

# NW Natural's Application for Approval of Corporate Reorganization to Create a Holding Company

UM 1804

Overview of Stipulation

November 30, 2017

# Background of Corporate Reorganization

- Holding company structure is common in utility industry.
  - NW Natural just one of two LDCs not under this corporate structure.
  - No changes to day-to-day operations at NW Natural.
  - NW Natural will remain subject to Commission's jurisdiction.
- Protects customers while providing better opportunity for growth of company.
  - Highly Confidential Testimony filed describing our growth strategy.
- Creates and ensures legal and structural separation of utility and other business investments.
- Separates utility and non-utility financing activities and investments, providing further protection for utility customers.

# Timeline for Reorganization

- Approval from regulatory agencies
  - OPUC, WUTC, and CPUC
  - Stipulation goes into effect upon approval
- Board of Directors and shareholder approval following regulatory approvals
- Shareholder approval expected in May 2018 at Annual Shareholder Meeting
- Trigger corporate reorganization with stock conversion and other corporate filings to complete Reorganization after May 2018 Shareholder Meeting.

# Docket UM 1804

- Filed Application in February 2017 per ORS 757.511
- All parties filed testimony
- 80 data requests submitted to NW Natural
- NW Natural held highly confidential workshop to discuss growth strategy
- NW Natural filed supplemental highly confidential testimony describing growth strategy
- Parties held several all day settlement conferences and phone calls
- All Party Stipulation and Joint Testimony filed in August 2017

# Stipulated Conditions

- 50 Stipulated Conditions
  - Remain in place forever unless condition specifies time
  - Intended to preserve financial health of the utility
  - Mitigate the parties' concerns about risk
  - Result in a "net benefit" to customers and no harm to Oregonians

- We have grouped the conditions into 12 categories:

- |                                |  |
|--------------------------------|--|
| ➤ General Conditions           | ➤ Allocations between Utility and HoldCo |
| ➤ Credit and Capital Structure | ➤ Prevention of Cross-subsidization      |
| ➤ Dividends                    | ➤ Access to Records and Information      |
| ➤ Bankruptcy Protection        | ➤ Continuity of Operations               |
| ➤ Accounting                   | ➤ Miscellaneous                          |
| ➤ HoldCo Formation Costs       | ➤ Credits to Customers                   |

# Credit and Capital Structure

## Credit Ratings

- 4) NW Natural and HoldCo will maintain separate corporate credit ratings
  - Notice to Commission of downgrade
  - If downgraded to BBB+ or Baa1, present Commission with plan to maintain or restore rating, or actions consistent with customers' best interest.

## Equity Ratio

- 5) Maintain equity to debt ratio of no less than 44% (13-month average).
  - If ratio falls, or is reasonably likely to fall, below 44%:
    - ✓ Within 5 days, notify Commission and provide explanation.
    - ✓ Within 30 days, provide plan to restore to 44% or above.
    - ✓ File progress reports every 90 days until restored.
  - If capitalization ratio is at or below 46%, NWN will provide quarterly projections to Staff.

# Credit and Capital Structure

## Hold Harmless Provisions (6 & 7)

- 6) Customers held harmless from adverse rate impacts caused by ROR, Common Equity, and Long Term Debt becoming more costly after the Reorganization.
  - For 7 years, NW Natural has burden of proof to show that any increase for which recovery is sought did not result from factors associated with the Reorganization or HoldCo M&A activity.
  
- 7) Customers held harmless if Reorganization or future M&A cause a higher revenue requirement for NW Natural than if the Reorganization had not occurred.

# Dividends

- 9) No dividends from NW Natural, without Commission approval, if:
- NW Natural's equity to debt ratio falls below 44%, determined on a preceding or projected 13-month average; or
  - NW Natural's secured credit rating falls below investment grade (BBB- for S&P; Baa3 for Moody's).

Notwithstanding the above, if secured credit ratings are below A- and A3, then NWN may issue dividends if equity ratio is 45% or above (13 month avg.).

If secured credit ratings are below BBB and Baa2, then NWN may issue dividends if equity ratio is 46% or above (13 month avg.).

	S&P	Moody's	Equity Ratio
Investment Grade	AAA	Aaa	44% or above
	AA+	Aa1	
	AA	Aa2	
	AA-	Aa3	
	A+	A1	
	A	A2	45% or above
	A-	A3	
	BBB+	Baa1	
	BBB	Baa2	46% or above
	BBB-	Baa3	
Non-Investment Grade	BB+ (or below)	Ba1 (or below)	No Dividend



# Bankruptcy Protections

## Non-consolidation Opinion (NCO)

- 11) Commission approval is conditioned on:
- NW Natural providing NCO to the Commission within 60 days of approval.
  - The NCO must conclude that the ring-fencing provisions are sufficient such that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of NWN with those of the HoldCo or its affiliates.

If Stipulated Conditions are insufficient to obtain the NCO, NWN will:

- ✓ Promptly notify Commission
- ✓ Propose and implement (upon consultation with parties) such actions or additional ring-fencing provisions that are sufficient to obtain the NCO
- ✓ Obtain the NCO and provide it to the Commission

If, after these actions, NWN is unable to obtain the NCO, NWN will notify the Commission and the Commission will then deny NWN's Application, given the conditional approval.

# Bankruptcy Protections

- 12) A voluntary petition for bankruptcy by NW Natural would require:
- The unanimous vote of the NW Natural Board of Directors, inclusive of at least one independent director; and
  - The vote of the holder of the “Golden Share.”

## Independent Director

- The independent director cannot be employed by NWN or HoldCo, and cannot be a member of the HoldCo Board.
- Not associated with or beholden to NWN’s or HoldCo’s lenders.

## Golden Share

- The sole (\$1 par) share of Preferred Stock of NW Natural.
- In the custody of independent third party.
- Golden Share Holder’s sole responsibility to vote on a petition of voluntary bankruptcy
- Decision made in the best interest of NW Natural.

# Holding Company Formation Costs

- 17) All costs associated with the creation of HoldCo will be separately tracked and will not be allocated to NW Natural customers.
- 18) All costs related to the Reorganization and HoldCo's future business endeavors or M&A activity will be excluded from NW Natural's rate cases or any other NW Natural cost recovery method.
- 19) Taxes at NW Natural will be no greater than had the company not reorganized.
  - Tax benefits that would not exist had the company not restructured may be addressed in proceedings before the Commission.
  - Until that time, NW Natural will set up a mechanism to monitor, for informational purposes, income tax expense and potential benefits for NW Natural.

# Credits to Customers

## Rate Credits

- 44) For a period of three years following the formation of HoldCo, NW Natural will provide an annual credit to Oregon customers in the amount of \$500,000 on an equal percent margin basis concurrent with NW Natural's PGA.
- Applied to the annual per therm rate
  - Reduction to customers' bill on a monthly basis

## Deferral and Credit related to future M&A

- 45) Cost savings, inclusive of loadings, allocable to NWN that are achieved as a result of HoldCo's future M&A, if greater than \$50,000, will be deferred and later credited to Oregon customers until NWN's second general rate case following the Commission's Order in this docket.
- Savings will be deferred and credited to the extent that the saved costs, inclusive of loadings, are otherwise already included in NW Natural's customers' rates, and from the time when savings were realized.
  - This condition does not preclude any party from seeking deferral of any cost savings resulting from any merger or acquisition involving HoldCo that results in over \$100,000 of annual cost savings.