

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1804

In the Matter of

NORTHWEST NATURAL GAS
COMPANY, dba NW NATURAL,

Application for Approval of Corporate
Reorganization to Create a Holding
Company.

ORDER

DISPOSITION: STIPULATION ADOPTED

We adopt the stipulation between Northwest Natural Gas Company, dba NW Natural, the Staff of the Public Utility Commission of Oregon, the Oregon Citizens' Utility Board (CUB), and the Northwest Industrial Gas Users (NWIGU) regarding NW Natural's application for approval of a corporate restructuring to form a holding company.

I. INTRODUCTION

On February 10, 2017, NW Natural filed an application for approval of a corporate reorganization that would result in NW Natural becoming a wholly owned subsidiary of a newly formed holding company (HoldCo). We docketed the filing as UM 1804 for investigation.

Following the filing of opening and supplemental testimony by NW Natural, and reply testimony by CUB, NWIGU, and Staff, the parties filed a stipulation settling all issues in this docket. That stipulation is attached to this order as Appendix A. The parties filed joint testimony in support of the stipulation. Staff also filed individual testimony in support. The stipulation itself, together with all of the testimony and exhibits submitted by each of the parties, are received into evidence. This matter was submitted following oral argument.

II. NW NATURAL'S APPLICATION

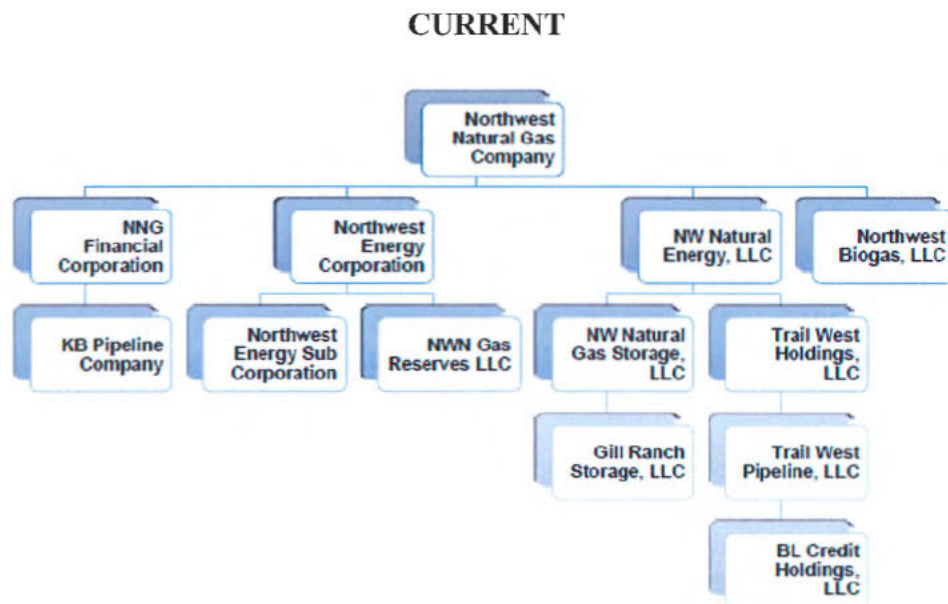
NW Natural believes that the proposed reorganization will result in overall net benefits to its customers. At the outset, NW Natural states that a holding company structure would allow the company to better respond to the changing business environment of the natural gas industry, while providing the opportunity to further insulate the company as a public utility from non-public utility business conducted as part of its corporate business

strategy. NW Natural notes that it is one of only two independent local gas distribution companies nationwide not currently part of a holding company structure.

To mitigate potential risks to customers associated with the proposed reorganization, NW Natural offers numerous commitments in its application. NW Natural explains that the commitments are intended to ensure that the reorganization will not compromise the Commission’s ability to regulate the utility in the public interest and to prevent cross-subsidization between the utility and affiliated companies. The company adds that certain commitments are also intended to ensure that customers will not bear any costs associated with the reorganization.

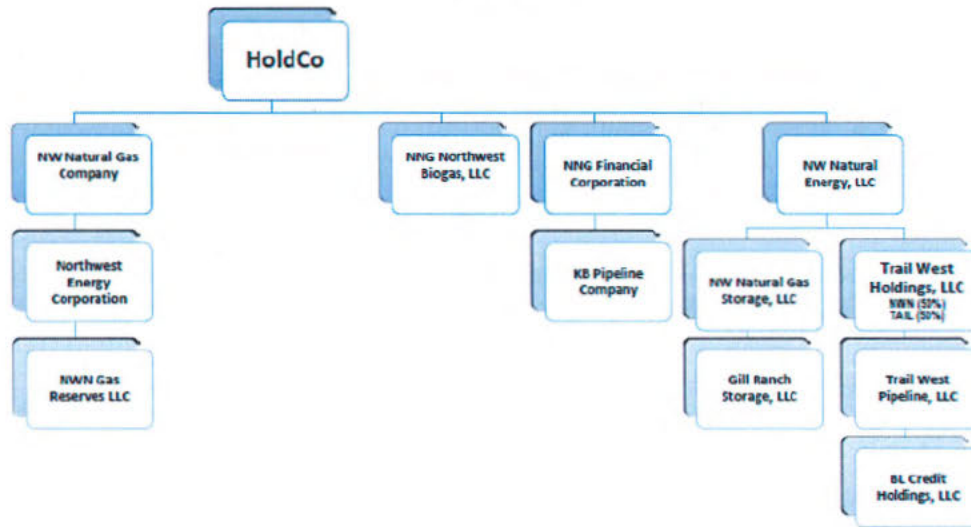
A. Reorganization

NW Natural is currently a publicly held operating company. Its utility operations are conducted at the operating company level, while a number of wholly and partially owned subsidiaries conduct the company’s other businesses. The following diagram shows NW Natural’s current corporate structure:



After the reorganization, HoldCo will be owned by public shareholders, and it will hold the stock of one or more operating companies, including NW Natural. The company states that the reorganization will have no direct impact on NW Natural’s operations or assets. NW Natural further states that the Commission will continue to have jurisdiction over its rates, service, accounting, and all other matters of utility operations. The diagram below shows the corporate structure as proposed in the application.

AFTER

**B. Benefits of the Reorganization**

NW Natural posits two major benefits of the reorganization. According to NW Natural, the consolidated entity will (1) create a better platform for growth than the existing entity, which can enhance financial strength, access to capital markets, and shareholder value that will help NW Natural maintain its current level of service to customers and remain an independent, local company, and (2) create greater separation of the utility from its affiliates, which will also help mitigate the risks that the financial distress of an affiliate might negatively affect the utility and its customers.

Under the current structure, NW Natural is a parent company with subsidiary businesses. NW Natural explains that if a non-utility subsidiary experiences financial distress or otherwise becomes impaired, the liabilities of those subsidiaries are reflected in the consolidated financial statements of NW Natural and may have financial implications for the utility. After the reorganization, NW Natural states, those affiliate businesses would become subsidiaries of HoldCo, and their liabilities would not affect the “stand-alone” financials of NW Natural. Therefore, NW Natural claims that the reorganization serves to isolate the utility from potential risks caused by its non-utility subsidiaries and from new, future subsidiaries of HoldCo.

NW Natural offered fifteen commitments in its application to mitigate risks from the reorganization and to produce a net benefit for customers. According to NW Natural, these commitments will protect ratepayers by ensuring that (1) we will continue to have access to all relevant records to be able to regulate NW Natural effectively; (2) the utility operations will not be adversely impacted by operations at the holding company level, or by operations associated with another subsidiary; (3) costs will be allocated properly among the utility, HoldCo, and the subsidiaries so that rates reflect only those costs incurred by the utility to serve customers, and (4) the holding company structure will not allow cross subsidization between NW Natural and HoldCo.

III. INITIAL STAFF AND INTERVENOR TESTIMONY

In opening testimony, Staff, CUB, and NWIGU all opposed the application as filed. While they acknowledged the circumstances that precipitated NW Natural seeking to reorganize itself to better pursue business opportunities, all three parties found that the risks and benefits of the company's proposal failed to meet the statutory standard for approval.

Staff recommended approval of the application if a more robust set of conditions were adopted. To that end, Staff offered a comprehensive set of conditions designed to make the proposed reorganization conform with the statutory requirements, including financial protection conditions designed to ensure NW Natural's ability to make equity distributions to HoldCo is adequately limited to prevent capital investment reductions, retain NW Natural's credit ratings and access to low cost capital, maintain its Oregon corporate presence and customer focus, and prevent a voluntary filing of NW Natural into bankruptcy for the benefit of HoldCo, or HoldCo's affiliates.

CUB expressed concerns that HoldCo would enter into a future merger or acquisition with a non-Oregon utility that might bring in a number of unknown risks. Without knowing more about the company's future acquisition plans, CUB stated, it could not determine whether the risks of a future acquisition could be properly mitigated by conditions developed in this docket. CUB also was concerned that the proposed reorganization may have profound, negative impacts on our ability to provide effective oversight of the utility. CUB observed that HoldCo will enter into transactions outside our jurisdiction, significantly changing the scope of our regulatory oversight.

NWIGU took the position that the application as filed did not provide a net benefit, because the types of acquisitions or mergers NW Natural might undertake as a reorganized entity are unknown. In NWIGU's view, "[t]he 'trade' NW Natural offers, therefore, is at best an equal trade, and at worse a detriment to ratepayers. Either way, there is no net benefit that NW Natural can show with certainty."¹ NWIGU also found it impossible to evaluate the adequacy of the proposed conditions without knowing more about the types of transactions intended for HoldCo.

IV. THE STIPULATION AND SUPPORTING TESTIMONY

A. The Stipulation

Following settlement discussions, the parties were able to reach agreement on all issues and recommend that we approve the application with a stipulated set of fifty conditions designed to ensure that the restructuring will "protect the utility, its customers and result in an overall net benefit for the Company's customers."² The parties agree that NW Natural, by agreeing to the stipulated conditions, has satisfied the "net benefit" standard required by

¹ NWIGU Reply Testimony at 7 (Jun 14, 2017).

² Stipulation at 2 (Aug 11, 2017).

ORS 757.511 for approval of the application. Accordingly, they recommend that we issue an order approving the stipulation and authorizing NW Natural to proceed with its corporate reorganization under the terms of their agreement.

There are 50 conditions included in Attachment A to the stipulation. The conditions are grouped into 13 separate categories:

- (1) General Conditions
- (2) Credit and Capital Structure
- (3) Dividends
- (4) Bankruptcy Protection
- (5) Accounting Generally
- (6) HoldCo Formation Costs
- (7) Allocations between NW Natural and HoldCo
- (8) Prevention of Cross-Subsidization
- (9) Access to Records and Information
- (10) Service Quality
- (11) Miscellaneous
- (12) Credits to Customers; and
- (13) Future Mergers and Acquisitions

We summarize the conditions below.

1. General Conditions

The first condition acknowledges the roles of the Washington and California commissions in their respective reviews of NW Natural's proposed reorganization, and provides Oregon with a "most favored nation clause" to provide assurance that conditions adopted in other jurisdictions can be applied in Oregon as well.

The second condition obligates both NW Natural and HoldCo to adhere to the stipulated conditions. It is intended to bind HoldCo to the agreement.

The third condition preserves the rights of NW Natural and HoldCo to request confidential treatment of materials produced in discovery in Commission proceedings.

2. Credit and Capital Structure

These conditions are intended to preserve the financial integrity of NW Natural within the HoldCo corporate structure.

Condition No. 4 requires that HoldCo and NW Natural maintain separate corporate credit ratings and obligates the utility to maintain adequate interest coverage and qualified NW Natural assets to issue First Mortgage Bonds, which is important to preserving low-cost financing for customers. Further, NW Natural must notify the Commission if its

credit rating is downgraded and must develop a plan with specific elements should its secured debt rating drop below specified levels.

Condition No. 5 requires that NW Natural manage its capital structure to maintain at least 44 percent equity, and sets up a procedure to cure any deficiency in that capital structure requirement. The parties state that “this protection is key as it prevents the Parent from draining cash from the Utility to fund its growth business plan, or perhaps stave off bankruptcy.”³ Additionally, the condition requires that specific monitoring steps be taken should NW Natural’s common equity reach 46 percent or below.

Condition No. 6 ensures that any increases in the utility’s cost of capital components, including rate of return, cost of equity, or long-term debt, that might occur as a result of the reorganization or any subsequent HoldCo merger and acquisition will not be passed through to its customers in their rates. For seven years following the reorganization, NW Natural has the burden of showing that any increase in its capital costs for which it seeks rate recovery did not result from the reorganization or any other HoldCo action.

Condition No. 7 is a broader hold-harmless provision not limited to cost of capital components, specifying that utility customers will not pay higher rates because of the reorganization or any subsequent HoldCo merger and acquisition. This condition is indefinite in duration.

Condition No. 8 prohibits NW Natural and its subsidiaries from engaging in financial transactions with HoldCo or HoldCo’s affiliates without Commission approval.

3. Dividends

Condition No. 9 limits the utility’s ability to pay dividends or like payments under specified conditions. In the view of the parties, “[d]ividend restrictions are arguably the most powerful of all ring-fencing conditions and have historically been adopted in all proceedings under ORS 757.511.”⁴

Condition No. 10 requires that NW Natural notify the Commission in advance before making specified payments or transfers out of the utility, and prevents the utility from making small individual transfers over several months to avoid the triggers provided in the condition.

4. Bankruptcy Protection

These conditions are intended to protect NW Natural in the event of a bankruptcy filing by HoldCo. They also limit the utility’s ownership of HoldCo stock.

Condition No. 11 conditions Commission approval of the application on NW Natural’s obtaining a “non-consolidation opinion” within 60 days which concludes that the ring-

³ Joint testimony at 24 (Aug 31, 2017).

⁴ *Id.* at 28.

fencing provisions are sufficient such that a bankruptcy court would not order the consolidation of the assets and liabilities of the utility with those of HoldCo or HoldCo's affiliates in the event of a HoldCo bankruptcy. If the opinion letter is adverse, the condition specifies a process for curing the deficiency through additional measures. If these measures fail, the reorganization will be abandoned.

Condition No. 12 provides that a voluntary petition for bankruptcy by NW Natural requires a unanimous vote of its board, including the vote of at least one independent director, as well as the vote of the holder of the "Golden Share" of preferred stock to be issued by NW Natural and held by an independent third-party. The Golden Share is established for the sole purpose of representing the interests of NW Natural's utility customers and holds the right to vote on whether the utility files a bankruptcy petition. The parties expect that the holder of the Golden Share will be a financial institution and define the required attributes of the holder in the stipulated conditions.⁵

Condition No. 13 limits NW Natural's purchase of HoldCo's stock or investments to its employee benefit and compensation plans.

5. Accounting

These conditions preserve the separate accounting for NW Natural and HoldCo.

Condition No. 14 requires that NW Natural maintain its books and records separate from HoldCo's accounts, to be made available at the utility's headquarters in Oregon.

Condition No. 15 requires that NW Natural's assets, cash flows, and financial accounts not be commingled with those of HoldCo or affiliates.

Condition No. 16 requires that NW Natural file its own separate financial statements with the Securities and Exchange Commission (SEC) and file separate financial statements with the Commission should SEC requirements change.

6. HoldCo Formation Costs

These conditions protect NW Natural's customers from the reorganization costs.

Condition No. 17 provides that costs associated with the creation of HoldCo will not be allocated to utility customers and requires NW Natural to provide to the Commission accounting information detailing all costs of the reorganization since it was first contemplated.

Condition No. 18 provides that NW Natural will exclude all costs related to the reorganization and HoldCo's future business endeavors from its general rate cases.

⁵ *Id.* at 34.

Condition No. 19 is intended to ensure that income taxes collected in rates will not increase because of the reorganization. It further requires NW Natural to track changes in its tax situation due to the reorganization.

7. *Allocations Between NW Natural and HoldCo*

These conditions specify the accounting requirements for transactions between the two entities.

Condition No. 20 allows the Commission to audit the accounting records of HoldCo and its affiliates to determine the reasonableness of costs and allocation factors used to assign costs to the utility.

Condition No. 21 requires HoldCo and NW Natural to accurately track employee, officer, director, agent, and attorney time (inclusive of loading percentages), identifying to within an hour time not spent for NW Natural utility purposes. The cost of such time may not be allocated to NW Natural ratepayers.

Condition No. 22 explicitly assigns to NW Natural the burden of proving that any particular HoldCo or HoldCo affiliate expense should be allocated to the utility.

8. *Prevention of Cross-Subsidization*

Condition No. 23 extends to HoldCo the obligation to comply with statutes and regulations regarding affiliate transactions.

Condition No. 24 requires NW Natural to augment its annual affiliated interest report with an organizational chart and financial information regarding affiliates, including HoldCo affiliates.

Condition No. 25 prohibits cross-subsidies between NW Natural and other businesses.

Condition No. 26 specifies accounting protocols for inter-company transactions.

Condition No. 27 confirms that NW Natural and HoldCo understand that, after the reorganization, HoldCo will be regarded as an affiliate (as defined in ORS 757.015) and that NW Natural will be required to seek approval for contracts between itself and any affiliate of HoldCo, as required under ORS 757.495.

9. *Access to Records and Information*

These conditions generally provide for access to information and require that certain reports be filed with the Commission.

Condition No. 28 provides for access to relevant books and records even when the documents are in the possession of HoldCo or affiliates.

Condition No. 29 provides the Commission with access to information exchanged between NW Natural or HoldCo (that directly or indirectly pertains to NW Natural) and rating analysts.

Condition No. 30 generally provides that persons employed by HoldCo and its affiliates will be made available to testify before the Commission, as necessary.

Condition No. 31 reiterates NW Natural's obligation to comply with OAR 860-027-0175(2), which requires utilities to report "major shareholders and their respective percentages of beneficial ownership of the energy utility and parent(s) * * *."

Condition No. 32 requires NW Natural to make annual compliance filings for five years following approval of the reorganization to explain to the Commission how it has complied with the conditions. These compliance filings require attestation by an officer. Additionally, the annual affiliated interest report must contain specific information identified in the condition.

Condition No. 33 requires that the Commission be notified promptly when HoldCo completes an acquisition or a divestiture with capitalization in excess of \$1 million.

Condition No. 34 requires that HoldCo provide the Commission a final copy of its annual budget for the next year for the first five calendar years after the reorganization.

Condition No. 35 provides that the parties agree that any disputes regarding access to records and information in conditions 28-33 will be decided by an administrative law judge, subject to appeal to the Commission.

10. Service Quality

Condition No. 36 confirms that NW Natural and HoldCo are committed to maintaining safety standards comparable to or better than the standards currently maintained by NW Natural.

11. Miscellaneous

Condition No. 37 provides that NW Natural will continue to maintain its corporate headquarters in Oregon, and that HoldCo headquarters will be located in Oregon unless otherwise approved by the Commission.

Condition No. 38 provides that NW Natural will maintain its current pension funding approach.

Condition No. 39 provides that NW Natural and HoldCo will sustain NW Natural's current funding level for charitable contributions for five years.

Condition No. 40 requires that NW Natural and HoldCo honor the utility's existing collective bargaining agreement.

Condition No. 41 provides that NW Natural will not oppose maintaining its current or greater levels of support for energy efficiency and renewable natural gas for two years post approval of the reorganization.

Condition No. 42 requires NW Natural to file with the Commission a complete copy of its board of directors' meeting minutes approving the reorganization within 90 days of the board meeting.

Condition No. 43 requires that if the Commission, Staff, or any party that believes that NW Natural or HoldCo has violated any of the conditions, the Commission must give the companies written notice of the alleged violation. In the event of a Commission investigation, the Commission will issue an order stating the remedy for the violation.

12. Credits to Customers

Condition No. 44 provides for an annual credit of \$500,000 to Oregon customers for three years, allocated on an equal percent of margin basis.

Condition No. 45 provides for customers to share in future cost savings as a result of HoldCo's future mergers and acquisitions. "Staff and intervenors expect that after the Reorganization, HoldCo might acquire new businesses that create benefits from synergies, size, scale or innovations, and that given the circumstances of this case, it would be appropriate for NW Natural to pass those savings onto customers through a deferral mechanism."⁶ "[T]he Parties agreed that cost savings at the utility that flow from future acquisitions should be deferred and credited to customers."⁷

13. Future Mergers and Acquisitions

Condition No. 46 confirms that any person directly or indirectly acquiring five percent or more ownership interest, including a successive chain of ownership, who also is acquiring the ability to directly or indirectly substantially influence the policies and actions of the utility, must first obtain approval of the Commission.

Condition No. 47 requires HoldCo to notify the Commission of any significant acquisition or change in control, as specified in the condition.

Condition No. 48 protects utility customers from rate recovery by NW Natural of any acquisition premiums, goodwill, transaction costs, or incremental executive bonuses associated with the reorganization or any subsequent HoldCo mergers and acquisitions.

⁶ *Id.* at 54-55.

⁷ *Id.* at 55.

Condition No. 49 requires HoldCo to report specific information to the Commission within 90 days whenever it acquires or creates a new subsidiary.

Condition No. 50 reinforces corporate separations between NW Natural and HoldCo by prohibiting NW Natural from gaining ownership interests in HoldCo or HoldCo subsidiaries.

B. Joint Testimony in Support of the Stipulation

In joint testimony filed by CUB, NWIGU, NW Natural, and Staff, as well as in separate testimony filed by Staff, all stipulating parties affirm support for the stipulation.

NW Natural supports the stipulation for five reasons: (1) the reorganization will provide a platform for corporate growth which will help ensure the financial well-being of the consolidated corporate group that includes the utility; (2) the resulting diversified growth make it more likely that NW Natural will remain a strong and independent local distribution company; (3) the reorganization will strengthen separation between the utility and its affiliates; (4) NW Natural's plans for governance of HoldCo and utility management will ensure that the interests of utility customers are served by the reorganization; and (5) the stipulation's conditions fully protect customers from risks and provide customers with concrete benefits.

CUB concludes that the stipulation addresses its initial concerns about risks to customers associated with NW Natural's application. CUB indicates that the stipulation includes several conditions that reduce the risks and at least two conditions that provide direct benefits to customers—the rate credit and the efficiency savings pass-through.

NWIGU also indicates that all of its original concerns are addressed by the terms of the stipulation and the conditions. NWIGU believes that the reorganization, if implemented with the conditions in the stipulation, will provide an improved corporate structure for NW Natural with no harm to customers. NWIGU notes that numerous conditions protect NW Natural and its customers by ring-fencing NW Natural in the event of financial stress incurred at HoldCo, while NW Natural's customers will benefit from the \$1.5 million in rate credits.

Staff agrees that the restructuring provides a net benefit to NW Natural's customers and causes no harm to Oregonians. Staff takes the position that it is a timely opportunity for NW Natural to reorganize while market conditions are in the company's favor. Staff also favors reorganization over the acquisition of NW Natural by another entity that might relocate its headquarters outside of Oregon.

Staff confirms that is has reviewed NW Natural's corporate strategy and objectives, is comfortable with the company's analysis, and believes the growth strategy works in harmony with ratepayer goals. Staff adds that the stipulated conditions balance NW Natural's corporate financial flexibility with performance from a ratepayer perspective, which will incentivize HoldCo to continue best management practices with

regard to the utility's financial structure. Staff differentiates the reorganization from a leveraged buyout of NW Natural, which it describes as very risky in several respects (while noting that it would be subject to our review and approval).

Staff concludes the stipulation ensures the reorganization will provide a net benefit to customers, citing the addition of positive conditions not present today, including an equity floor and the restriction on HoldCo from removing equity from the utility through the issuance of dividends. In addition, Staff cites the modest rate credit as a customer benefit of the reorganization, but places greater emphasis on the provision that allows customers to capture potential costs savings from future mergers and acquisitions by HoldCo. Staff explains that it supports approval only because of the layered and interlocking conditions agreed to in the stipulation and the specific circumstances presented in this case.

Regarding the rate credit, the stipulating parties clarified in response to a bench request from the administrative law judge that, based on June 2017 customer counts, the amount of the credit to residential customers would be \$340,765, which would result in a 0.1 percent reduction in the average residential customer's bill.

V. RESOLUTION

A. Legal Standard

NW Natural's application is subject to our approval under ORS 757.511 governing applications to acquire the power to exercise substantial influence over the policies and actions of a public utility. Under the statute, the applicant bears the burden of showing that the proposed transaction will "serve the public utility's customers and is in the public interest * * *."⁸ We have determined that "to serve the public utility's customers" imposes a higher standard than "no harm," and have articulated a two-step analysis for approval of transactions: (1) a determination that the transaction will provide a net benefit to the utility's customers; and (2) a finding that the transaction will not cause harm to Oregon citizens as a whole.⁹ To determine whether there is a net benefit to the acquired utility's customers and no harm to Oregon citizens, we examine the risks and benefits of the proposed transaction, considering the total set of concerns in each individual case.¹⁰

Under ORS 757.511(4)(b), we must also consider the effect of the transaction on the amount of income taxes paid by the utility or its affiliated group and make any necessary adjustments to the utility's rates to ensure that the transaction serves the utility's customers and is in the public interest. To that end, we may require that NW Natural establish a balancing account to track income tax expenses.

⁸ ORS 757.511(4)(a).

⁹ *In the Matter of a Legal Standard for Approval of Mergers*, Docket No. UM 1011, Order No. 01-778 at 12 (Sept 4, 2001).

¹⁰ *In the Matter of MidAmerican Energy Holdings Company Application for Authorization to Acquire Pacific Power and Light*, Docket No. UM 1209, Order No. 06-082 at 18 (Feb 24, 2006).

B. Discussion

At the outset, we distinguish this application from a traditional merger or acquisition, where a defined entity seeks to purchase or obtain influence over a utility. Although the same legal standard under ORS 757.511 applies here, the risks and benefits of NW Natural's proposal—a corporate reorganization without a specific proposed transaction identified—are more difficult to discern. Without the benefit of specific holding company transactions identified, we are unable to look for the types of synergy savings that we would generally see in a merger or acquisition where the applicant intends to integrate the utility operation into its existing business and can offer substantial benefits to the utility as a direct result of the merger or acquisition.

To determine whether NW Natural's proposal presents a net benefit to its customers and is in the public interest in this case, we compare the risks and benefits of the reorganization with the status quo. As stated by Staff in its reply testimony:

[W]e are to measure the benefits of NW Natural's holding company proposal against the continued prudent and well-managed NW Natural utility, which * * * is a very high standard for comparison. NW Natural is a well-run company that provides good customer service, maintains an excellent safety record within a strict safety program, and has ready access to capital at exceptionally favorable rates.¹¹

In this review, we give little weight to the holding company's plans for its non-utility undertakings, which are described generally and may change.

We note that in these proceedings the parties present us an all-party stipulation, supported by Staff and ratepayer advocates. The parties agreed to a significant number of conditions to ensure that customers and Oregonians are not harmed by the reorganization. They agree that the stipulated conditions are intended to insulate NW Natural as a utility company within the holding company family of companies, such that the reorganization will not result in changes to its utility operations or rates. In addition, NW Natural will retain its management team and its commitment to safe and reliable service, and maintain its current access to low-cost capital.

While the risks of the transaction appear well mitigated, the benefits to customers are not as readily apparent when viewed from the perspective of NW Natural's current circumstances. We associate little value to customers from the condition that credits them with cost savings that may be achieved as a result of the holding company's future mergers and acquisitions, though the company must be vigilant in identifying and deferring any cost savings that such future activities produce—consistent with the terms of Condition No. 45.

¹¹ Staff Reply Testimony at 13 (Jun 14, 2017).

This view, however, does not take into account the changing circumstances that precipitated NW Natural's filing of its application. These circumstances are described in the company's supplemental opening testimony, which is designated as highly confidential information. Nevertheless, that testimony informs our view that maintaining the status quo is not a viable option.

As stated by NW Natural in its opening testimony, without the reorganization, the company would seek to expand its business to respond to the changing circumstances noted above. These new businesses would be held through existing non-utility subsidiaries or new non-utility subsidiaries, all within the current NW Natural company structure. As summarized by NW Natural: "So, if a Non-Utility Subsidiary were to experience financial distress, or were to be impaired, that would be reflected in the consolidated financial statements of NW Natural, and therefore, could affect the debt and corporate ratings as well as shareholder valuation of NW Natural."¹²

In a scenario where NW Natural—as currently structured—proceeds to acquire and hold a number of non-utility businesses, the value of conditions that impose financial restrictions and bankruptcy protections not present today become more apparent. For example, presently there is no floor on the amount of equity to be maintained in NW Natural's capital structure, and the utility is not as well protected from bankruptcy in the event of the failure of the non-utility enterprises. Similarly, the utility is not shielded from cash demands made to shore up failing investments or fund speculative ventures.

The ring-fencing and other conditions address these existing risks, as well as new risks inherent in a holding company structure, and provide benefits to customers. The conditions serve to preserve the utility's credit rating and capital structure at acceptable levels based on NW Natural's track record in the event that investments fail, restricts the distribution of equity out of NW Natural, and preserves our access to information at the HoldCo level, or at the HoldCo affiliate level, that may directly or indirectly affect NW Natural.

Further, under the proposed reorganization, customers will be protected from adverse rate impacts associated with diversification activities, and specific conditions will ensure that utility assets will be kept separate from holding company assets. Tax payments will be no greater than had NW Natural not restructured. Auditing rights and expense tracking systems will protect customers from the allocation of non-utility costs. Affiliated interest transactions will be monitored, with protections against cross-subsidization. Safety standards will be maintained. NW Natural's corporate headquarters will remain in Oregon. The utility will maintain its pension funding, charitable contribution, and energy efficiency levels as stated in the conditions. Taken together, and in light of the circumstances in this case, the conditions agreed to in the stipulation do more than maintain the utility status quo. They are designed to mitigate the risks of the restructuring and result in more customer benefits than could be achieved by denying the application.

¹² NW Natural Opening Testimony at 10 (Mar 30, 2017).

We are unable, however, to agree with the parties' suggestion that the restructured company will be a less attractive target for acquisition by a third party. Only the market can decide that. We do agree, however, that "[a] resilient, Oregon-based NW Natural will be a benefit to its customers and to Oregonians as a whole * * *," as posited by the parties in their joint testimony.¹³

We also acknowledge that the conditions cannot mitigate the risk that the holding company will not abide by one or more of the conditions. That risk is, however, limited by two conditions that require the following: (1) during the first five years after the reorganization, the holding company and NW Natural must provide a detailed report annually regarding compliance with the conditions;¹⁴ and (2) any party¹⁵ may raise the issue of a breach of a condition at any time and that claim may result in an appropriate remedy to be determined by the Commission.¹⁶

Finally, as noted above, ORS 757.511(4)(b) requires that we must consider the effect of the reorganization on the amount of income taxes paid by the utility or its affiliated group and make any necessary adjustments to ensure that the reorganization serves the utility's customers and is in the public interest. We find that the effect of the reorganization on the tax liability of the utility and its affiliated group is addressed by Condition No. 19, which provides that taxes shall be no greater than they would be had the company not restructured, and that any new tax benefits may be addressed in our proceedings, with the utility obligated to set up a mechanism to track and defer potential income tax expense benefits.

Accordingly, because we find that the reorganization, as described in and subject to the stipulation, will provide a net benefit to NW Natural's customers and is in the public interest, we adopt the stipulation.

¹³ Joint Testimony at 13 (Aug 31, 2017).

¹⁴ Condition No. 32, Attachment A to Stipulation at 11 (Aug 11, 2017).

¹⁵ We read the term "any party" to mean "any person" so as not to limit its applicability to the parties to these proceedings.

¹⁶ Condition No. 43, Attachment A to Stipulation at 12 (Aug 11, 2017).

VI. ORDER

IT IS ORDERED that:


1. The stipulation between Northwest Natural Gas Company, dba NW Natural, the Staff of the Public Utility Commission of Oregon, the Oregon Citizens' Utility Board, and the Northwest Industrial Gas Users is adopted; and
2. The application filed by NW Natural, dba NW Natural, is approved, as revised by the stipulation and subject to the stipulated conditions.

Made, entered, and effective DEC 28 2017.


 Lisa D. Hardie
 Chair


 Stephen M. Bloom
 Commissioner




 Megan W. Decker
 Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1804

In the Matter of
NORTHWEST NATURAL GAS COMPANY,
Application for Approval of Corporate
Reorganization to Create a Holding
Company.

STIPULATION

1 This Stipulation is entered into for the purpose of resolving all issues in this
2 proceeding by and among the parties as set forth below.

3 PARTIES

4 1. The parties to this Stipulation ("Stipulation") are NW Natural Gas Company ("NW
5 Natural" or the "Company"), Staff of the Public Utility Commission of Oregon ("Staff"), the
6 Oregon Citizens' Utility Board ("CUB"), and the Northwest Industrial Gas Users
7 ("NWIGU"), (together "the Parties" and individually "Party"). The Stipulation concerns
8 NW Natural's Application for Approval of a Corporate Reorganization to Create a
9 Holding Company ("Application").

10 2. The Parties, by signing this Stipulation, acknowledge that NW Natural, by
11 agreeing to the Stipulated Conditions in Attachment A, has satisfied the "net benefit"
12 standard required by ORS 757.511 for approval of its Application. Therefore, the Parties
13 recommend that the Public Utility Commission of Oregon (the "Commission") issue an
14 order approving the Stipulation and authorizing NW Natural to proceed with its corporate
15 reorganization as outlined in the Application, subject to the provisions of this Stipulation
16 and the Stipulated Conditions found in Attachment A to this Stipulation.

17 BACKGROUND

18 3. On February 10, 2017, NW Natural filed its Application requesting approval for a
19 corporate reorganization that would result in a holding company structure

1 ("Reorganization"). Through the Reorganization, NW Natural, along with each of its
2 current affiliates, will become wholly-owned subsidiaries of a newly-formed holding
3 company ("HoldCo"). The Company filed Opening Testimony in support of its
4 Application on March 30, 2017. At the urging of Staff and intervenors, the Company
5 provided information as to HoldCo's acquisition and growth strategy in Highly
6 Confidential Supplemental Testimony on May 8, 2017, and through discovery request
7 responses. Staff and CUB served discovery requests throughout the case, and on June
8 14, 2017, Staff and NWIGU filed Reply Testimony addressing the risks of the transaction
9 and compliance with the legal standard. Pursuant to a June 14, 2017 Ruling by
10 Administrative Law Judge Power, CUB filed Reply Testimony on June 16, 2017.

11 4. The Parties met to discuss settlement of the issues on June 28, July 5, and again
12 on July 11. After the July 11 settlement meeting, the parties continued settlement
13 discussions by teleconference. As a result of these discussions, the Parties were able to
14 resolve areas of concern raised by the Parties through a comprehensive package of
15 ring-fencing conditions (the Stipulated Conditions) that the Parties agree should serve to
16 protect the utility, its customers and result in an overall net benefit for the Company's
17 customers. Therefore, the Parties have settled all issues raised in the docket.

18 STIPULATION

19 5. The Parties recommend that the Commission approve NW Natural's Application
20 subject to the Stipulated Conditions attached hereto as Attachment A. The Parties
21 agree that these Stipulated Conditions should replace the commitments offered by NW
22 Natural in its Application and Opening Testimony, and the conditions proposed by Staff
23 in Reply Testimony.

24 6. The Parties agree that the Company's Application for reorganization, as modified
25 by the Stipulated Conditions, results in a net benefit to NW Natural's customers, and
26 causes no harm to Oregonians, as required by ORS 757.511.

1 7. The Parties agree that the Stipulated Conditions, except for Condition 44, may be
2 modified as a result of regulatory decisions or settlements in other states regarding NW
3 Natural's proposed corporate restructuring, as described in Condition No. 1.

4 8. The Parties agree that Commission approval of NW Natural's proposed
5 restructuring should be conditioned on NW Natural providing a non-consolidation opinion
6 to the Commission which concludes that the ring-fencing provisions (final conditions
7 adopted by the Commission) are sufficient such that a bankruptcy court would not order
8 the substantive consolidation of the assets and liabilities of NW Natural (including direct
9 subsidiaries) with those of HoldCo, its affiliates or subsidiaries (excluding NW Natural's
10 direct subsidiaries), as described in Condition No. 11.

11 9. The Parties submit this Stipulation to the Commission and request that the
12 Commission approve the Stipulation as presented.

13 10. This Stipulation will be offered into the record of this proceeding as evidence
14 pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation
15 throughout this proceeding and any appeal (if necessary), and to provide witnesses to
16 sponsor this Stipulation at any hearing to review the Stipulation (if specifically required
17 by the Commission), and to recommend that the Commission issue an order adopting
18 the settlements contained herein.

19 11. The Parties have negotiated this Stipulation as an integrated document. If the
20 Commission rejects all or any material part of this Stipulation, or adds any material
21 condition to any final order that is not consistent with this Stipulation, each Party
22 reserves its right: (i) to withdraw from the Stipulation, upon written notice to the
23 Commission and the other Parties within five (5) business days of service of the final
24 order that rejects this Stipulation, in whole or material part, or adds such material
25 condition; (ii) pursuant to OAR 860-001-0350(9), to present evidence and argument on
26 the record in support of the Stipulation, including the right to cross-examine witnesses,
27 introduce evidence as deemed appropriate to respond fully to issues presented, and

1 raise issues that are incorporated in the settlements embodied in this Stipulation; and (iii)
2 pursuant to ORS 756.561 and OAR 860-001-0720, to seek rehearing or reconsideration,
3 or pursuant to ORS 756.610 to appeal the Commission order. Nothing in this paragraph
4 provides any Party the right to withdraw from this Stipulation as a result of the
5 Commission's resolution of issues that this Stipulation does not resolve.

6 12. By entering into this Stipulation, no Party shall be deemed to have approved,
7 admitted, or consented to the facts, principles, methods, or theories employed by any
8 other Party in arriving at the terms of this Stipulation, other than those specifically
9 identified in the body of this Stipulation. No Party shall be deemed to have agreed that
10 any provision of this Stipulation is appropriate for resolving issues in any other
11 proceeding, except as specifically identified in this Stipulation.

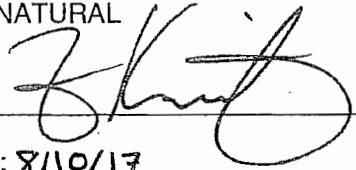
12 13. The Parties agree that this Stipulation represents a compromise in the positions
13 of the Parties. As such, without the written consent of all Parties, evidence of conduct or
14 statements, including but not limited to term sheets or other documents created solely
15 for use in settlement conferences in this docket, and conduct or statements made at
16 settlement conferences, are confidential and not admissible in the instant or any
17 subsequent proceeding, unless independently discoverable or offered for other purposes
18 allowed under ORS 40.190.

19 14. The Parties agree that this Stipulation and the Stipulated Conditions as a whole
20 meet the ORS 757.511 statutory requirement based on the facts and circumstances
21 presented in this particular case, but recognize that the package of Stipulated Conditions
22 is the result of compromise between the Parties, and no Parties are deemed to have
23 agreed to an individual condition in isolation.

24 15. This Stipulation may be executed in counterparts and each signed counterpart
25 shall constitute an original document. Together, all counterparts form one single
26 document.

- 1 This Stipulation is entered into by each Party on the date entered below such Party's
- 2 signature

NW NATURAL

By:  _____

Date: 8/10/17 _____

STAFF

By: _____

Date: _____

OREGON CITIZENS' UTILITY BOARD

By: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

By: _____

Date: _____

- 1 This Stipulation is entered into by each Party on the date entered below such Party's
- 2 signature

NW NATURAL

STAFF

By: _____

By: Kaylee Klein

Date: _____

Date: 8/10/17

OREGON CITIZENS' UTILITY BOARD

NORTHWEST INDUSTRIAL GAS USERS

By: _____

By: _____

Date: _____

Date: _____

This Stipulation is entered into by each Party on the date entered below such Party's signature

NW NATURAL

STAFF

By: _____

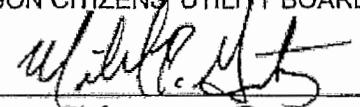
By: _____

Date: _____

Date: _____

OREGON CITIZENS' UTILITY BOARD

NORTHWEST INDUSTRIAL GAS USERS

By: 

By: _____

Date: 8/10/17

Date: _____

- 1 This Stipulation is entered into by each Party on the date entered below such Party's
- 2 signature

NW NATURAL

STAFF

By: _____

By: _____

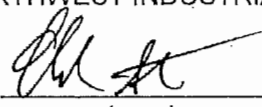
Date: _____

Date: _____

OREGON CITIZENS' UTILITY BOARD

NORTHWEST INDUSTRIAL GAS USERS

By: _____

By:  _____

Date: _____

Date: 8/10/17 _____

Docket No. UM 1804
NW Natural's Application for Corporate Reorganization to Create a Holding Company
HoldCo and NW Natural List of Ring-Fencing Conditions

DEFINITIONS

Affiliate shall mean any entity that has an affiliated interest with NWN-U, HoldCo, or a subsidiary of either NWN-U or HoldCo pursuant to ORS 757.015 and 757.495.

Beneficial Ownership shall have the meaning provided in the Commission's administrative rules.¹

Capital Structure shall mean proportions of Common Equity and Long-Term (LT) Debt (with maturities exceeding 1 year) adding up to 100 percent for a named (or place-holder) corporation, wherein Common Equity does not include "Goodwill" and equity associated with non-regulated assets. In Oregon, LT Debt does not include imputed debt or debt-like lease obligations.

Commission means the Public Utility Commission of Oregon.

Credit Ratings shall mean ratings provided by Standard and Poor's (S&P) or Moody's Corporate (Moody's), as described in the conditions herein.

Golden Share shall mean the sole (\$1 Par) share of Preferred Stock of NWN-U authorized by the Commission. This share of Preferred Stock must be in the custody of an independent third-party.² In matters of voluntary bankruptcy, this share will override all other outstanding shares of all types or classes of stock.

NWN-U shall refer to NW Natural, the regulated natural gas utility company.

Rating Agencies shall mean S&P's or Moody's.

¹ See OAR 860-027-0175 Energy Utility Reporting Requirements Relating to Major Shareholders.

² The third-party must have no financial stake, affiliation, relationship, interest, or tie to HoldCo, NWN-U, any affiliates of HoldCo or NWN-U, or any lender to HoldCo or NWN-U or any affiliates of HoldCo or NWN-U. This is not meant to preclude the third-party from holding an index fund or mutual fund with negligible interests in HoldCo or NWN-U. If NWN-U finds that a qualified third-party has reservations about declaring its conformance to this provision, NWN-U will share those reservations with Staff and will only proceed if Staff, CUB, and NWIGU raise no objection.

CONDITIONS/COMMITMENTS**GENERAL**

1. NWN-U and HoldCo agree that these conditions, except for condition 44, may be modified as a result of regulatory decisions or settlements in other states regarding NWN-U's proposed corporate restructuring. For example, the Commission may add any condition imposed by the Washington Utilities and Transportation Commission (WUTC) or the California Public Utilities Commission (CUPC) to the extent it relates to NWN-U. In the event that the Commission adopts conditions from other jurisdictions, the Commission will re-open and re-issue the order approving this Stipulation to add those conditions accepted or ordered in another state jurisdiction.
2. NWN-U and HoldCo will enter into an agreement that incorporates the ring-fencing provisions set forth herein. This agreement will be binding on NWN-U and HoldCo. This agreement will be filed with the Commission within 90 days of the transaction's closing. NWN-U and HoldCo commit that they will comply with Commission-approved ring-fencing conditions and will make no amendments, revisions, or modifications to this agreement or any ring-fencing provisions without prior Commission approval.
3. Nothing in these Reorganization conditions will be interpreted as a waiver of NWN-U's or HoldCo's rights to request confidential treatment for information that is the subject of any of these conditions.

FINANCIAL PROTECTIONS**Credit and Capital Structure**

4. HoldCo and NWN-U will maintain separate corporate credit ratings (if any), Long-Term (LT) Debt ratings (if any), and preferred stock ratings (if any), and make these credit ratings available to the Commission and Staff upon request. NWN-U will also maintain adequate: (a) interest coverage and (b) pool of qualified NWN-U assets to maintain the ability to issue First Mortgage Bonds (FMB).

NWN-U agrees to provide notice and, if requested, consult with Commission Staff in the event that S&P or Moody's downgrades NWN-U's secured credit rating for any reason.

If NWN-U's LT secured debt rating drops to BBB+ for S&P or Baa1 for Moody's, NWN-U will file a plan with the Commission detailing a range of options to maintain

or restore NWN-U's LT secured credit rating, or to explain actions consistent with NWN-U's customers' best interest. Upon Commission request, NWN-U will present this plan to the Commission, with appropriate provisions in place to protect confidential information.

5. NWN-U Common Equity must be maintained at a level no less than 44 percent of total NWN-U Capital Structure determined on a preceding or projected thirteen month average. Should NWN-U's equity component of its capital structure fall below 44 percent in violation of this condition, NWN-U shall:
 1. Within 5 business days: (A) notify the Commission; and (B) provide an explanation for why NWN-U Common Equity fell below 44 percent, for example, how the drop was caused by forces or events beyond HoldCo and/or NWN-U's control.
 2. Within 30 days of providing notice, NWN-U shall provide a plan and timeline ("Compliance Plan") for restoring NWN-U's Common Equity to 44 percent or above that is subject to Commission review, modification, rejection, or approval.
 3. Subsequent to the filing of the Compliance Plan, NWN-U shall file progress reports every 90 calendar days detailing its efforts to restore its equity component to 44 percent or above, as described above, in addition to detailing how NWN-U has met each requirement in the Compliance Plan.
 4. NWN-U agrees to make its officers available to appear before the Commission regarding the violation and/or the Compliance Plan.

If HoldCo and NWN-U find it reasonably likely that NWN-U common equity could fall below 44 percent in the preceding or projected thirteen month average, NWN-U shall provide a report to Staff with its projections indicating that common equity could fall below 44 percent, and take the steps listed above.

If NWN-U's common equity component of its capital structure is at or below 46 percent, on a preceding or projected thirteen month average, and the above steps have not been triggered, NWN-U will provide quarterly projections of the common equity component of its capital structure to Staff, along with supporting workpapers.

6. HoldCo and NWN-U guarantee that Customers of NWN-U will be held harmless from any adverse rate impacts caused by NWN-U's Rate of Return, Common Equity, and LT Debt becoming more costly after the restructuring than they would be had NWN-U not reorganized. For seven years following the reorganization,

NWN-U bears the burden of showing that any increase in NWN-U's Cost of LT Debt or cost of Common Equity (to the extent Common Equity affects customers), for which rate recovery is sought did not result from factors associated with either the reorganization or any subsequent HoldCo M&As.

7. HoldCo and NWN-U guarantee that NWN-U customers shall be held harmless if the reorganization or any subsequent HoldCo M&As cause a higher revenue requirement for NWN-U than if the reorganization had not occurred.
8. HoldCo and NWN-U commit that neither NWN-U nor NWN-U's subsidiaries will, without the approval of the Commission:
 - A. Make loans or transfer funds (other than dividends and payments pursuant to the MSA) to HoldCo or Affiliates other than NWN-U's subsidiaries;³
 - B. Assume any obligation or liability as guarantor, endorser, surety, or otherwise for HoldCo or Affiliates other than NWN-U's subsidiaries;
 - C. Transfer any of its utility assets or property to HoldCo or Affiliates other than NWN-U's subsidiaries;
 - D. Seek to pledge utility assets or securities backing for any hedging, indebtedness, or securities of HoldCo or Affiliates other than NWN-U's subsidiaries;
 - E. Enter into cross-default provisions involving HoldCo or Affiliates other than NWN-U subsidiaries; and
 - F. Participate in a money pool with HoldCo or Affiliates other than NWN-U subsidiaries.

Dividends

9. No dividends or like payments or distribution (special, one-time, or otherwise) may be drawn from NWN-U, without Commission approval, if any of the following conditions are present:
 - A. NWN-U Common Equity would fall below 44 percent of NWN-U Capital Structure determined on a preceding or projected thirteen month average; or
 - B. NWN-U's LT secured credit ratings drops below BBB- for S&P and Baa3 for Moody's.

Notwithstanding the above, if NWN-U's LT secured credit ratings are below A- for S&P and A3 for Moody's, then NWN-U may only issue dividends (special, one-

³ As used in Condition 8, "NWN-U's subsidiaries" means only NWN Energy and Gas Reserves.

time, or otherwise) so long as NWN-U's Common Equity is 45% or above (determined on a preceding or projected thirteen-month average). Further, if NWN-U's LT secured credit ratings are below BBB for S&P and Baa2 for Moody's, then NWN-U may only issue dividends (special, one-time, or otherwise) so long as NWN-U's Common Equity is 46% or above (determined on a preceding or projected thirteen-month average).

Table 1 below depicts the conditions under which NWN-U may make dividend distributions under the above-described conditions.

Table 1

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

10. NWN-U must notify the Commission no less than 7 calendar days before dividending or otherwise transferring 5 percent or more of its retained earnings. Additionally, NWN-U will notify the Commission of:
 - A. Its intention to transfer more than ten (10) percent of its retained earnings out of NWN-U over a six-month period;

- B. Its intention to declare a special cash dividend (defined as a one-time dividend that is paid in addition to NWN-U's established or expected quarterly dividend), at least 30 days before declaring the dividend.

Bankruptcy Protection

11. Commission approval of NWN-U's proposed restructuring is conditioned on the following: within 60 days of the Commission's order on NWN-U's application to restructure, NWN-U will provide a non-consolidation opinion to the Commission which concludes that the ring-fencing provisions (final conditions adopted by the Commission) are sufficient such that a bankruptcy court would not order the substantive consolidation of the assets and liabilities of NWN-U (including direct subsidiaries) with those of HoldCo, its affiliates or subsidiaries (excluding NWN-U's direct subsidiaries).⁴ If the conditions listed herein are insufficient to obtain a non-consolidation opinion, NWN-U will undertake the following actions:
- A. Promptly notify the Commission of its inability to obtain a non-consolidation opinion;
 - B. Propose and implement, upon consultation with the parties to this Stipulation and subject to Commission approval, such actions or additional ring-fencing provisions that are sufficient to obtain such a non-consolidation opinion; and
 - C. Obtain such a non-consolidation opinion and provide it to the Commission.

If after these actions, NWN-U is unable to obtain the non-consolidation opinion, NWN-U will notify the Commission and the Commission will indicate that NWN-U's application has been denied given that Commission approval of the Holding Company is contingent upon NWN-U obtaining and providing the non-consolidation opinion to the Commission.

12. A voluntary petition for bankruptcy by NWN-U would require:
- A. The unanimous vote of the NWN-U Board of Directors (BOD), inclusive of the vote of a least one independent director; and
 - B. The vote of the holder of a "Golden Share," which is defined at p. 1 as the sole (\$1 Par) share of Preferred Stock of NWN-U authorized by the Commission. This share of Preferred Stock must be in the custody of an independent third party as defined at p. 1. In matters of bankruptcy, this share will override all other outstanding shares of all types or classes of stock.

⁴ The parties understand that the non-consolidation opinion will not opine that Gas Reserves and NWN Energy will not be substantively consolidated with NWN-U in the event of a bankruptcy, as those entities hold assets utilized by the utility in delivery of its services.

The Golden Share is established for the sole purpose of having the right to vote on whether NWN-U files a petition for voluntary bankruptcy.

13. NWN-U and NWN-U's two subsidiaries (NW Energy Corp. and NWN Gas Reserves), will not hold HoldCo investments, with the exception of NWN-U sponsored employee benefit plans or employee compensation plans, without prior Commission approval.

ACCOUNTING & COST ALLOCATION

Accounting Generally

14. NWN-U will maintain its books and records (inclusive of audit trails with supporting records) separate from HoldCo's books and records, with such accounting information and financial books and records kept at NWN-U headquarters in Oregon. NWN-U's financial books and records and state and federal regulatory filings and documents will continue to be available to the Commission, upon request, at NWN-U's headquarters in Oregon.
15. NWN-U assets, cash flows, and financial accounts may not be co-mingled with existing affiliates, or with any new affiliates or operations resulting after the creation of HoldCo.
16. So long as required by the U.S. Securities and Exchange Commission (SEC), NWN-U will maintain separate financial statements that will be filed with the SEC. In the event separate financial statements are no longer required to be filed with the SEC, NWN-U will file separate financial statements with the Commission.

HoldCo Formation Costs

17. Organizational, start-up, or other costs associated with the creation of HoldCo will be separately tracked and will not be allocated to NWN-U customers. Post creation of HoldCo, any remaining formation costs or other HoldCo-related costs will not appear on NWN-U's books, or the books of NWN-U's subsidiaries. NWN-U shall furnish the Commission with journal entries and supporting detail showing the nature and cost of all organizational, start-up, and other costs for HoldCo (including but not limited to management time, BOD time, in-house and outside counsel time, any consultants engaged, etc.) since the reorganization was first contemplated, as well as the accounts charged, within 120 days of a Commission order in this docket.

18. NWN-U will exclude from NWN-U general rate cases, or any other method of cost recovery, all costs related to reorganization and all of HoldCo's costs related to future business endeavors and M&As including but not limited to: all legal work from in-house counsel and outside counsel; NWN-U BOD time; costs related to M&A consulting and advice; preparation of and materials for HoldCo-related presentations; and other reorganization and expansion costs.
19. Taxes and assessments paid to the federal government, to states, and to political subdivisions thereof shall be no greater than they would be had the Company not restructured. Tax benefits that would not exist had the Company not restructured may be addressed in proceedings before the Commission; however, until that time, NWN-U shall set up a mechanism to monitor, for informational purposes,⁵ income tax expense and potential benefits for NWN-U.

Allocations between NWN-U and HoldCo

20. The Commission may audit the accounting records of HoldCo and Affiliates that are the bases for charges to NWN-U, to determine the reasonableness of the costs and the allocation factors used by the HoldCo or its subdivisions to assign costs to NWN-U and amounts subject to allocation or direct charges. HoldCo and Affiliates will cooperate fully with such Commission audits.
21. HoldCo and NWN-U will maintain robust systems to track employee, officer, director, agent, and attorney time (inclusive of loading percentages), identifying to within an hour, time not spent for NWN-U utility purposes that shall not be allocated to NWN-U, subject to the cost-allocation principles set forth in Condition 26.
22. NWN-U bears the burden of showing that a particular expense from HoldCo or an affiliate of HoldCo may be allocated to NWN-U ratepayers.

Prevention of Cross-Subsidization

23. HoldCo and NWN-U will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions, including timely filing of applications and reports.

⁵ This provision does not prevent any parties from arguing that these tracked benefits should be passed on to customers at a later date.

24. NWN-U will file on an annual basis an affiliated interest report including an organizational chart, narrative description of each Affiliate, revenue for each Affiliate, and transactions with each Affiliate.
25. NWN-U will not cross-subsidize between NWN-U and any other businesses (with the exception of NWN-U and its direct subsidiaries⁶ as approved by the Commission), and shall comply with the Commission's applicable orders and rules with respect to such matters.
26. Subject to any cost allocation methodology subsequently approved by the Commission, any allocation of costs, corporate and Affiliate investments, expenses, or overheads between NWN-U and HoldCo or an affiliate will comply with the following principles:
 - A. Cost allocations to NWN-U will be directly charged whenever possible, and shared or indirect costs will be allocated based upon primary, demonstrable, and transparent cost-driving factors.
 - B. HoldCo and all subsidiaries and affiliates will maintain accounting systems adequate to support the allocation and assignment of costs of executives and other relevant personnel to or from NWN-U. See Condition 21 above for further detail.
 - C. All costs subject to allocation will be auditable and their origin among the companies must be demonstrable, so as to be specifically identified, tracked, and trended. Failure to adequately support any allocated cost may result in denial of its recovery in rates.
 - D. Any corporate cost allocation methodology used for rate setting, and subsequent changes thereto, will be submitted to the Commission for approval.
 - E. The Company's Master Services Agreement (MSA), itemizing and explaining corporate cost allocation methods used for rate setting, will be updated to include the corporate and affiliate cost allocation methodologies between HoldCo, NWN-U, and Affiliates and filed with the Commission no later than 90 days after execution of the reorganization. Thereafter, the MSA will be appended to the annual June affiliated interest report filed with the Commission. This annual filing will capture, highlight and explain all changes from the prior year. The entirety of the MSA and its components are subject to review by Staff in subsequent proceedings before the Commission to confirm that cost drivers, accounting methods, assumptions, and practices result in

⁶ Meaning NWN Energy and Gas Reserves.

fair, just and reasonable utility rates. The Company will update, and re-file for approval, the MSA and AI Reporting reflecting HoldCo organizational detail and the outcome of docket no. UM 1804.⁷

- F. Costs which would have been denied recovery in rates had they been incurred by NWN-U will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries of HoldCo.
 - G. HoldCo and NWN-U commit to using asymmetrical pricing as required by OAR 860-027-0048(4).
 - H. NWN-U will file timely applications and reports in compliance with ORS 757.015 through 757.495 and OAR 860-027-0040 through 860-027-0042.
27. HoldCo and NWN-U commit that they will interpret ORS 757.015 and 757.495 to require Commission approval of any contract between NWN-U and any affiliate of HoldCo. This shall include the MSA discussed in Condition 26.

ACCESS TO RECORDS & INFORMATION

28. HoldCo, NWN-U and all Affiliates shall provide the Commission access to:
- A. All books of account, budgets, integrated resource planning, documents, data, records, accounting, and financial information which pertain to transactions between NWN-U on the one hand, and HoldCo or HoldCo's affiliates on the other, which are reasonably calculated to lead to information relating to NWN-U or may directly or indirectly affect NWN-U.
 - B. Unrestricted access to the written information inclusive of accounting and financial metrics that HoldCo provides to the Rating Agencies and that is reasonably calculated to lead to information relating to NWN-U or may directly or indirectly affect NWN-U.
 - C. HoldCo and NWN-U Board of Director (BOD) meeting minutes and presentations for BOD meetings, committees and subcommittees thereof, as well as investor presentations and transcripts that are reasonably calculated to lead to information relating to NWN-U or may directly or indirectly affect NWN-U.

⁷ On June 1, 2017, NWN-U filed its Updated Master Service Agreement (MSA) with the Commission, docketed UI 385. Condition 26 requires that the MSA be updated and refiled with the Commission for approval subsequent to a Commission order in this docket.

29. HoldCo and NWN-U shall provide the Commission with complete and unrestricted access to all information provided by and to common stock, bond, or bond rating analysts, which directly or indirectly pertains to NWN-U. Such information includes, but is not limited to, opinions, reports and presentations made to or provided by common stock analysts and bond rating analysts.
30. HoldCo, NWN-U, and Affiliates will make their employees, officers, directors and agents available to testify before the Commission at the Commission's request to provide information the Commission considers relevant to matters within its jurisdiction.
31. Pursuant to OAR 860-027-0175(2), NWN-U agrees to report all Beneficial Ownership as of the last calendar day of each year to the Commission to be received by March 31 of each year.
32. For the first five calendar years after reorganization, as part of its affiliated interest filings, HoldCo and NWN-U will report on how the company complied with each of the conditions listed herein no later than June 15 of each year. This report will require an officer attestation of compliance with the conditions. If any of the conditions are not being met, the report shall include proposed corrective measures relative to the specific condition, subject to Commission revision and appropriate remedy as determined by the Commission. Annual affiliated interest reports will enduringly contain a complete Parental-view corporate organizational chart and a second listing of contact telephone number, email, and titles for HoldCo, and NWN-U corporate officers.
33. Annual affiliated interest reports must itemize all HoldCo M&A and divestiture activity. HoldCo or NWN-U will also notify the Commission within 30-days whenever HoldCo completes a merger, acquisition, or divestiture with capitalization in excess of \$1 million.
34. For the first five calendar years after the reorganization, HoldCo will provide a final copy of its annual budget(s) to the Commission for the succeeding year on or before December 31 of each year.
35. HoldCo and NWN-U agree that in the event that a dispute arises concerning access to records and information in conditions 28-33, an administrative law judge (ALJ) at the Commission shall determine what records and information are discoverable. By agreeing to this condition, NWN-U does not waive its right to refer a ruling by the ALJ to the Commission or to appeal a decision by the Commission.

REORGANIZATION CONTINUITY**Service Quality**

36. HoldCo and NWN-U agree that NWN-U will maintain safety standards and policies substantially comparable to or better than the NWN-U currently maintained standards and policies. Neither HoldCo formation nor future acquisitions may diminish delivery of safe and reliable utility service in Oregon. NWN-U will continue to fully comply with CFR Title 49 Parts 190 to 199.

Miscellaneous

37. NWN-U commits that its corporate headquarters will remain in Oregon. HoldCo will not move its headquarters out of Oregon without prior Commission approval.
38. NWN-U shall maintain its current pension funding approach, until informed by a Commission Order regarding revised best practices. Thereafter, NWN-U will look to Commission orders for further guidance.
39. For each calendar year 2018 through 2022 inclusive, HoldCo and NWN-U commit to sustaining NWN-U's current funding levels regarding charitable contribution which is one percent of NWN-U's average pre-tax income for the three years immediately preceding the budget year, including contributions to NWN-U's bill payment assistance program, subject to a \$100,000 limit increase or decrease from the prior year's contributions budget.
40. HoldCo and NWN-U will honor its existing collective bargaining agreement through its current duration. For that same period, employee's compensation and benefits packages will be at least as favorable in the aggregate as the existing benefit package.
41. NWN-U will not oppose maintaining current or greater support levels for energy efficiency and renewable natural gas for two years after the Commission issues a final order in this docket.
42. Within 90 days of the applicable Board of Directors meeting, NWN-U shall file with the Commission a complete copy of the minutes of the Board of Directors' meeting at which the formation of HoldCo was approved.
43. If the Commission, Staff, or any party believes that NWN-U or HoldCo have violated any of the conditions listed herein, or any conditions included in the Commission's final order approving the application, the Commission shall give

HoldCo and NWN-U written notice of the alleged violation. If HoldCo or NWN-U is found to have committed a violation after Commission investigation (or a hearing if requested), the Commission will issue an order stating the remedy it shall seek.

**COST SAVINGS
(FROM HOLDCO AND FUTURE M&A)**

Credits to Customers

44. For a period of three years following the formation of HoldCo, NWN-U will provide an annual credit to Oregon customers in the amount of \$500,000 on an equal percent margin basis concurrent with NWN-U's PGA.
45. Cost savings, inclusive of loadings, allocable to NWN-U that are achieved as a result of HoldCo's future Mergers and Acquisitions (M&A), if greater than \$50,000, will be deferred and later credited to Oregon customers until NWN-U'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 NWN-U's customers' rates, and from the time when the 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.

Future Mergers & Acquisitions

46. Approval of HoldCo formation does not relieve holders of NWN-U stock, or contractual rights to own such stock (such as stock options or convertible preferred stock), from requirements of ORS 757.511.
47. HoldCo or NWN-U will notify the Commission in writing subsequent to HoldCo's board approval and as soon as practicable following any public announcement of: (1) any acquisition of any business that represents five percent or more of HoldCo's capitalization, or (2) change in effective control or acquisition of any material part of HoldCo or NWN-U, as required by ORS 757.511.
48. HoldCo and NWN-U will refrain from seeking recovery through NWN-U rates any acquisition premiums, goodwill, transaction costs, or incremental executive bonuses associated with the reorganization or any subsequent M&As by HoldCo or any affiliates other than NWN-U.
49. Within 90 days after HoldCo acquires or creates a new subsidiary entity, HoldCo shall file with the Commission a statement that provides the name of the

subsidiary, the total value of its assets, the nature of the subsidiary's business and whether it will do business with NWN-U.

50. Any diversified holdings and investments (i.e., non-utility businesses or foreign utilities) of HoldCo following approval of the transaction will not be held by NWN-U or a subsidiary of NWN-U, with the exception of NWN-U sponsored employee benefit plans or employee compensation plans. This condition will not prohibit HoldCo or its affiliates other than NWN-U from holding diversified businesses. This provision will also not prohibit NWN-U from continuing to hold the assets it holds within NWN-U immediately prior to the reorganization, including but not limited to the appliance center and interstate storage business.