

Agenda Date: December 28, 2017
Item Number: A1

Docket: UG-170094
Company: Northwest Natural Gas Company

Staff: Kristen Hillstead, Regulatory Analyst
Tom Schooley, Assistant Director, Energy Regulation

Recommendation:

Issue an order approving Northwest Natural Gas Company's revised request for corporate reorganization to create a holding company.

Discussion:

On February 13, 2017, the commission received an initial application from Northwest Natural Gas Company (NWN or company) requesting approval of corporate reorganization to create a holding company. Under the proposal, NWN will become a wholly owned subsidiary of a newly formed holding company, HoldCo.¹ NWN will contribute to HoldCo all of its stock and its interest in its current subsidiaries; each share of NWN will convert into one share of HoldCo. After the reorganization, HoldCo will be owned by public shareholders and will hold the stock of NWN.

Under RCW 80.12.020(1), NWN must obtain commission approval prior to selling, leasing, assigning, or otherwise disposing of any of its property that is necessary or useful in the performance of its duties to the public. The commission has applied this provision to the transfer of utility stock resulting from the formation of a holding company:

In October 1999, the Commission issued its Fifth Supplemental Order in Docket UE-981627 approving the acquisition of PacifiCorp (Pacific) as a subsidiary of Scottish Power (SP). A threshold issue in that docket was whether the Commission's jurisdiction under RCW 80.12.020 extended to transfers of stock among equity investors. The Commission determined that it had jurisdiction because the shareholders' exchange of their equity interests in Pacific for equity interests in SP resulted in a change in control of the utility.

As a result of the stock transaction and the Commission's approval of the acquisition by SP, control of the operating utility was transferred to SP through a holding company structure. . . . The ultimate impact would be to isolate the regulated operations of SP's operating utility to Pacific.

The reorganization will be largely seamless and imperceptible because the day-to-day operations will remain the same. NWN will not transfer any of its utility assets or

¹ See Attachment 1 for NWN's existing organization structure, see Attachment 2 for steps of reorganization as a holding company, and see Attachment 3 for post transaction organization structure.

property to HoldCo or to any other affiliate. The corporate governance of NWN will remain unchanged, and all current officers will remain NWN officers. Similarly, the Board of Directors will continue to serve in its same capacity.

The reorganization will not alter the commission's ability to effectively regulate the company's utility operations nor will it change customer rates or the provision of safe, reliable natural gas service. The company believes that a holding company structure will allow it to better respond to the changing business environment of the natural gas industry and insulate NWN's public utility from non-public utility businesses.

To ensure that customers benefit from a transaction, the commission typically imposes conditions designed to mitigate customers' exposure to potential risk. NWN has implemented safeguards and legal construct to help ensure that the financial results of the other affiliates will not harm the utility's capital structure, credit ratings, or cost of capital. The reorganization will better insulate NWN's utility assets and reduce the risk that such assets could be reached by creditors of the non-regulated affiliates. The reorganization will provide net benefits to NWN's customers, as required by RCW 80.12.020.²

NWN has also filed a petition with the Oregon Public Utility Commission (OPUC). The company, staff of the OPUC, and interveners have reached a settlement agreement imposing 50 conditions on the company - the transaction is currently pending approval by the OPUC.

On December 21, 2017, the company filed an amended application with the commission incorporating 41 commitments³ requested by staff that include ring-fencing provisions and satisfy the "net benefits" requirement. Many of the conditions imposed by the OPUC staff are required by Washington statute and/or rule, those that are not required have been incorporated into NWN's amended application.

Staff agrees with NWN that the proposed internal reorganization will not affect the ultimate control of the utility and its jurisdictional operations. NWN will continue to be the entity managing the ongoing regulated operations.

Conclusion:

Issue an order approving Northwest Natural Gas Company's revised request for corporate reorganization to create a holding company.

Attachments

² RCW 80.12.020(1) states in part, ". . . The commission shall not approve any transaction under this section that would result in a person, directly or indirectly, acquiring a controlling interest in a gas or electrical company without finding that the transaction would provide a net benefit to the customers of the company."

³ See Attachment 4 for list of 41 Commitments.