

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

NORTHWEST NATURAL GAS
COMPANY

For an Order Determining that Certain
Property Located in Portland, Oregon Is No
Longer Useful, or, in the Alternative, an
Order Authorizing the Sale of that Certain
Property

DOCKET NO. UG- _____

APPLICATION

Expedited Treatment Requested

I. INTRODUCTION

I In accordance with WAC 480-143-180, Northwest Natural Gas Company (“NW Natural” or “Company”) respectfully requests that the Washington Utilities and Transportation Commission (“Commission”) declare that certain real property commonly known as “Block 24 – Couch’s Addition to the City of Portland,” as more fully described below (“Block 24”), is not necessary or useful and should be sold. NW Natural seeks to sell Block 24 to Portland Classical Chinese Garden dba Lan Su Chinese Garden (“Buyer” or “Lan Su Chinese Garden”), pursuant to the Agreement for Purchase of Land (“Agreement”), executed on April 18, 2019 and attached here as Exhibit A. Alternatively, pursuant to RCW 80.12.020 and WAC 480-143-180, NW Natural requests that the Commission approve the sale of Block 24 to the Lan Su Chinese Garden as set forth in the Agreement. NW Natural respectfully requests Commission approval by no later than September 30, 2019, to reflect the provision in the Agreement that contemplates the Company will receive Commission approval by October 1, 2019.

II. BACKGROUND ON THE SALE AND PURPOSE FOR THE SALE

2 This transaction involves NW Natural's sale of Block 24 to the Lan Su Chinese Garden. Block 24 is located one block north of NW 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, NW Natural will be moving its corporate headquarters one-half mile south of One Pacific Square, to 250 SW Taylor Street in downtown Portland.¹ After over three decades at the current location, the Company's most recent long-term lease at One Pacific Square is set to expire in 2020, and the headquarters no longer meets the minimum requirements for NW Natural. The Company conducted an extensive evaluation of all potential real estate options and alternatives, including remaining at the current location or leasing, purchasing and/or building its own headquarters. NW Natural's evaluation focused on seismic preparedness, safety, reliability, the least cost to its customers and a continued commitment to its employees and the communities it serves. After an extensive evaluation process, the Company selected the 250 SW Taylor Street location for its new headquarters in October 2017.

4 As a direct result of this relocation, Block 24 no longer will be in close proximity to NW Natural's corporate headquarters and, therefore, NW Natural will no longer need

¹ Exhibit B of this Application is a map showing the location of Block 24, the Company's current headquarters, its new headquarters, and the Company's Central Resource Center.

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. 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 NW Natural's corporate relocation, NW 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, which is the same firm that led the Company's search and evaluation of its new corporate headquarters. Cushman & Wakefield began marketing Block 24 at the end of 2017 and continued through 2018, which yielded three potential buyers submitting offers for Block 24. NW 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 NW Natural selected the Buyer for the sale of Block 24. A copy of the "Broker Opinion of Value" is provided as Exhibit C of this Application. The Company and the Lan Su Chinese Garden arrived at the sales price by means of arms-length negotiations. The Agreement memorializes the \$8,000,000.00 transaction price and the other terms and conditions between NW Natural and the Buyer.

6 NW Natural would not have attempted to sell Block 24 absent the Company relocating its corporate headquarters from One Pacific Square to 250 SW Taylor Street. Because these two decisions are interrelated, NW 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 NW Natural for its new corporate headquarters. More specifically, NW Natural initiated the relocation process in June 2016, when it issued a Request for Proposals (“RFP”). The RFP elicited 33 responses. The Company selected four RFP finalists in December 2016. The owner of One Pacific Square was one of the four finalists bidding for the location of the Company’s headquarters. Because NW Natural would only need to sell Block 24 if it chose a location other than One Pacific Square, the evaluation of the other three finalists offset the overall relocation costs by the gain on the sale of Block 24. In contrast, the evaluation of remaining at One Pacific Square assumed NW Natural would not sell Block 24.

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. NW 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%.²

² Commission Docket UG-181053.

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. Specifically, Section 19 of the Agreement contemplates transaction approval by the Commission and the Public Utility Commission of Oregon (“OPUC”) by the end of the Buyer’s “Due Diligence Period,” which is October 1, 2019 (Agreement, Section 5.(a)(iv)). Section 19 of the Agreement also sets forth the Buyer’s election of options if the Company were not to receive Commission and OPUC approval by October 1, 2019, which includes termination of the Agreement. As such, time is of the essence for this request. NW Natural, therefore, respectfully requests Commission approval by no later than September 30, 2019, to reflect the provision in Section 19 of the Agreement that contemplates the Company will receive Commission (and OPUC) approval by October 1, 2019.³

9 In support of this Application, the Company states as follows:

10 (1) **Identity of the Applicant.** The exact name of the Applicant is Northwest Natural Gas Company. The Company is a utility that is subject to the Commission’s jurisdiction under RCW 80.04.010. NW Natural’s principal business office is located at 220 NW Second Avenue, Portland, Oregon 97209.

11 (2) **Person Authorized to Receive Notices.** All notices and communications regarding this Application should be addressed to the following:

Zachary D. Kravitz
NW NATURAL
220 NW Second Avenue
Portland, OR 97209-3991
Telephone: (503) 220-2379

Eric W. Nelsen
NW NATURAL
220 NW Second Avenue
Portland, OR 97209-3991
Telephone: (503) 721-2476

³ Section 12 of the Agreement states that the “Closing Date” “shall not be earlier than December 31, 2019 nor later than May 31, 2020.”

Facsimile: (503) 220-2579
Email: Zachary.Kravitz@nwnatural.com

Facsimile: (503) 220-2584
Email: Eric.Nelsen@nwnatural.com

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

eFiling
NW NATURAL
Rates and Regulatory Affairs
220 NW Second Avenue
Portland, OR 97209-3991
Telecopier: (503) 220-2579
Telephone: (503) 226-4211, ext. 3589
Email: eFiling@nwnatural.com

- 12 (3) **General Character of the Business.** NW Natural is a public utility 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 three counties in the State of Washington and 15 counties in the State of Oregon. A map of the Company's service territory in Washington is provided on Original Sheet ii of its tariff, WN U-6.⁴
- 13 (4) **Sale of Property.** This Application involves the sale of real property, Block 24. 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 the Company's broker, Cushman & Wakefield, based upon information available at the time NW Natural selected the Buyer for the sale of Block 24. A copy of the "Broker Opinion of Value" is provided as Exhibit C of this Application. The Company and the Buyer arrived at the sales price by means of arms-length negotiations.

⁴ The Company's financial statements for the Year-Ended 2018 and First Quarter 2019 are available at <http://platform.mi.spglobal.com/Cache/396947753.pdf> and <http://platform.mi.spglobal.com/Cache/397836172.pdf>, respectively.

- 14 (5) **Description of Property to be Sold.** Block 24 is commonly known as “Block 24 – Couch’s Addition to the City of Portland” located in Multnomah County, Oregon and generally bounded by Glisan St. to the North, NW 2nd Ave. to the East, NW Flanders St. to the South, and NW Third Ave to the West. A legal description of Block 24 is provided in “Exhibit A” of the Agreement. The property consists of an above-ground parking lot and a small warehouse building on the North side of Block 24.
- 15 (6) **Statement of Accounting.** The net book value of the property is \$112,695.05. The proposed journal entries to be used to record this transaction on the Company’s books are attached as Exhibit D of this Application.
- 16 (7) **Other Jurisdictions.** NW Natural will be filing an application for review with and approval by the OPUC addressing the proposed property transfer.
- 17 (8) **Resolution of Directors Authorizing Transaction.** The Company’s Board of Directors (“Board”) authorized this transaction on December 12, 2018. The Secretary’s Certificate of the Board’s Resolution is provided as Exhibit E of this Application. Shareholder approval is not required for the sale of Block 24.

III. DISCUSSION

- 18 (9) **Block 24 No Longer Will Be Necessary or Useful.** Under WAC 480-143-180, where property has a market value that exceeds the greater of 0.1 percent of the utility’s rate base or \$20,000, the utility must seek prior Commission approval to determine that the property is not necessary or useful. Here, Block 24’s market value exceeds 0.1 percent of

NW Natural's jurisdictional rate base,⁵ and thus the Company seeks Commission approval prior to the property's disposition.

19 Previously, this Commission has concluded that "property is no longer necessary and useful" where it "has been replaced by a more suitable facility."⁶ In 2008, NW Natural asked the Commission to conclude that the real property that had formerly served as the Company's customer service center in Albany, Oregon, was no longer "necessary or useful" and should therefore be sold.⁷ The Commission agreed, concluding that the property was no longer necessary and useful given the acquisition of replacement facilities.⁸

20 In this case, Block 24 is similarly no longer necessary and useful in the performance of the Company's service to customers. Block 24 is being substituted with 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.⁹ Block 24 also is an unneeded asset for which the Company is receiving full value.¹⁰ As the Company no longer has need of or use for the property, NW Natural respectfully requests that the Commission deem Block 24 no longer "necessary or useful" for the Company to perform its public duties.¹¹

⁵ As stated in NW Natural's most recent Commission Basis Report, the Company's rate base is currently \$167 million.

⁶ *In the Matter of the Application of Northwest Natural Gas Co. for an Order Authorizing the Sale of that Certain Property Located in Albany, Oregon*, Docket UG-081317, Order 01 at ¶9 (Aug. 14, 2008).

⁷ Docket UG-081317, Order 01 at ¶1.

⁸ Docket UG-081317, Order 01 at ¶9, 14.

⁹ WAC 480-143-180(1).

¹⁰ WAC 480-143-180(2).

¹¹ WAC 480-143-180.

21 (10) **The Sale of Block 24 Is in the Public Interest.** As explained above, Block 24 no longer is “necessary or useful” for the Company to perform its public duties, so NW Natural is selling it to the Lan Su Chinese Garden for \$8,000,000.00, which is towards the high end of the market value range identified by the Company’s broker. NW Natural is proposing to defer the net gains from the sale of Block 24 in a regulatory liability account until such time as the Company’s new headquarters is reviewed for prudence and included in rates. The proposed sale of Block 24 is in the public interest because it will allow the Company to dispose of property for which it no longer has use and to use Washington’s portion of the net gain from the sale for the benefit of customers.

22 (11) **Expedited Treatment Requested.**

23 NW Natural respectfully requests Commission approval by no later than September 30, 2019, to reflect the provision in Section 19 of the Agreement that contemplates the Company will receive Commission (and OPUC) approval by October 1, 2019.

IV. CONCLUSION

24 The sale of Block 24 will benefit NW Natural’s customers by disposing of unneeded property at a fair market price. Accordingly, NW Natural respectfully requests that the Commission enter an appropriate Order determining that Block 24 is not necessary or useful or, alternatively, that the proposed sale of Block 24 is in the public interest. The Company also respectfully requests that the Commission authorize it to transfer Washington’s portion of the net gain from the sale of Block 24, specifically an estimated \$839,327, into a regulatory liability account (account 254) to be used to offset the costs of the Company’s headquarters relocation at the time of the Company’s next

general rate case. Finally, the Company respectfully requests expedited treatment of this Application because time is of the essence, and that the Commission take any other action that it deems necessary and appropriate.

Respectfully submitted this 31 day of May, 2019.

NORTHWEST NATURAL GAS COMPANY

/s/ Zachary D. Kravitz

Zachary D. Kravitz
Director of Rates and Regulatory Affairs
220 NW Second Avenue
Portland, OR 97209-3991

EXHIBITS

The following exhibits are included with this Application:

Exhibit A – Agreement for Purchase of Land, executed on April 18, 2019.

Exhibit B – Map showing the location of Block 24, the Company's current and new headquarters, and the Company's Central Resource Center.

Exhibit C – Cushman & Wakefield's "Broker Opinion of Value" of Block 24.

Exhibit D – Proposed Journal entry to be used to record the transaction on the Company's books.

Exhibit E – NW Natural Secretary's Certificate of the Board's Resolution.