

Agenda Date: September 11, 2025
Item Number: A4

Docket: UG-250458
Company: Northwest Natural Gas Company d/b/a NW Natural

Staff: Brett Shearer, Deputy Director of Energy Transformation

Recommendation

Issue an order:

- Accepting Northwest Natural Gas Company d/b/a NW Natural's (NW Natural or Company) Petition to use an alternative thermal energy network (TEN) pilot project process under RCW 80.28.470(2). This is because the default timelines in the statute are not compatible with the actual amount of time necessary to identify, design, permit, seek funding for, and construct a TENs pilot project, making the alternative process the only practical means forward.
- Validating costs associated with the Company's TENs pilot project proposal under RCW 80.28.450(1) and RCW 80.28.450(2). This would mean that the Commission recognizes Commission Staff has reviewed the proposed design and cost estimate documents, and they contain legitimate figures that the Company can use to pursue grant funding at the Department of Commerce. This validation would also allow the Company to propose recovery of TENs costs in a general rate case but is not a prudence or used and useful finding.
- Stating that the cost difference between the Company's lowest reasonable cost resources under current business practices and the costs of building an operating the thermal energy pilot project is at least \$9.3 million-\$12.8 million. This would mean the Commission recognizes that the proposed design will legitimately cost more than other service options, and the Company can use that cost difference to pursue grant funding from the Department of Commerce.
- Finding that the Company has submitted necessary considerations in compliance with each item in RCW 80.28.460(3) and (4) and therefore should be eligible to receive grant funding. This would mean that, in the course of an initial review of Company materials, the Commission has found the Company made a sufficient, good-faith effort to incorporate both the required and optional statutory considerations in its pilot project, and the Company has met the necessary initial burden related to these items to pursue and receive grant funding from the Department of Commerce under RCW 43.31.033(5). Such a finding would not be a final approval of the project or restrict the ability of the Commission to review the statutory considerations in another proceeding. The Commission and various stakeholders could and should further examine these statutory considerations in the Company's general rate case, with the potential for additional findings and conclusions in that proceeding.
- Confirming that NW Natural has complied with RCW 80.28.460(6) by proposing a series of metrics to evaluate the TENs pilot project. This would only mean that the Commission recognizes the Company has proposed metrics in compliance with the statute. An order at

this point would not bind the Commission to those metrics or provide any opinion on the completeness or quality of the proposed metrics.

Background

The thermal energy network pilot projects and associated filings are new to this Commission and result from HB 2131 that passed in 2023.¹ In June 2025, the Washington Utilities and Transportation Commission (Commission) acknowledged three gas companies' initial TENs notice filings.² This docket is the second filing associated with NW Natural's proposed TENs pilot project in downtown Vancouver.³

At this "second filing" stage, the Commission has several responsibilities:

- Resolve the Company's petition to use an alternative process
- Validate costs and provide that validation to the Department of Commerce
- Determine the "cost difference" for the TENs pilot and provide numbers to the Department of Commerce
- Determine whether the Company has provided sufficient information for an initial review in compliance with RCW 80.28.460(3) and (4) such that the Department of Commerce would have enough information to issue grant funding
- Confirm the company has complied with requirement in RCW 80.28.460(6) to propose metrics for the project

In the TENs big picture, this second filing is limited to a broad review by Commission Staff (Staff), procedural matters required by the statute, and helping the Company and the Department of Commerce obtain the necessary information to move forward with grant funding. It is important for the Commission to know that the larger issues around ratepayer funding, risk allocation, and detailed evaluation of the project will occur over a longer, more detailed General Rate Case (GRC) filing.

In short, the Commission should understand that there is a chicken-and-egg issue in terms of rate recovery. Utilities are unlikely to go-through with building these projects absent some clear methodology for recovering costs through natural gas rates. This is particularly true given the legislature's decision to reduce grant funding for these projects. NW Natural now has a GRC filed with the Commission where the Company will seek rate recovery of this TEN pilot project. That docket will provide the venue for a more detailed review of the project, the statutory considerations that the Company should fulfill, stakeholder proposals for rate design, and whether or how to spread the costs of this project to NW Natural's other ratepayers.

¹ The majority of HB 2131 was codified into RCW 80.28.450, .460, .470, and .480. *See also* RCW 43.31.033 for a broad description of the grant process for thermal energy network pilot projects.

² UG-250455 (Puget Sound Energy), UG-250456 (Cascade Natural Gas), and UG-250458 (NW Natural)

³ Puget Sound Energy and Cascade Natural Gas have indicated they plan to file their second filing later this year.

Discussion

Accepting NW Natural's petition to use an alternative process under RCW 80.28.470(2)

Under RCW 80.28.470(2), the Commission must accept, deny, or accept with modifications the Company's proposed alternative process.

The Commission should grant NW Natural's petition because the alternative process allowed for in RCW 80.28.470(2) is the only feasible means of pursuing a TENs pilot project. The default process envisioned in 80.28.470(1) would require a full request for proposal (RFP) and then a cost comparison analysis, which simply does not fit with the statute's other timelines and intent. A project requires significant coordination to identify a location, seek permitting, inform stakeholders, secure capital, develop designs, and then actually build something. For a regulated utility and a TENs pilot project, in particular, the entity must also secure regulatory approval and, in this instance, pursue grant funding as it becomes available. The statutory timeline envisions construction by the end of 2026, and the Company must begin pursuit of grant funding as soon as possible. Given that timeline and the clear legislative intent to at least explore these projects, the default process is not practical or feasible.

The Company's proposed alternative process is reasonable. The Company engaged a large, experienced engineering firm to develop a 30 percent design. Staff confirmed with other stakeholders that 30 percent designs are a common practice, and the Company's engineering firms also confirmed experience with creating 30 percent designs for regulated entities developing thermal energy projects. Staff also examined the Company's filing and cost estimates and believe those estimates are sufficiently reasonable, clear, and verifiable to meet the practical intent of HB 2131 and should thus qualify as an alternative process under the statute. The Commission should grant the Company's petition to pursue the alternative process as proposed by the Company.

Validation of Costs under RCW 80.28.450(1) and (2)

Under RCW 80.28.450(1) and (2), the Company must "submit the project for review and validation of costs assessments to the Commission." Although not a prudency or used and useful finding, if the Commission validates cost assessments the Company is then procedurally cleared to request rate recovery in a general rate case.

The Commission should validate the Company's costs/cost assessments in docket UG-250458. NW Natural has engaged a legitimate, very well-respected engineering firm with significant expertise in thermal energy development. The lead engineers have participated in TENs design and construction previously and have a combined 5+ decades of experience with all the necessary training and credentials to develop a strong initial design. The Company has also engaged a well-known construction consulting firm with significant expertise in metro Portland to develop cost and material estimates. Staff found the consulting firm's estimates accurate through spot auditing. Overall, the Company has invested nearly 4000-plus work-hours to establish the current 30 percent design, and the largest items are accurately accounted for in the

filing documents. Staff conducted independent research and spoke with outside stakeholders to review technical and non-technical details and confirm high-level feasibility of the 30 percent design

Determination of the Cost Difference under RCW 43.31.033

Under RCW 43.31.033, the Department of Commerce may not issue grant funding that exceeds the “difference between the gas company's lowest reasonable cost resources under its current business practices and the costs of building and operating the thermal energy network pilot project.” The Commission is charged with determining the cost difference and providing the figures to the Department of Commerce.

In practice, this is a non-issue. By any metric, the cost difference of the project will exceed the full amount of grant funding available. NW Natural’s current estimate for the project cost is about \$13 million. A gas line extension to provide service would be \$38,000. Therefore, the cost difference is just under \$13 million. If, instead of a gas line extension, we compare the cost of the project to an electric heating and cooling system, the current best estimate of the cost difference is about \$9 million. It is important to recognize that tax credits may be available to offset some of that cost difference.

TENs cost estimate	Alternative	Cost difference
\$12.8 million	(\$38,000) – gas line extension	\$12,762,000
\$12.8 million	(\$3,500,000) – electric heating/cooling	\$9,300,000

The Commission should therefore find that the cost difference referenced under RCW 43.31.033 is at least \$9.3-\$12.8 million.

Provision of Metrics under RCW 80.28.460(6)

Under RCW 80.28.460(6), a gas or electrical company must include specific metrics that the company proposes to use to evaluate a TENs pilot project. These metrics are intended to help inform the commission's rule making and rate making and specifically to help inform any future standardized metrics that the commission may adopt for thermal energy network pilot projects.

The Commission should acknowledge that the Company provided a list of metrics with its proposal as required under RCW 80.28.460(6).

The Company’s proposed metrics are reasonable given the current status of the project and proceedings at the Commission. Staff would encourage the Commission to recognize that developing a metric list will be a dynamic, rather than static, process. The Company should understand that its initial list is just that – an initial list that is subject to change and more rigorous review/detail as the process moves forward. TENs are an issue and project of first impression for all traditional utility stakeholders, including the utility itself. There will be metrics

that are not as helpful or accurate as initially thought and there will be something we did not think of initially and will want to add to the list of metrics as we learn more.

Various stakeholders in the Company's general rate case will likely ask to include additional or more complex metrics. Staff, for example, will very likely have proposals for not only the types and goals of metrics, but the specific data requirements and expectations around those metrics. The reality is that the quality of data will largely determine the usefulness and accuracy of any metric. If our goal is to comply with the legislative intent of learning more about TENs projects through these pilots, Staff believes that data quality and standards will be just as important as the list of metrics.

Statutory Laundry Lists in RCW 80.28.460(3) and (4)

Under RCW 80.28.460(3), when reviewing a TENs pilot project for approval, the Commission must consider a list of 12 items.⁴ Under RCW 80.28.460(4), the Commission may also consider a subsequent 5 items when considering approval.⁵ It is not clear what "approval" means in the statute, but, in practical terms, the project will not be built until/unless the Company has secured funding through its rate case. Commission final "approval" process will thus occur in the general rate case. A Commission finding now to support eligibility for grant funding should not be

⁴ RCW 80.28.460(3) requires the Commission to consider (a) The number and type of customers served, including the percent of low-income customers served; (b) Use of existing natural gas workforce and other labor considerations, such as efforts to transition the natural gas workforce to thermal energy work, training, recruiting, job creation and retention, payment of prevailing wages, and state-registered apprenticeship utilization; (c) The ability to maintain infrastructure safety and reliability; (d) The ability to meet 100 percent of the pilot project customers' demand for space heating; (e) Whether the pilot project creates benefits to customers, communities, and society at large, including, but not limited to, public health benefits such as improved air quality in areas with disproportionate environmental or public health burdens and disadvantaged communities as identified by the environmental health disparities map described in RCW 43.70.815, and increased affordability of thermal energy options; (f) Coordination with any electric utility providing electrical service to areas served by the pilot project; (g) Whether the pilot project furthers the climate justice mandates of chapter 70A.02 RCW and the emissions reductions mandates of chapter 70A.45; (h) Whether the pilot project advances financial and technical approaches to equitable and affordable building electrification; (i) Whether the pilot project will develop information useful for the commission's adoption of rules governing thermal energy networks; (j) Enrollment in an electric utility demand response program; (k) The potential to enable gas pipeline decommissioning and its potential to supplant the need for gas pipeline replacement and the need to spend on gas pipeline replacement programs; (l) Whether the thermal energy network is a distributed system that uses ambient temperature fluid and high-efficiency heat pump equipment in each building in the network.

⁵ RCW 80.28.460(4) states that the Commission *may* consider (a) Greenhouse gas emissions reductions; (b) The use of waste heat, ground source heat, geothermal resources, or other nonfossil fuel and noncombustion sources, and the use of electric heat pumps; (c) The ability to provide the pilot project customers' hot water demands; (d) The ability to provide the pilot project customers' cooling demands; (e) The consideration of options to provide thermal energy storage

considered approval of the project or 100 percent agreement with the Company's evaluation of statutory metrics.

In its filing, the Company listed out each of the required and optional considerations. The Company then documented its evaluation process for each of the considerations in the context of the proposed TENs pilot project. Staff reviewed the filing and generated a number of questions. The Company responded and provided additional details where feasible. Staff will have more questions, particularly as the project advances to a more complete design and it is important for the Commission to allow for a more complete review by Staff and other stakeholders in the general rate proceeding; however, there is no question at this point that the Company has made a good faith and reasonable attempt to review and incorporate the list of statutory considerations into the TENs pilot project. The Commission should find the Company has met the burden needed to pursue and be eligible for grant funding.

The Commission should recognize that the Company has considered each of the items in RCWs 80.28.460(3) and (4) and put together a proposal based on those statutory considerations. The Commission should find that the Company's proposal and Staff's initial review of those considerations shows the Company has sufficiently included various statutory considerations in its TENs proposal and the Company should thus be eligible to receive grant funding from the Department of Commerce.

However, the Commission should reserve the right to further examine each of these considerations in a longer, more thorough process such as the Company's general rate case. This would also allow other stakeholders an opportunity to more fully review the project and the statutory considerations. This additional review should not restrict the Company or the Department of Commerce from pursuing grant funding now.

Comments

Public Counsel and representatives of Home Energy Efficiency Team, a thermal energy advocacy organization, filed public comments in this docket.

Conclusion

Issue an order:

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