This appraisal was based on the determination that Building A would remain useful after reduction caused by the sale and the cure work; Building B would be unaffected because Tri-Met would grant NW Natural an "encroachment easement" over a small area that is subject to the sale; and Building C would be "totaled out," meaning that the cost to cure exceeded the expected remaining value of the building. The costs associated with the modifications to the buildings, including the demolition of Building C, were included in the Tri-Met appraisal.

7. Following the receipt of the Tri-Met appraisal, NW Natural conducted its own appraisal on October 26, 2012. NW Natural's appraisal is attached hereto as Exhibit B-2. NW Natural's appraisal determined that the property interests to be acquired by Tri-Met and the associated damages had a value of \$2,354,188. This value assumed the demolition of all three buildings, because NW Natural's appraisal determined that the cost to cure Building A after the damage resulting from Tri-Met's activities exceed its value and Building B could no longer function effectively with the easement that would exist after the sale to Tri-Met.

8. The difference between the two appraisals was \$323,936. To bridge the gap between the parties' positions and to avoid condemnation litigation, the parties agreed that Tri-Met will pay NW Natural \$2,080,225 (\$50,000 more than Tri-Met's appraised value) and Tri-Met will, at its

sole cost and expense, demolish all three buildings and restore the site to a useful condition.²

The value to NW Natural of Tri-Met's demolition is approximately \$550,000.

9. The sale of the relevant portion of the Central Property will not compromise NW Natural's ability to continue to provide safe, efficient, and reliable service to its customers. Moreover, the sale benefits customers because the sales price exceeds Tri-Met's appraisal value and, when combined with the agreed upon demolition work, results in NW Natural receiving greater total compensation for the property than the Company's own appraised value.³

10. The sale of the relevant portion of the Central Property will result in an estimated gain of \$1,055,434 after taxes. This total gain will be allocated to Oregon and Washington in a manner consistent with recent property sales gains. The Company requests permission to transfer the net gain from the sale of the Central Property in Accounts 421.1 and 409.2 to a regulatory deferred account (Account 254) to be refunded to customers through the Company's annual Purchased Gas Adjustment.

11. In support of this Application the Company states as follows:

(1) **Name and Address.**

12. The exact name of the Applicant and the address of its principal business office are as follows:

Northwest Natural Gas Company
220 NW Second Avenue
Portland, Oregon 97209

(2) **Person Authorized to Receive Notices.**

² Because certain funds used for the Milwaukie Light Rail project Tri-Met are from the Federal Transit Authority ("FTA"), Tri-Met must seek FTA approval for settlements with property owners that are more than \$50,000 greater than Tri-Met's appraisal. However, Tri-Met is not constrained in its ability to offer demolition as part of the compensation package.

³ This assumes demolition costs are \$10 per square foot of building, which was the value used in both the Tri-Met and NW Natural appraisals.

13. The name and address of the person authorized, on behalf of the Company, to receive notices and communications in respect to this Application is:

Mark Thompson
Manager, Rates and Regulatory
NW Natural
220 NW Second Avenue
Portland, OR 97209-3991
Telephone: (503) 721-2476
Facsimile: (503) 721-2516
Email: mark.thompson@nwnatural.com

14. The Company respectfully requests that the Commission send copies of all such notices and communications to:

Lisa Rackner
McDowell Rackner & Gibson PC
419 SW 11th Ave., Suite 400
Portland, OR 97205
Telephone: 503-595-3925
Facsimile: 503-595-3928
Email: dockets@mcd-law.com

(3) General Character of the Business

15. The Company is engaged principally in the business of distributing and selling natural gas to residential, commercial, institutional, and industrial customers in various cities and unincorporated areas in 15 counties in the State of Oregon and three counties in the State of Washington. A map of the Company's service territory is on file with the Commission in Docket UG-081317. The Company's financial statements for the Year Ended 2012 and for the first two quarters of 2013 are attached as Exhibit C.

(4) Sale of Property

16. This Application is for the disposition of a portion of the Central Property by sale. The Company seeks to sell a portion of the Central Property to Tri-Met for \$2,080,225. Tri-Met also agrees to have all three buildings impacted by the sale demolished at Tri-Met's sole cost and

expense. The sale price was arrived at using two different appraisals—one conducted by Tri-Met and one conducted by NW Natural. The sale price (\$2,080,225) exceeds the Tri-Met appraisal by \$50,000 and the total benefit to the Company exceeds the Company’s appraisal value. A copy of both of these appraisals is attached hereto as Exhibit B-1 and B-2. Attached as Exhibit D is a copy of all contracts related to the sale of the Central Property.

17. The Company’s Board of Directors (“Board”) authorized the transaction on February 28, 2013. A certified excerpt of the minutes of the Board meeting held on that date authorizing the disposition of the Central Property is attached as Exhibit E. Shareholder approval is not required for disposition of the Central Property.

(5) Description of Property to be Sold

18. The Central Property is located at 904 SE Division Portland, Oregon 97202 and is legally defined as Tax Lots 6900, 7100, and 7200, Map 1S-1E-11BA, Multnomah County, Oregon, as known as Assessor Parcel Numbers R328000, R327999, R328044, and R327986. The portion of the Central Property that is subject to the transaction for which the Company seeks approval is designated on Exhibit A.

19. The Central Property includes three Buildings, which are described above as A, B, and C. Under the proposed transaction, the three buildings will be demolished and their sites will be restored to a useful condition.

20. This property has been used by NW Natural as a central service dispatch and repair center. NW Natural has moved these operations to the Company’s Sherwood Center. The Central Property houses three buildings that are affected by this Application: Building A, which is currently being used by NW Natural’s Communications Department; Building B, which is not

currently being used and formerly served as a vehicle maintenance facility; and Building C, which is not currently being used but was formerly used as office space.

(6) Statement of Accounting

21. Based upon appraisals provided, the allocation of the net proceeds between land, buildings and improvements is as follows:

Land (50%)	1,028,823
Buildings and Improvements (50%)	<u>1,028,824</u>
Total Sales Proceeds	<u>2,057,647</u>

The estimated net book value of the assets as of October 31, 2013 is as follows:

Land	22,303
Buildings and Improvements	<u>294,065</u>
Total Net Book Value	<u>316,368</u>

The estimated gain on the sale of Central is as follows:

Land	1,006,521
Buildings and Improvements	<u>734,758</u>
Net gain	<u>1,741,279</u>

Estimated net gain after taxes	<u>1,055,434</u>
--------------------------------	------------------

22. The proposed journal entries to be used to record the transaction on the Company's books are attached as Exhibit F.

(7) The Sale of the Property Is in the Public Interest

23. The Commission should approve the proposed sale as consistent with the public interest under WAC 480-143-170. The Company has negotiated a sales price that exceeds Tri-Met's appraisal value, which provides a financial benefit to customers.

(a) Reasons for the Sale of the Property

24. As explained in the background section above, in 2012, Tri-Met identified a need to acquire a portion of the Central Property in order to construct a portion of the Milwaukie Light Rail project. The Company entered into negotiations with Tri-Met to determine whether the NW Natural's Application re. Central Property

parties could come to an agreement on a purchase price for the property interests sought by Tri-Met, or whether Tri-Met would condemn the property through eminent domain. Because Tri-Met determined that its construction at the Central Property would damage Buildings A, B, and C on the property, the parties also discussed compensation to NW Natural for the damage to the buildings. Through arms-length negotiations the Company and Tri-Met were able to agree to terms that resulted in the sales price exceeding Tri-Met's appraised value. The activities that were conducted on the portions of the Central Property that will be sold to Tri-Met have been or will be moved to the Company's Sherwood Center. The proposed sale is in the public interest because it will allow the Company to dispose of property for which it will have no use and use the proceeds from the sale for the benefit of customers.

(b) Use of Proceeds

25. The Company requests permission to record a portion of the net gain from the sale of the Central Property into a regulatory deferred account. The appropriate Washington allocation of the net gain can then be refunded to customers through the Company's annual Purchased Gas Adjustment.

(8) The Property Is Not Necessary or Useful

26. In the alternative, the Company requests a Commission finding that the portions of the Central Property that is the subject of this application is no longer necessary or useful on two grounds. First, it has been substituted with new property, the Sherwood Center, under WAC 480-143-180(1). As described above, the current activities that currently take place on the portion of the Central Property that will be sold to Tri-Met have been or will be relocated to the Sherwood Center. Once this relocation occurs, the portion of the Central Property that will be sold to Tri-Met will no longer be necessary or useful. Second, the Company expects to receive full value for the portion of the Central Property that will be sold to Tri-Met, pursuant to WAC

480-143-180(2). As a result of the relocation of the facilities, the Company substituted the Central Property with property that is of equal or greater value or usefulness. In addition, once the relocation occurs the Central Property is unneeded and the Company's sale price is above market value. The Central Property is no longer necessary or useful in the performance of the Company's service to its customers, and therefore, the Central Property should be sold.

EXHIBITS

Filed with this application, are the following exhibits:

- | | |
|-----------|---|
| Exhibit A | Map of the Central Property specifying the portion of the property, consisting of 0.90 acres, which the Company plans to sell to Tri-Met upon Commission authorization. |
| Exhibit B | Appraisals of Tri-Met (B-1) and NW Natural (B-2). |
| Exhibit C | The Company's Financial Statements from the Year-Ended 2012 and the first two quarters of 2013. |
| Exhibit D | Copies of all contracts related to the sale of the Property |
| Exhibit E | Excerpt of minutes from the February 28, 2013, meeting of the Board of Directors |
| Exhibit F | Proposed Journal entry to be used to record the transaction on the Company's books |

27. WHEREFORE, the Applicant respectfully requests that the Washington Utilities and Transportation Commission enter an appropriate Order determining that the Central Property is not necessary or useful or, alternatively, that the proposed sale of the Central Property is in the public interest.

Dated at Portland, Oregon this 20th day of August, 2013.

NORTHWEST NATURAL GAS COMPANY

By *C. Alex Miller*
C. Alex Miller
Vice President of Regulation & Treasurer

STATE OF OREGON)
) ss
County of Multnomah)

C. Alex Miller, being first duly sworn, deposes and says that he is the Vice President of Regulation & Treasurer of Northwest Natural Gas Company, the Applicant in the foregoing Application, that he has read said Application, including exhibits thereto, knows the content thereof, and that the same are true to the best of his knowledge and belief under penalty of perjury.

C. Alex Miller
C. Alex Miller

Subscribed and sworn to before me this 20th day of August 2013.

Donna K Ceruti
Notary Public for Oregon
My commission expires:

