

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of

NORTHWEST NATURAL GAS
COMPANY d/b/a NW NATURAL'S

Vancouver Thermal Energy Pilot Project

DOCKET UG-250458

ORDER 01

CORRECTED ORDER

APPROVING VANCOUVER
THERMAL ENERGY PILOT
PROJECT; SUBJECT TO
CONDITIONS

BACKGROUND

- 1 On June 5, 2025, Northwest Natural Gas Company d/b/a NW Natural (NW Natural or Company) filed with the Washington Utilities and Transportation Commission (Commission) a Petition to deploy a thermal energy network (TEN) pilot project in Vancouver, Washington.
- 2 On June 26, 2025, the Commission issued an acknowledgement letter, acknowledging that the Company's June 5, 2025, filing complied with the notification requirements of Revised Code of Washington (RCW) 80.28.460(2)(a), giving NW Natural priority to develop a pilot project at three new building sites in Vancouver.
- 3 On July 29, 2025, NW Natural filed a Petition for an Order acknowledging the Company's proposed TEN pilot project and to use an alternative process (Petition).
- 4 On August 5, 2025, the Commission issued a Notice of Opportunity to File Written Comments, due by September 4, 2025, in this docket.
- 5 Commission staff (Staff) reviewed NW Natural's Petition and recommends the Commission issue an order accepting the Petition to use an alternative TEN pilot project process pursuant to RCW 80.28.470(2); validating the costs associated with the Company's proposal pursuant to RCW 80.28.450(1) and RCW 80.28.450(2); acknowledging the cost difference between the Company's lowest reasonable cost resources and the costs of building and operating the TEN pilot project is at least \$9.3 - \$12.8 million; finding that the Company has submitted necessary considerations in compliance with each item in RCW 80.28.460(3)-(4) and therefore should be eligible for

grant funding; and confirming that NW Natural complied with RCW 80.28.460(6) by proposing a series of metrics to evaluate the TEN pilot project.

- 6 In support of its recommendation, Staff states the Commission should grant NW Natural's request to use the proposed alternative process allowed for in RCW 80.28.470(2) because it is the only feasible means of pursuing the TEN pilot project. The default process would require the Company to issue an RFP and then conduct a cost comparison analysis, which Staff states does not meet the statute's timelines and intent. The statute envisions construction by the end of 2026, and because the Company must pursue grants as soon as possible, the default process is not practical. The Company's alternative process, which Staff finds reasonable, includes engagement of an engineering firm to complete a design of 30% of the project (30% design) and provide cost estimates. This work is complete, and Staff believes the filing and costs are reasonable, clear, and verifiable.
- 7 In support of its recommendation to validate costs, Staff states the Company engaged a well-respected engineering firm and construction consulting firm. Staff found the estimates related to construction and material costs to be accurate through spot auditing and Staff has conducted independent research, consulting with outside parties to review technical and non-technical details to confirm high-level feasibility of the 30% design.
- 8 Staff also notes that the TEN pilot project, which carries an estimated cost of \$13 million, is more expensive than current business practices. Staff estimates a line extension would cost approximately \$38,000, while an electric heating and cooling system would cost approximately \$3,500,000. Accordingly, Staff recommends the Commission find the cost difference as required under RCW 43.31.033 is approximately \$9.3 - \$12.8 million.
- 9 Next, Staff notes that the Company provided a list of metrics as required by RCW 80.28.460(6). Staff believes the Company's proposed metrics are reasonable and encourages the Commission to view the metrics as a dynamic rather than static process. Staff acknowledges that parties in the Company's general rate case will likely request additional or more complex metrics.
- 10 Finally, Staff reviewed seventeen items in the Petition as required in RCW 80.28.460(3)-(4). Staff believes that, at this time, there is no question the Company has made good faith and reasonable efforts to incorporate each statutory consideration in its Petition and has met its burden to pursue and be eligible for grant funding. However, Staff recommends the Commission reserve the right to further examine each statutory consideration in the Company's general rate case.

- 11 On September 4, 2025, Public Counsel filed written comments in this docket. Public Counsel comments that NW Natural's cost assessment is incomplete because it is based on a partial design, as an alternative to issuing a request for proposals. Public Counsel recommends that if NW Natural proceeds, the Commission should assign all risks of imprudence to the Company rather than ratepayers.
- 12 Public Counsel also expresses concerns over the lack of available public funding, noting the project estimates are far higher than the \$4.8 million available for all potential TEN pilot projects. Further, Public Counsel notes that while NW Natural plans to utilize geothermal tax credits, the credit is not certain. Finally, Public Counsel expresses concerns over equity, noting the project will serve market rate customers, and the Company provides no concrete plans for how low-income customers may be served in the future.
- 13 This matter came before the Commission at its regularly scheduled open meeting on September 11, 2025. The Commission heard comments from Staff, Public Counsel, NW Natural, Home Energy Efficiency Team (HEET), and Clark County Public Utilities.

DISCUSSION AND DECISION

- 14 We agree with Staff's recommendations and find that NW Natural has complied with all relevant statutory provisions in its Petition and should be eligible to pursue grant funding for its TEN pilot project.
- 15 Pursuant to RCW 80.28.470, an investor-owned utility must issue a request for proposals for a TEN pilot project or may petition the Commission to use an alternative process to estimate the cost to deploy such a project.¹ If the investor-owned utility chooses to petition the Commission for use of an alternate process, the Commission must accept, deny, or accept with modifications the petition.² Here, we agree with Staff that NW Natural's process for obtaining a cost estimate has been thorough, resulting in a reasonable, clear, and verifiable estimate. We also agree that circumstances require an alternate process because without such an alternate, it is not practical that NW Natural will have time to issue a request for proposals and then obtain grant funding. The grant funding should offset a portion of costs and therefore we agree with Staff that it is in the public interest to accept the alternate process, enabling NW Natural to pursue cost offsets through grant funding.

¹ RCW 80.28.470(1)– (2).

² RCW 80.28.470(2).

- 16 Next, pursuant to RCW 80.28.450, an investor-owned utility proposing to build a TEN pilot project must submit the project for a validation of costs to the Commission, and if the Commission validates the costs, the Company *may propose* to recover those costs from ratepayers in a general rate case.³ However, such a validation is not a predetermination of cost recovery nor does it serve as a prudence determination.⁴ Accordingly, we agree with Staff's assessment of the cost estimate as reasonable and verifiable and validate the cost estimate of \$13 million.
- 17 Next, pursuant to RCW 43.31.033, a gas utility may only receive grant funding to offset costs not to exceed the difference between the utility's lowest reasonable cost alternative under normal business practices and the costs of building and operating the TEN pilot project.⁵ The Commission finds Staff's calculations of two low cost alternatives to be reasonable and meet the requirements under RCW 43.31.033. Accordingly, we determine the cost difference for the TEN pilot project as compared to the lowest cost alternatives to be \$9.3 – \$12.8 million. While we acknowledge there is not funding to meet the entirety of this cost difference as discussed by Public Counsel, we determine the cost difference to be an accurate estimate and encourage NW Natural to pursue any grant funding available to offset costs along with tax credits and any other funding that may be available now or may become available in the future.
- 18 Finally, RCW 80.28.460(2), (3), and (6) require NW Natural to, among other things, comply with specific timelines, identify a specific project location, identify the number and type of customers served, identify the ability to maintain safety and reliability, and submit metrics to use to evaluate the project. Staff asserts that NW Natural has met the statutory requirements and recommends the Commission find the same, while understanding the process is not static and can be adjusted and improved throughout the construction of the project. We agree. RCW 80.28.460 gives the Commission flexibility to extend timelines, reject locations, and consider a wide range of factors and metrics in reviewing the project and engaging in rate making. Accordingly, we adopt Staff's recommendation but recognize that more work will be done during the Company's general rate case. In furtherance of this recognition, we find it worth noting that in adopting Staff's recommendation, we make no determination on prudence of the project at this time and will address prudence at a later time.

³ RCW 80.28.450(1) – (2).

⁴ RCW 80.28.450(2).

⁵ RCW 43.31.033(4).

19 This recognition speaks to Public Counsel's concerns. While Public Counsel does not specifically recommend rejecting the Petition, Public Counsel raises concerns that we will continue to monitor. By taking action to adopt Staff's recommendations on this Petition, the Commission does not make a prudency determination, nor does the Commission make any determination as to allocation of costs or cost overruns. These items will be determined at a later date. Further, as for Public Counsel's equity concerns, while we recognize such concerns, we also recognize that to comply with CETA and CCA, investor-owned utilities may need to explore projects which seem high cost now. However, the same was true of early movers building wind and solar. Today, those generation sources are among the least cost generation resources available. The reduction in prices would not and could not have occurred without early adopters creating a market to improve processes and push down the cost curve. Accordingly, we recognize Public Counsel's concerns and will continue to monitor costs for similar projects in the future, but we do not believe such concerns should preclude NW Natural from pursuing this TEN pilot project.

FINDINGS AND CONCLUSIONS

- 20 (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 natural gas companies.
- 21 (2) NW Natural is a natural gas company and a public service company subject to Commission jurisdiction.
- 22 (3) RCW 80.28.470 requires natural gas companies to issue a request for proposals for a TEN pilot project or petition the Commission to use an alternative process to estimate the cost to deploy such a project.
- 23 (4) If a company submits a petition to use an alternative process, the Commission must approve, reject, or approve with conditions the alternative process.
- 24 (5) On August 5, 2025, NW Natural submitted a petition to utilize an alternative process.
- 25 (6) NW Natural's alternative process is reasonable given the circumstances discussed in this Order and we therefore approve NW Natural's use of its alternate process.

- 26 (7) RCW 80.28.460(2), (3), and (6) require investor-owned utilities to, among other things, comply with specific timelines, identify a specific project location, identify the number and type of customers served, identify the ability to maintain safety and reliability, and submit metrics to use to evaluate the project.
- 27 (8) We find NW Natural has met the requirements of RCW 80.28.460(2), (3), and (6), for purposes of pursuing grant funding, but we also find that parties and the Commission may continue to evaluate compliance with all requirements, including proposing and approving new metrics to evaluate the project throughout the rate making process in NW Natural's general rate case.
- 28 (9) We validate the cost estimates as required by RCW 80.28.450 and agree with Staff that the cost difference between the lowest reasonable alternatives and the proposed TEN pilot project – as required by RCW 41.31.033 – is \$9.3 - \$12.8 million.

ORDER

THE COMMISSION ORDERS:

- 29 (1) The Commission finds that Northwest Natural Gas Company d/b/a NW Natural's Petition to use an alternative process is approved, as allowed by RCW 80.28.470(2).
- 30 (2) The Commission finds that Northwest Natural Gas Company d/b/a NW Natural has complied with the requirements of RCW 80.28.460(2), (3), and (6), but the Commission will continue to evaluate progress and compliance in Northwest Natural Gas Company d/b/a NW Natural's general rate case currently docketed at the Commission.
- 31 (3) The Commission validates the costs and determines the cost difference of the proposed project and the lowest reasonable cost resources is \$9.3 - \$12.8 million.
- 32 (4) The Commission retains jurisdiction over this matter for purposes of effectuating this Order.

DATED at Lacey, Washington, and effective September 16, 2025.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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BRIAN RYBARIK, Chair

A handwritten signature in blue ink, appearing to read "Ann E. Rendahl", in a cursive style.

ANN E. RENDAHL, Commissioner

A handwritten signature in blue ink, appearing to read "Milton H. Doumit", in a cursive style.

MILTON H. DOUMIT, Commissioner