

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL

For an Order Determining that Certain
Property Located in Lincoln City, 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, dba NW Natural (“NW Natural” or “Company”), respectfully requests that the Washington Utilities and Transportation Commission (“Commission”) declare that certain real property commonly known as the former “Lincoln City Resource Center”¹ in Oregon is not necessary or useful and should be sold. NW Natural seeks to sell the former Lincoln City Resource Center to Boats N Hoez, LLC (“Buyer”), pursuant to the Agreement for Purchase of Real Property (“Agreement”), executed on October 11, 2023, Amendment to Agreement (“Amendment”), executed on October 31, 2023, and Second Amendment to Agreement (“Second Amendment”), executed on December 13, 2023. The Agreement, Amendment and Second Amendment all are attached here as Exhibit B. Alternatively, pursuant to RCW 80.12.020 and WAC 480-143-180, NW Natural requests that the Commission approve the sale of the former Lincoln City Resource Center to the Buyer as set forth in the Agreement.

¹ Pages 1, 3 and 4 of Exhibit A of this Application is a picture, general overview and map of the former Lincoln City Resource Center at 1405 SE Hwy 101, Lincoln City, Oregon 97367. The former Lincoln City Resource Center consists of approximately 0.93 acres of land and includes two buildings.

NW Natural respectfully requests Commission approval by no later than March 21, 2024, to reflect the provision in the Agreement stating that the Company “shall have ninety (90) days from the date that Seller submits for Regulatory Approvals to obtain the Regulatory Approvals (the “Regulatory Approval Deadline Date”).”²

II. BACKGROUND ON THE SALE AND PURPOSE FOR THE SALE

2 This transaction, expected to close by April 1, 2024,³ involves NW Natural’s sale of the former Lincoln City Resource Center to the Buyer. In October 2022, the Company moved into and started operations at a new Lincoln City Resource Center at Northeast 36th Drive in Lincoln City, Oregon. The new Lincoln City Resource Center now is the Company’s base for utility field operations in Lincoln County. The services provided out of this location include customer field services, construction, emergency response, transmission maintenance, leakage inspection, system operations, and field engineering. The new Lincoln City Resource Center also provides vehicle, equipment, parts, and materials storage. Now that NW Natural has moved to the new Lincoln City Resource Center, the Company is ready to complete the sale of the former Lincoln City Resource Center, which will offset the costs of the new facility and the cost of relocating employees and equipment.

² Agreement, Section 17. Section 17 of the Agreement also states that, “[n]ot later than seven (7) business days after Buyer’s issuance of both the Due Diligence Release Notice and the Land Use Relate Notice, Seller shall apply for the Regulatory Approvals.” Section 3 of the Second Amendment, executed December 13, 2023, “constitute[s] Buyer’s Due Diligence Release Notice, Loan Commitment Release Notice and Land Use Release Notice.” Seven (7) business days after December 13, 2023, is Friday, December 22, 2023, the date the Company is filing this Application. Ninety (90) days from December 22, 2023, is Thursday, March 21, 2024, which is the Regulatory Approval Deadline Date.

³ Agreement, Section 10 (“the purchase and sale shall close on or before the date that is seven (7) business days after the date that Seller obtains the Regulatory Approvals (the “Closing Date”).”). Seven (7) business days after Thursday, March 21, 2024, is Monday, April 1, 2024.

3 The former Lincoln City Resource Center is located on a 44,000 square foot site on Highway 101 in Lincoln City and includes a warehouse and a timber-framed wood-roof building believed to be about 55 years old. The Company had identified several issues with the building and site, including (1) insufficient seismic resiliency, (2) size constraints with both the buildings and the yard, and (3) unsafe points of ingress and egress for employees due to the facility’s location on U.S. Highway 101. Each of these issues is described briefly below.

4 First, a 2016 seismic assessment by NW Natural’s seismic consultant, KPFF Engineering, revealed that the former Lincoln City Resource Center’s office and storage buildings did not meet the current minimum Life Safety Structural performance objectives related to seismic resiliency.⁴ This lack of seismic resiliency could have impeded NW Natural’s ability to respond to a major natural disaster.

5 Second, the former Lincoln City Resource Center was too small to support operational needs and the facility would have needed significant repairs. For example, the Company would have needed to upgrade the building to address a roof and gutter system that leaks, outdated iron piping that is rusting, and fencing and lighting that make the current security inadequate. The former Lincoln City Resource Center site was too small to support operational needs like materials deliveries, a vehicle fueling system, pipe storage, and a decant system. Furthermore, the outdoor parking lot was too small to accommodate Company parking needs. The site also lacked and could not accommodate sufficient indoor covered storage for Company tools and equipment, or covered parking for Company

⁴ KPFF Engineering, ASCE 41-13 Tier 1 Seismic Evaluation of NW Natural – Lincoln City Service Center (August 2016). The report (at page 6) states that the Lincoln City Service Center “does not achieve the desired seismic performance objective for Life Safety Structural Performance” or “Life Safety Nonstructural Performance.” Exhibit C is a copy of the KPFF seismic assessment report.

vehicles, to protect them from the corrosive coastal environment. The site also lacked space to accommodate adequately sized storage bins for rocks and sand.

6 Third, the former Lincoln City Resource Center is located on U.S. Highway 101, a particularly busy road, which created significant challenges for the Company's employees when attempting to bring large trucks and equipment in and out of the facility. These challenges were exacerbated by the fact that the entrance has a single manually operated gate, which required the employees to stop and exit their vehicles to open the gate, thereby increasing the amount of time they were exposed to passing traffic. Relatedly, NW Natural had to stop traffic on U.S. Highway 101 approximately once a week to accept deliveries of necessary equipment and materials. Taken together, these challenges created potential safety issues for the Company's employees and the public.

7 The Company hired Cushman & Wakefield to be its broker and market the former Lincoln City Resource Center. Cushman & Wakefield began marketing the former Lincoln City Resource Center in 2018. On January 5, 2023, the Company filed an Application requesting that the Commission declare that the former Lincoln City Resource Center in Oregon is not necessary or useful and should be sold, or alternatively, that the Commission approve the sale of the former Lincoln City Resource Center to the Buyer as set forth in the Agreement.⁵ On February 9, 2023, the Company notified the Commission that consideration of the Application should be removed from the agenda for the Commission's public meeting on that date, because the identified buyer had terminated the transaction.

⁵ UG-230009, *In the Matter of the Application of Northwest Natural Gas Company, dba NW Natural for an Order Determining that Certain Property Located in Lincoln City, Oregon Is No Longer Useful, or, in the Alternative, an Order Authorizing the Sale of that Certain Property.*

8 Since then, the Company has received one bona fide offer, from the Buyer. The sales price for the property is \$1,260,000.00.⁶ This amount is equal to the “as is” market value of the former Lincoln City Resource Center as determined by Buyer’s broker,⁷ and is just below the average range 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 identified the Buyer for the sale of the former Lincoln City Resource Center.⁸ A copy of the “Broker Opinion of Value” is provided as Exhibit A of this Application. The Company and the Buyer arrived at the sales price by means of arms-length negotiations.

9 The Agreement, Amendment and Second Amendment memorialize the \$1,260,000.00 transaction price and the other terms and conditions between NW Natural and the Buyer. The net book value of the property is \$223,722. The estimated net gain from the sale of the former Lincoln City Resource Center, after closing costs,⁹ is \$946,948, of which Washington’s state allocation is approximately \$57,385. The calculations of the gain on sale and state allocation are provided as part of Exhibit E. NW Natural is not seeking to retain any of Washington’s state allocated amount of the estimated net gain from the sale of the former Lincoln City Resource Center. It is proposing to return one-hundred percent of the gain allocated to Washington to NW Natural’s Washington customers. The Company proposes that such amount be held in a regulatory liability account (account 254) for the benefit of customers, and accrue interest at the Federal Energy Regulatory Commission

⁶ Second Amendment, Section 2 (reducing the \$1,300,000.00 sales price set forth in Agreement, Section 2).

⁷ See Exhibit D, Appraisal Report of Moscato, Okoneski & Associates, Inc., dated October 21, 2023.

⁸ See Exhibit A, page 6.

⁹ The Company estimated \$89,330 for closing costs (e.g., broker, legal title insurance, escrow). The final gain on property sale will be net of the actual costs incurred.

(“FERC”) rate, until the amount can be credited to all customers on an equal-percent-of-margin basis in the Company’s next annual rate change on November 1, 2024.

10 The Company believes that its customers will not be harmed by this transaction because rates will not increase to customers as a result of the sale of the former Lincoln City Resource Center.

11 Finally, NW Natural respectfully requests Commission declaration or approval by no later than March 21, 2024, to reflect the provision in the Agreement that contemplates the Company will receive such Commission decision by that date.¹⁰ An extended processing time could have adverse impacts. Section 17 of the Agreement states that if the Company is not able to receive Commission approval by March 21, 2024, the Agreement will terminate.¹¹ Time is of the essence. NW Natural, therefore, respectfully requests expedited consideration of this Application.

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

13 **(1) Identity of the Applicant.** NW Natural’s exact name is Northwest Natural Gas Company, a corporation duly organized and validly existing under the laws of the State of Oregon. The Company is a utility that is subject to the Commission’s jurisdiction under RCW 80.04.010. The Company’s principal business office is located at 250 SW Taylor Street, Portland, Oregon 97204-3038.

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

¹⁰ See Footnote 2 of this Application.

¹¹ Agreement, Section 17 (“In the event that Seller is unable to obtain the Regulatory Approvals on or before the Regulatory Approval Deadline Date, then: (i) this Agreement shall terminate without further liability to Seller or Buyer, and (ii) Buyer shall be entitled to a return of the Earnest Money Deposit.”).

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

eFiling
Rates & Regulatory Affairs
NW Natural
250 SW Taylor Street
Portland, Oregon 97204-3038
Telephone: 503.610.7330
Fax: 503.220.2579
Email: eFiling@nwnatural.com

16 **(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-6.¹²

17 **(4) Sale of Property.** This Application involves the sale of real property, the former Lincoln City Resource Center. The sales price for the property is \$1,260,000.00. This amount is equal to the "as is" market value of the former Lincoln City Resource Center as determined by Buyer's broker,¹³ and is just below the average range of the market value range identified in the "Broker Opinion of Value," conducted by Cushman & Wakefield,

¹² The Company's financial statement for the Third Quarter 2022 is available at <https://ir.nwnaturalholdings.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=16183651>.

¹³ See Exhibit D, Appraisal Report of Moscato, Okoneski & Associates, Inc., dated October 21, 2023.

based upon information available at the time NW Natural identified the Buyer for the sale of the former Lincoln City Resource Center.¹⁴ A copy of the “Broker Opinion of Value” is provided as Exhibit A of this Application. The Company and the Buyer arrived at the sales price by means of arms-length negotiations.

18 **(5) Description of Property to be Sold.** The former Lincoln City Resource Center is located in Lincoln County at 1405 SE Hwy 101, Lincoln City, OR 97367. It consists of approximately 0.93 acres of land and includes two buildings.

19 **(6) Statement of Accounting.** The net book value of the property is \$223,722. The proposed journal entries to be used to record this transaction on the Company’s books are attached as Exhibit E of this Application.

20 **(7) Other Jurisdictions.** NW Natural will be filing an application for review with and approval by the Public Utility Commission of Oregon addressing the proposed property transfer.

III. DISCUSSION

21 **(8) Former Lincoln City Resource Center No Longer Is 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, the former Lincoln City Resource Center’s market value exceeds 0.1 percent of NW Natural’s jurisdictional rate base, and thus the Company seeks Commission approval prior to the property’s disposition.

¹⁴ See Exhibit A, page 6.

22 Previously, this Commission has concluded that “property is no longer necessary and useful” where it “has been replaced by a more suitable facility.”¹⁵ In 2008 and 2020, respectively, 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, and Astoria, Oregon, was no longer “necessary or useful” and should therefore be sold.¹⁶ The Commission agreed, concluding that the property was no longer necessary and useful given the acquisition of replacement facilities.¹⁷

23 In this case, the former Lincoln City Resource Center is similarly no longer necessary and useful in the performance of the Company’s service to customers. In October 2022, the Company moved into and started operations at a new Lincoln City Resource Center at Northeast 36th Drive in Lincoln City. The former Lincoln City Resource Center also is an unneeded asset for which the Company is receiving full value.¹⁸ As the Company no longer has need of or use for the property, NW Natural respectfully requests that the Commission deem the former Lincoln City Resource Center no longer “necessary or useful” for the Company to perform its public duties.¹⁹

24 **(9) The Sale of the Former Lincoln City Resource Center Is in the Public**

Interest. As explained above, the former Lincoln City Resource Center no longer is “necessary or useful” for the Company to perform its public duties, so NW Natural is selling it to the Buyer for \$1,260,000. This amount is equal to the “as is” market value of the former

¹⁵ *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); *see also In the Matter of the Application of Northwest Natural Gas Company, for an Order determining that Certain Property Located in Astoria, Oregon is No Longer Necessary or Useful*, Docket UG-200120, Order 01 at ¶13 (June 25, 2020).

¹⁶ Docket UG-081317, Order 01 at ¶1; Docket UG-200120, Order 01 at ¶1.

¹⁷ Docket UG-081317, Order 01 at ¶9, 14; Docket UG-200120, Order 01 at ¶13, 14.

¹⁸ WAC 480-143-180(2).

¹⁹ WAC 480-143-180.

Lincoln City Resource Center as determined by Buyer's broker,²⁰ and is just below the average range 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 identified the Buyer for the sale of the former Lincoln City Resource Center.²¹ NW Natural is proposing to defer Washington's state allocated portion of the net gains from the sale of the former Lincoln City Resource Center in a regulatory liability account until the amount can be credited to all customers on an equal-percent-of-margin basis in the Company's next annual rate change, which would be on November 1, 2023. The proposed sale of the former Lincoln City Resource Center 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.

IV. CONCLUSION

25 The sale of the former Lincoln City Resource Center will benefit NW Natural's customers by disposing of property, at a fair market price, that is no longer be used and useful to the Company and therefore is in the public interest. Accordingly, NW Natural respectfully requests that the Commission enter an appropriate Order determining that the former Lincoln City Resource Center is not necessary or useful or, alternatively, that the proposed sale of the former Lincoln City Resource Center 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 the former Lincoln City Resource Center, specifically an estimated \$57,385, into a regulatory liability account (account 254), and accrue interest at the FERC rate, until the amount can be credited to all customers on an

²⁰ See Exhibit D, Appraisal Report of Moscato, Okoneski & Associates, Inc., dated October 21, 2023.

²¹ See Exhibit A, page 6.

equal-percent-of-margin basis in the Company's next annual rate change, which would be on November 1, 2023. NW Natural also respectfully requests Commission declaration or approval by no later than March 21, 2024, to reflect the provision in the Agreement that contemplates the Company will receive such Commission decision by that date.²² Finally, the Company respectfully requests that the Commission take any other action that it deems necessary and appropriate.

Respectfully submitted this 22nd day of December 2023.

NORTHWEST NATURAL GAS COMPANY

/s/ Eric W. Nelsen

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²² See Footnote 2 of this Application.

EXHIBITS

The following exhibits are included with this Application:

- Exhibit A – Cushman & Wakefield’s “Broker Opinion of Value” of the Former Lincoln City Resource Center (including picture, general overview and map of the Former Lincoln City Resource Center).
- Exhibit B – Agreement, executed on October 11, 2023, Amendment, executed on October 31, 2023, and Second Amendment, executed on December 13, 2023.
- Exhibit C – KPFF Engineering, ASCE 41-13 Tier 1 Seismic Evaluation of NW Natural – Lincoln City Service Center (August 2016).
- Exhibit D – “Appraisal Report” of Moscato, Okoneski & Associates, Inc. of the former Lincoln City Resource Center, on behalf of Buyer.
- Exhibit E – Proposed Journal entry to be used to record the transaction on the Company’s books, and calculation of state allocation.