

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Application for
Approval of the Sale and Transfer of All
Issued and Outstanding Membership
Interests

In

SUNCADIA WATER COMPANY, LLC

From

NEW SUNCADIA, LLC

To

NW NATURAL WATER OF
WASHINGTON, LLC

DOCKET NO. UW-_____

JOINT APPLICATION FOR
APPROVAL OF THE SALE AND
TRANSFER OF ALL ISSUED AND
OUTSTANDING MEMBERSHIP
INTERESTS IN SUNCADIA WATER
COMPANY, LLC, AND FOR
CERTAIN OTHER REQUESTED
RELIEF

I. INTRODUCTION

1 In accordance with RCW Chapters 80.12 and 80.16 and WAC Chapters 480-110 and 480-143, NW Natural Water of Washington, LLC (“NW Natural Water of Washington”) and Suncadia Water Company, LLC (“Suncadia Water”) (collectively, “Joint Applicants”) file this application requesting approval from the Washington Utilities and Transportation Commission (“Commission”) of the sale and transfer of all issued and outstanding membership interests (“Membership Interests”) in Suncadia Water from New Suncadia, LLC (“New Suncadia”) to NW Natural Water of Washington (“Joint Application”).

2 Suncadia Water is a wholly-owned subsidiary of New Suncadia. NW Natural Water of Washington is a wholly-owned subsidiary of NW Natural Water Company, LLC

(“NW Natural Water”),¹ which in turn is a wholly-owned subsidiary of Northwest Natural Holding Company (“NW Natural Holdings”).² The current corporate organizational structure of NW Natural Holdings is most recently presented on pages 16 and 47 of its Form 10-Q for the third quarter of 2019, filed with the Securities and Exchange Commission (“SEC”) on November 5, 2019, and filed with this Joint Application as Exhibit 1.

3 In this Joint Application, Joint Applicants present an analysis of the sale of the Membership Interests in Suncadia Water under RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120 to show that Suncadia Water’s customers will not be harmed. As described in detail in this Joint Application, Suncadia Water’s customers will not be harmed by, and in fact will benefit from, new ownership. Thus, NW Natural Water of Washington’s acquisition of Suncadia Water is consistent with the public interest. Suncadia Water also addresses the inter-company assignment of several assets both to and from the books of Suncadia Water.

II. DISCUSSION

A. Description of the Transaction.

4 Suncadia Water is a water company and public service company subject to the Commission’s jurisdiction. Suncadia Water provides water service to more than 1,399

¹ NW Natural Water is a non-operating entity formed to serve as a corporate platform to hold water and wastewater utilities that it acquires. In addition to pursuing a strategy for growth through acquisitions of water utilities in Washington, NW Natural Water is also implementing its strategy for growth through acquisitions of water utilities in Oregon and Idaho. These acquisitions, and the continued operation of these water utilities, have been seamless with no disruptions to customers’ service.

² NW Natural Holdings wholly owns Northwest Natural Gas Company d/b/a NW Natural (“NW Natural”), a 160-year old natural gas utility serving customers in the Pacific Northwest.

customers in or near Cle Elum, Washington.³ New Suncadia owns all of the Membership Interests in Suncadia Water. A copy of the 2018 Annual Report of Suncadia Water to the Commission is filed with this Joint Application as Exhibit 2.

5 NW Natural Water of Washington is a Washington limited liability company created to be a platform to acquire and hold water companies in Washington, including Suncadia Water. NW Natural Water of Washington is not a public service company. NW Natural Water of Washington's principal business office is located at 220 NW Second Avenue, Portland, Oregon 97209. Communications regarding this Joint Application should be addressed to the following:

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6 The Suncadia Water sale is structured as a membership interest purchase for cash consideration, in which NW Natural Water of Washington will acquire all the Membership Interests in Suncadia Water. The Membership Interest Purchase Agreement between New Suncadia and NW Natural Water of Washington ("Suncadia Agreement") was executed on October 12, 2019, and is filed with this Joint Application as Confidential Exhibit 3.⁴ In this Joint Application, the sale, purchase and transfer of the Suncadia Water Membership Interests will be referred to as the "Suncadia Water Transaction."

³ See 2018 WUTC Annual Report for Suncadia Water, submitted May 1, 2019, p. 8 (customer count as of December 31, 2018), which is filed with this Joint Application as Exhibit 2.

⁴ Concurrently with the filing of this Joint Application, Joint Applicants are filing in this proceeding their claim of confidentiality of the Suncadia Agreement, pursuant to WAC 480-07-160(4)(a).

7

The Suncadia Water Transaction represents an important step in NW Natural Water's plan to continue expanding its footprint in the water utility business, and is therefore consistent with NW Natural Water's strategy for growth. In particular, NW Natural Water believes that business growth—through acquisition of water utilities—will provide enhanced financial strength, access to capital markets and overall value to the consolidated entity that will support its continued efforts to provide safe and reliable service to customers. NW Natural Holdings' executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee Suncadia Water's operations through NW Natural Water of Washington and its parent company, NW Natural Water. NW Natural Holdings' water and gas utility businesses rely on maintenance of and investment in critical pipe infrastructure to drive organic growth. NW Natural Water and NW Natural Water of Washington understand how to plan for and build an efficient pipeline system and how to maintain that system to ensure safe and reliable service. In addition, both the water distribution and gas distribution businesses are largely regulated by public utility commissions—a regulatory environment with which NW Natural Water and NW Natural Water of Washington are familiar. For these reasons, NW Natural Water of Washington believes that its ownership of Suncadia Water will result in a stronger, and more financially sound water company—and a stronger consolidated corporate structure.

8

New Suncadia owns the undeveloped real estate and most of the commercial operations and amenities operating at Suncadia Resort. While the utility business supports its ongoing businesses, operation of the utility is not a line of business that is aligned with New Suncadia's operational strengths and, therefore, New Suncadia desires to sell

Suncadia Water. New Suncadia believes the sale is in the best interests of the community and Suncadia Water's customers.

9 For the sake of transparency, the Suncadia Agreement includes a separate transaction that is not subject to Commission jurisdiction and, therefore, is not the subject of this Joint Application. New Suncadia currently owns all of the issued and outstanding membership interests in Suncadia Environmental Company, LLC ("SCE"). SCE provides sewer and wastewater services to New Suncadia's Suncadia Master Planned Resort ("Suncadia Resort"). New Suncadia is selling, and NW Natural Water of Washington is purchasing, all of those membership interests in SCE. SCE is not subject to the Commission's regulation. In connection with the Suncadia Water Transaction, New Suncadia will transfer all of the membership interests in SCE to NW Natural Water of Washington, and SCE will become a separate, wholly-owned subsidiary of NW Natural Water of Washington. NW Natural Water of Washington is in the process of evaluating if and to what extent there may be shared services involving Suncadia Water. Suncadia Water will file with the Commission any agreement(s) for such shared services in accordance with RCW 80.16.020.

10 Also for the sake of transparency, New Suncadia needs to make an inter-company assignment of several assets, immediately prior to closing the Suncadia Water Transaction, that it inadvertently has neglected to move to the books of Suncadia Water or move out of the books of Suncadia Water. Numbered items 1 and 2 of Schedule 6.1(h) of the Suncadia Agreement show that New Suncadia currently holds certain water rights and a water delivery agreement that Suncadia Water instead needs to hold to provide water service. Suncadia Water hereby provides notice to the Commission pursuant to RCW Section

80.16.020 for the transfer of those water rights and agreement between affiliated interests and requests that the Commission concur that no determination of reasonableness is required for those transfers.⁵ Similarly, Suncadia Agreement Schedule 6.1(h), numbered item 6, and Schedule 6.2(e), numbered item 3, show that Suncadia Water currently owns a back-up generator and structure not included in its rate base. SCE uses the back-up generator for the provision of wastewater services not subject to the Commission's regulation and New Suncadia uses the structure for its golf courses. Because the back-up generator and structure are not included in Suncadia Water's rate base, they are not necessary or useful for Suncadia Water to perform its public duties. The generator does not have a market value that exceeds the greater of 0.1% of Suncadia Water's rate base last established by Commission order or \$20,000. Accordingly, Suncadia Water hereby applies to the Commission for a determination that the structure is not necessary or useful pursuant to WAC 480-143-180 (criterion 4).

11 After the Suncadia Water Transaction is complete, Suncadia Water will continue operating as a water company, and Suncadia Water will continue to provide water service to Suncadia Water's customers. The water service to customers will not be interrupted by the transition of Suncadia Water's ownership from New Suncadia to NW Natural Water of Washington. NW Natural Water of Washington is proposing to adopt Suncadia Water's WN U-1 Tariff ("Suncadia Water Tariff"), as shown in the completed Adoption of Tariffs page filed with this Joint Application as Exhibit 4. NW Natural Water of Washington is

⁵ RCW 80.16.020 does not require Commission approval of these transfers; however, the Commission has the authority to investigate and disapprove them if they are not "reasonable and consistent with the public interest." In order that New Suncadia may make these transfers and close the Suncadia Water Transaction, Suncadia Water requests that the Commission indicate that it does not intend to investigate the reasonableness of these transfers.

adopting the Suncadia Water Tariff in its entirety, including Suncadia Water’s rates and charges, so that customers do not experience any change in service resulting from the Suncadia Water Transaction.

B. Applicable Legal Standard.

12 In accordance with RCW Chapter 80.12 and WAC Chapters 480-110 and 480-143, Suncadia Water must obtain Commission approval prior to its sale to NW Natural Water of Washington. The Commission applies a public interest “no harm” standard in its review of these types of applications.⁶ The Commission also considers “the new company’s financial and managerial fitness to run the operations.”⁷

C. The Sale of Suncadia Water Satisfies the “No Harm” Standard and Is Consistent with the Public Interest.

13 Suncadia Water’s customers will not be harmed by the Suncadia Water Transaction, and will in fact benefit from new ownership.

14 *First*, Suncadia Water’s customers will experience no disruption in service and will not be harmed by the Suncadia Water Transaction. Suncadia Water will be managed by NW Natural Water’s team of water utility professionals, who will provide operations and management support for the water system and customer service support for the benefit of customers. The personnel who currently operate Suncadia Water will become employees of NW Natural Water of Washington. After the close of the Suncadia Water Transaction, customers will continue interfacing with Suncadia Water for billing. To help ensure a

⁶ WAC 480-143-170.

⁷ *In the Matter of the Application of Fragaria Landing Water Co., Lowper Inc., dba Lowper Water Co., Marbello Water Co., Inc., and SJM Water Service Inc., Applicant, For the Sale and Transfer of Stock to Iliad Water Servs. Inc.*, Docket UW-150688, Order 01 at ¶15 (July 30, 2015) (*citing In Re Application of PacifiCorp & Scottish Power, LLC*, Docket UE-981627, Third Suppl. Order on Prehearing Conference at 2-3 (Apr. 2, 1999)).

smooth transition, Suncadia Water and NW Natural Water of Washington will send bill inserts describing the transaction. As a result of these efforts, Suncadia Water's customers will experience no disruption in service and the Suncadia Water Transaction will be seamless for Suncadia Water's customers.

15 **Second**, Suncadia Water's customers will benefit from the utility industry experience of NW Natural Water of Washington, NW Natural Water and NW Natural. In particular, Suncadia Water's customers will benefit from these companies' experience and expertise in planning for, building, and maintaining safe and reliable pipeline infrastructure and in providing exemplary customer service. Suncadia Water will need capital investment in the future. NW Natural Holdings, the ultimate parent of NW Natural Water of Washington, is a publicly-owned company with a market cap of approximately \$1.8 billion, and it has revolving credit facilities totaling approximately \$400 million in the aggregate. NW Natural Water of Washington, through its parent companies, will be able to provide this investment over time, therefore benefiting Suncadia Water's customers.

16 **Third**, given the shared executive, managerial and operational support among NW Natural Water of Washington, NW Natural Water and NW Natural, Suncadia Water's customers will benefit from the utilities' depth of experience with regulatory compliance.

17 **Fourth**, Suncadia Water's customers will experience no immediate change in their water utility rates, and will receive service under the Suncadia Water Tariff (to be adopted in its entirety by NW Natural Water of Washington), which will maintain the rates and charges from Suncadia Water's currently-effective tariff with no proposed modifications. Additionally, the Suncadia Water Transaction does not include an acquisition adjustment, and NW Natural Water of Washington, NW Natural Water and NW Natural Holdings

commit that they will not propose to include any research and due diligence, negotiation, or other acquisition costs associated with the acquisition of Suncadia Water in customer rates in any future rate case filing. Going forward with its growth strategy, NW Natural Water of Washington, NW Natural Water and NW Natural Holdings will evaluate whether to seek an acquisition adjustment with other utility acquisitions on a case-by-case basis.

D. Financial and Managerial Fitness of NW Natural Water of Washington

18 Financial Fitness of NW Natural Water of Washington. Under the Suncadia Water Transaction, NW Natural Water of Washington will acquire Suncadia Water. NW Natural Water of Washington's parent company, NW Natural Water, is a wholly-owned subsidiary of NW Natural Holdings. NW Natural Holdings, through NW Natural Water, will provide funds for NW Natural Water of Washington to complete the Suncadia Water Transaction, and thus NW Natural Water of Washington is financially able to acquire Suncadia Water. (See also Exhibit 5).

19 Financial Statements. NW Natural Holdings' Form 10-K for 2018 filed with the SEC on March 1, 2019, is filed with this Joint Application as Exhibit 5.

20 Experience in Utility Management. Suncadia Water will be operated by the same personnel who currently operate Suncadia Water and by NW Natural Water of Washington's team of water utility professionals. Additionally, Suncadia Water will benefit from the utility expertise of its affiliate, NW Natural, which has experience overseeing the operations of a regulated Washington distribution company, and will bring this expertise to Suncadia Water. Importantly, NW Natural Holdings' executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee Suncadia Water's operations through NW Natural

Water and NW Natural Water of Washington. Both water and gas utility businesses rely on maintenance of critical pipe infrastructure to drive organic growth. NW Natural Holdings' executives understand how to plan for and build an efficient pipeline system and how to maintain that system to ensure safe and reliable service. In addition, both the water distribution and gas distribution businesses are largely regulated by utility commissions—a regulatory environment with which NW Natural Water and NW Natural are familiar.

E. Notice to Customers

21 In accordance with WAC 480-143-210(1), notice of the transfer of ownership must be provided to customers 30 days prior to the Commission's open meeting date for which an application is scheduled for action. The Joint Applicants will coordinate with Commission Staff to determine the date on which the Joint Application will be scheduled for Commission action, and will plan to provide notice to Suncadia Water's customers at least 30 days in advance of that date. The draft Suncadia Water customer notice is filed with this Joint Application as Exhibit 6.

F. Exhibits

22 The following exhibits are filed with this Joint Application:

- Exhibit 1 – NW Natural Holdings' Form 10-Q for 3rd Quarter 2019
- Exhibit 2 – Suncadia Water 2018 Annual Report (includes Financial Statements)
- Confidential Exhibit 3 – Suncadia Agreement (Confidential)
- Exhibit 4 – Completed Adoption of Tariffs Page
- Exhibit 5 – NW Natural Holdings' Form 10-K for 2018
- Exhibit 6 – Draft Suncadia Water Customer Notice

III. CONCLUSION

23 NW Natural Water of Washington and Suncadia Water respectfully request that the Commission approve their Joint Application in accordance with RCW Chapters 80.12 and 80.16 and WAC Chapters 480-110 and 480-143. The Suncadia Water Transaction will not harm Suncadia Water's customers and will benefit Suncadia Water's customers. Accordingly, the Suncadia Water Transaction is consistent with the public interest. The Joint Applicants also respectfully request that the Commission grant such further relief as requested in paragraph 10 herein.

Respectfully submitted this 15th day of November, 2019.

NW NATURAL WATER OF WASHINGTON, LLC

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