

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

NORTHWEST NATURAL GAS
COMPANY,

For an Order Authorizing the Sale of the
Block 24 property located in Portland,
Oregon.

DOCKET UG-190457

ORDER 01

DETERMINING PROPERTY WILL
NOT BE NECESSARY OR USEFUL
AND APPROVING ACCOUNTING
TREATMENT

BACKGROUND

- 1 On May 31, 2019, Northwest Natural Gas Company (Northwest Natural or Company) filed with the Washington Utilities and Transportation Commission (Commission) an application (Application) seeking (1) a determination that the real property that formerly served as a regional resource location in Portland, Oregon (Block 24 or Property) will no longer be necessary or useful under WAC 480-143-180, and (2) authorization for accounting treatment for the gain on sale, which will be recorded in FERC Account 254 (Other Regulatory Liabilities).
- 2 The Property is located one block north of Northwest Natural's current corporate headquarters at 220 NW Second Avenue (One Pacific Square) in Portland, Oregon. Block 24 has served as an above-ground parking lot for employees, a muster site for employees in the event of an emergency, and as a secure storage area for emergency response and community affairs vehicles and related equipment. There is also a small warehouse building on the North side of Block 24.
- 3 In early 2020, Northwest Natural will be moving its corporate headquarters one-half mile south of One Pacific Square to 250 SW Taylor Street in downtown Portland. Block 24 no longer will be in close proximity to Northwest Natural's corporate headquarters and, therefore, Northwest Natural will no longer need the property for the provision of utility service. Following the relocation, employees will have several nearby options to park in non-Company owned parking garages, and the Company will offer approximately 80 parking spaces in the new headquarters for monthly purchase by employees.
- 4 Additionally, emergency response and community affairs vehicles and related equipment stored on Block 24, including materials in the small warehouse building, will be relocated to the Company's Central Resource Center in Southeast Portland and/or to the new

headquarters. The new headquarters will have its own muster site for employees in the event of an emergency. Consequently, as part of Northwest Natural's corporate relocation, Northwest Natural determined that the best use of this property was to sell Block 24 and provide the benefits of that sale to customers.

- 5 The Company hired Cushman & Wakefield to be its broker and market Block 24. Cushman & Wakefield is the same firm that led the Company's search and evaluation of its new corporate headquarters and began marketing Block 24 at the end of 2017 and continued through 2018. The marketing effort yielded three potential buyers submitting offers for Block 24. Northwest Natural determined that the Lan Su Chinese Garden submitted the strongest offer with the highest likelihood of closing. The sales price for the property is \$8,000,000.00. This amount is towards the high end of the market value range identified in the "Broker Opinion of Value," conducted by Cushman & Wakefield, based upon information available at the time Northwest Natural selected the Buyer for Block 24.
- 6 Northwest Natural would not have attempted to sell Block 24 if the Company were not relocating its corporate headquarters from One Pacific Square to 250 SW Taylor Street. Because these two decisions are interrelated, Northwest Natural included the sale of Block 24 in the financial analysis for its new headquarters. In other words, the benefits from the gain on the sale of Block 24 are factored into the comprehensive financial analysis conducted by Northwest Natural for its new corporate headquarters.
- 7 Because the Company's evaluation of its new headquarters is interrelated with the sale of Block 24, the Company is proposing to offset the costs of its corporate relocation with the proceeds from the sale of Block 24 in its next general rate case. Northwest Natural proposes to defer the net gains from the sale of Block 24 into a regulatory liability account (account 254) until such time as the Company's new headquarters is reviewed for prudence and included in rates. The estimated net gain from the sale of Block 24 is \$7,487,305, of which Washington's state allocation is approximately \$839,327 using a three-factor allocation rate of 11.21 percent.
- 8 The Company considered requesting approval to sell Block 24 in its next general rate case, but concluded that the processing time of a general rate case would be incompatible with the terms of the Agreement. These terms include a provision that contemplates the Company will receive Commission (and OPUC) approval by October 1, 2019.

- 9 Commission staff (Staff) has reviewed the Company's Application and interprets it as a request for a Commission determination that the property being sold is not necessary or useful pursuant to WAC 480-143-180, rather than a request for an order authorizing the sale and transfer of property under WAC 480-143-120.
- 10 Staff observes that public service companies require authorization from the Commission for the transfer or disposal of property only insofar as that property is necessary or useful to perform its public duties. If the property meets one or more of the exceptions in WAC 480-143-180 and is shown not to be necessary or useful, a public service company may dispose of such property without Commission authorization under WAC 480-143-120. In such circumstances, however, the company must file an application for Commission determination that the property is not necessary or useful prior to disposing of such property when the value of the property is equal to or greater than 0.1 percent of the Company's rate base or \$20,000, whichever is greater.¹
- 11 Staff believes that the Company has shown that the property will be surplus and unneeded, and, as such, will not be necessary or useful. Staff recommends that the Commission issue an order determining that the property will no longer be necessary or useful under WAC 480-143-180, and that it is unnecessary for the Company to receive Commission authorization under WAC 480-143-120.
- 12 Staff has also evaluated the Company's proposal to record the gain on sale in FERC Account 254 (Other Regulatory Liabilities). Staff agrees with the Company that the gain on sale is owed to ratepayers, and that by recording the gain to a regulatory liability the Company effectively would be holding the funds aside for later distribution to ratepayers. Therefore, Staff supports the Company's proposed accounting for the gain on sale. Staff also believes that Northwest Natural will receive fair value for the property. The gain on sale will be recorded to FERC Account 254 once the sale is consummated.

DISCUSSION

- 13 The Commission agrees with Staff's recommendation. We construe pleadings liberally to effect just results.² While the caption of the Company's Application seeks authorization for approval of the transfer of property, we understand the substance of the Company's request to seek a determination under WAC 480-143-180 that the property to be sold is

¹ WAC 480-143-180.

² WAC 480-07-395(4).

surplus, unneeded, and not necessary or useful to perform its public duties. The Company also seeks authorization for its proposed accounting treatment. We interpret the Company's request accordingly.

14 The Company has explained and supported in its Application that the property it intends to transfer will be surplus, unneeded, and not necessary or useful to perform its public duties. The Company is receiving fair market value for the property. The sale value exceeds 0.1 percent of Northwest Natural's rate base, and the Company, therefore, must seek a determination from the Commission that the property is not necessary or useful prior to the sale.³ Accordingly, we determine under WAC 480-143-180 that the property is surplus, unneeded, and not necessary or useful. The Company, therefore, need not obtain permission from the Commission to transfer the property under WAC 480-143-120.

15 We also agree with Staff regarding the Company's requested accounting treatment of the gain from the sale of its property. Funds owed to ratepayers are appropriately recorded to a regulatory liability account, and we therefore determine that the Company's proposed accounting treatment for the gain on sale is reasonable. We authorize the Company's request to record the gain on sale to FERC Account 254 (Other Regulatory Liabilities).

FINDINGS AND CONCLUSIONS

16 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including natural gas companies.

17 (2) Northwest Natural Gas Company is a public service company subject to Commission jurisdiction.

18 (3) This matter came before the Commission at its regularly scheduled meeting on September 12, 2019.

19 (4) After reviewing the Northwest Natural's Application filed in Docket UG-190457 on May 31, 2019, and giving due consideration to all relevant matters and for good cause shown, the Commission finds the Application for a determination that

³ WAC 480-143-180.

property is surplus, unneeded, and not necessary or useful is consistent with the public interest and applicable laws and should be granted.

- 20 (5) After reviewing the Northwest Natural's Application filed in Docket UG-190457 on May 31, 2019, and giving due consideration to all relevant matters and for good cause shown, the Commission finds the Company's request for accounting treatment for the gain from the sale is consistent with the public interest and applicable laws and should be granted.

ORDER

THE COMMISSION ORDERS:

- 21 (1) Northwest Natural Gas Company's property located in downtown Portland, Oregon, which Northwest Natural intends to sell, will be surplus, unneeded, and not necessary or useful under WAC 480-143-180.
- 22 (2) Northwest Natural Gas Company's need not receive Commission authorization under WAC 480-143-120 for the transfer of its property located in downtown Portland.
- 23 (3) The accounting treatment proposed by Northwest Natural, whereby the resulting gain from its sale of its property in downtown Portland, Oregon will be recorded in FERC Account 254 (Other Regulatory Liabilities), is approved.
- 24 (4) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting Petition be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 25 (5) The Commission retains jurisdiction over the subject matter and Northwest Natural to effectuate the provisions of this Order.

The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Lacey, Washington, and effective September 12, 2019.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK L. JOHNSON,
Executive Director and Secretary