

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of	DOCKET UG-170094
NORTHWEST NATURAL GAS COMPANY’S	ORDER 01
Application for Approval of Corporate Reorganization to Create a Holding Company	ORDER APPROVING APPLICATION SUBJECT TO CONDITIONS

**BACKGROUND**

- 1 On February 13, 2017, Northwest Natural Gas Company (NW Natural or Company) filed an application requesting approval from the Washington Utilities and Transportation Commission (Commission) to implement a corporate reorganization that will result in a holding company structure (Application). Under the proposal, NW Natural will become the wholly owned subsidiary of a newly formed holding company, HoldCo. NW Natural will contribute to HoldCo all of its stock and its interest in its current subsidiaries; each share of NW Natural will convert into one share of HoldCo. Following the reorganization, HoldCo will be owned by public shareholders and hold the stock of NW Natural.
- 2 The stated purpose of the reorganization is to “allow the Company to better respond to the changing business environment of the natural gas industry, while further insulating NW Natural’s public utility from non-public-utility businesses.” The Application states that the “reorganization will benefit customers by further reinforcing the legal and financial separation between NW Natural’s regulated utility operations and those conducted through subsidiaries.” Specifically, the reorganization “will help ensure that the financial results of the other affiliates will not harm the utility’s capital structure, credit ratings, or cost of capital” and “better insulate utility assets and reduce any risk that such assets could be reached by creditors of the nonregulated affiliates.”
- 3 The Application includes numerous commitments that are designed to mitigate any potential risk associated with the reorganization, and which the Company proposes the Commission adopt as conditions to its approval of the Application. The Application states the commitments “ensure that the [r]eorganization will not compromise the Commission’s ability to regulate NW Natural in the public interest or result in cross-

subsidization between the utility and unregulated entities, and the customers will not bear any costs associated with the [r]eorganization.”<sup>1</sup>

4 NW Natural has also filed a petition with the Oregon Public Utility Commission (OPUC) seeking its approval of the reorganization. The Company, OPUC staff, and intervenors have reached a settlement agreement imposing 50 conditions on NW Natural. The settlement agreement is currently pending approval by the OPUC.

5 The Commission’s regulatory staff (Staff) reviewed the Company’s Application and requested a total of 41 commitments, which include ring fencing provisions and rate credits. Staff is persuaded the commitments satisfy the “net benefits” requirement set out in RCW 80.12.020(1). Staff notes that many of the conditions imposed by the OPUC Staff are already required by Washington statute or rule.

6 On December 21, 2017, the Company filed with the Commission an amended Application incorporating the 41 commitments requested by Staff. Accordingly, Staff recommends the Commission approve the amended Application subject to the agreed conditions.

7 At the December 28, 2017, Open Meeting, NW Natural, Staff, and the Public Counsel Unit of the Washington Office of Attorney General commented on the Company’s request. Each agreed that the “net benefits” standard required by RCW 80.12.020(1) has been met under the specific facts and circumstances of this case.

## DISCUSSION

8 We approve NW Natural’s amended Application subject to the conditions agreed to by Staff and the Company. Under RCW 80.12.020(1), NW Natural 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 previously applied this provision to the transfer of utility stock resulting in the formation of a holding company.<sup>2</sup>

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<sup>1</sup> Application, ¶ 4.

<sup>2</sup> See, e.g., *In the Matter of the Application of PacifiCorp and Scottish Power PLC for an Order (1) Disclaiming Jurisdiction or, in the Alternative, Authorizing the Acquisition of Control of PacifiCorp by Scottish Power and (2) Affirming Compliance with RCW 80.08.040 for PacifiCorp’s Issuance of Stock in Connection with the Transaction*, Docket UE-981627, 2d Supp. Order at 4 (March 16, 1999).

9 Pursuant to legislation enacted in 2009, RCW 80.12.020(1) further provides that 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 a finding that the transaction would provide a net benefit to the customers of the company.” Prior to this 2009 legislation, the Commission applied a “no harm” standard, that is, it had to find that the proposed transaction resulted in no harm to customers.<sup>3</sup>

10 As Staff notes in its memo, the proposed reorganization will be largely seamless because the Company’s day-to-day operations will remain the same. For example, NW Natural will not transfer any of its utility assets or property to HoldCo or any other affiliate, the corporate governance of NW Natural will not change significantly, and all current officers will remain NW Natural officers. Similarly, the Board of Directors will continue to serve in its same capacity.

11 In considering petitions filed under RCW 80.12.020, the Commission has imposed conditions designed to mitigate customers’ exposure to potential risk. The proposed conditions agreed to by the parties create safeguards to ensure that other affiliates will not harm the utility’s capital structure, credit ratings, or cost of capital.

12 We agree with the Company that reorganization will better insulate NW Natural’s utility assets, thereby reducing the risk that such assets could be reached by creditors of the non-regulated affiliates. We also agree with the Company that its reorganization will not alter the Commission’s ability to effectively regulate its utility operations, nor will it change the provision of safe, reliable natural gas service.

13 Finally, we find that the transaction will provide net benefits to the Company’s customers, as required by RCW 80.12.020. Specifically, we agree that the new corporate structure will “allow the Company to better respond to the changing business environment of the natural gas industry,” and note that certain provisions in the Agreement, such as the commitment to provide for three years an annual \$55,000 credit to customers on an equal percent margin basis concurrent with the Company’s purchased gas adjustment, go significantly beyond a “no harm” standard and that this reorganization will result in net benefits to customers.

14 We note that our “net benefit” finding is based on the particular facts and circumstances of NW Natural’s reorganization request and the negotiated commitments. Our decision today does not provide specific guidance for future transactions under RCW 80.12.020.

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<sup>3</sup> Laws of 2009, c. 24, § 3.

### FINDINGS AND CONCLUSIONS

- 15 (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 gas companies.
- 16 (2) NW Natural is a gas company and a public service company subject to Commission jurisdiction.
- 17 (3) On February 13, 2017, NW Natural filed an Application requesting authority, pursuant to Chapter 80.12 RCW, to implement a corporate reorganization that will result in a holding company structure.
- 18 (4) On December 21, 2017, the Company filed an amended Application with the Commission incorporating the 41 commitments requested by Staff.
- 19 (5) This matter came before the Commission at its regularly scheduled meeting on December 28, 2017.
- 20 (6) After reviewing the Application filed in Docket UG-170094 and giving due consideration, the Commission finds that through the particular facts and circumstances of this case, the transaction will provide net benefits to customers, and it is consistent with the public interest to approve the amended Application filed on December 21, 2017, subject to conditions agreed to by the parties.

### ORDER

#### THE COMMISSION ORDERS:

- 21 (1) The Commission approves Northwest Natural Gas Company's Application as amended on December 21, 2017, subject to the conditions agreed to by Northwest Natural Gas Company and Commission Staff.
- 22 (2) The Commission retains jurisdiction over the parties, the subject matter, and Northwest Natural Gas Company to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective December 28, 2017.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner