

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

|  |  |
|--|--|
| In the Matter of the Application for the Sale<br>and Transfer of Assets from | DOCKET NO. UW-_____                            |
| MONTERRA, INC.   | APPLICATION FOR SALE AND<br>TRANSFER OF ASSETS |
| To   |  |
| CASCADIA WATER, LLC  |  |

**I. INTRODUCTION**

1           In accordance with RCW 80.12.020 and RCW 80.12.040 and WAC 480-110-555, WAC 480-143-120, and WAC 480-143-130, Cascadia Water, LLC (“Cascadia” or the “Company”) files this application requesting approval from the Washington Utilities and Transportation Commission (“Commission”) of the sale and transfer of assets from Monterra, Inc. (“Monterra”) to Cascadia (“Application”).<sup>1</sup>

2           Cascadia is currently a wholly-owned subsidiary of NW Natural Water Company, LLC (“NWN Water”),<sup>2</sup> which in turn is a wholly-owned subsidiary of Northwest Natural

---

<sup>1</sup> The Commission recently approved Cascadia’s acquisition of two water utilities, Sea View Water, LLC and Lehman Enterprises, Inc. in Dockets UW-180629 and UW-180630. *In the Matter of the Application of Sea View Water, LLC, Applicant, for the Sale and Transfer of Assets to Cascadia Water, LLC*, Docket UW-180629, Order 01 (Oct. 11, 2018); *In the Matter of the Application of Lehman Enterprises, Inc., Applicant, for the Sale and Transfer of Assets to Cascadia Water, LLC*, Docket UW-180630, Order 01 (Oct. 11, 2018).

<sup>2</sup> NWN 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 Cascadia’s and Washington Water’s acquisition of water utilities in Washington, NWN Water is also implementing its strategy for growth through acquisitions of water utilities in Oregon and Idaho. *In the Matter of Salmon Valley Water Co., Application for Authorization of the Sale of Salmon Valley Water Co. to Nw. Natural Water Co., LLC, Pursuant to ORS 757.480 and OAR 860-036-2120*, Docket No. UP 362, Order No. 18-358 (Sept. 26, 2018) (Oregon); *In the Matter of the Application of Nw. Natural Water Co., LLC to Acquire Falls*

Holding Company (“NW Natural Holdings”).<sup>3</sup> Concurrent with the filing of this Application, Cascadia is also filing for regulatory approval for the sale and transfer of assets from Estates Water Systems, Inc. (“Estates”) to Cascadia, and Cascadia respectfully requests that these two applications be consolidated for purposes of processing the applications at the Commission.

3 As part of the Estates Application, Cascadia is further requesting Commission approval to adjust Cascadia’s corporate structure under RCW 80.12.020, to make Cascadia a direct subsidiary of NWN Water of Washington, LLC (“Washington Water”)—another NWN Water subsidiary. This internal reorganization will have no practical impact on Cascadia’s operations or its customers. NWN Water and NW Natural Holdings would remain Cascadia’s parent companies with the addition of Washington Water as an intermediate entity. This change is depicted in the current and revised corporate charts attached to this Application as Confidential Exhibit 1.

4 In this Application, Cascadia presents both sides of the Monterra transaction for review by the Commission. First, Cascadia provides an analysis of the purchase under RCW Chapter 80.12.040 and WAC 480-143-130 for a utility acquisition of another utility’s assets to ensure that the purchasing utility’s customers will not be harmed. Second, Cascadia presents an analysis of the sale of utility assets by Monterra under RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120 to ensure that the selling utility’s

---

*Water Co.*, Case No. FLS-W-18-01, Order No. 34103 (July 10, 2018) (Idaho). These acquisitions, and the continued operation of these water utilities, were seamless, with no disruptions to customers’ service.

<sup>3</sup> In Docket UG-170094, NW Natural Gas Company (“NW Natural”), a natural gas local distribution company (“LDC”) in Washington and Oregon, sought—and the Commission approved—authorization to reorganize into a holding company structure. *See In the Matter of Northwest Natural Gas Company’s Application for Approval of Corporate Reorganization to Create a Holding Company*, Docket UG-170094, Order 01 (Dec. 28, 2017).

customers will not be harmed. As described in detail in this Application, Cascadia's customers will not be harmed by the acquisition; in addition, Monterra's customers will not be harmed by, and in fact will benefit from, new ownership. Thus, Cascadia's acquisition of Monterra is consistent with the public interest.

## **II. DISCUSSION**

### **A. Description of the Monterra Transaction.**

5           Monterra is a regulated water utility subject to the Commission's jurisdiction, which provides water service to approximately 185 customers in or near Sequim and Port Angeles, Washington. Monterra currently is owned by Mr. Eric Thomas and Ms. Kim Thomas. A copy of the 2017 Annual Report of Monterra to the Commission is attached to this Application as Exhibit 2.

6           Cascadia is a Washington water utility currently operating the Seaview and Lehman water systems. Cascadia is a wholly-owned subsidiary of NWN Water, which in turn is a wholly-owned subsidiary of NW Natural Holdings. If this Application is approved, Cascadia will be a wholly-owned subsidiary of Washington Water, which is in turn a wholly-owned subsidiary of NWN Water, which is in turn a wholly-owned subsidiary of NW Natural Holdings. Washington Water is a Washington limited liability company created to be a platform to acquire and hold water utilities in Washington, including Cascadia. Cascadia's principal business office is located at 18181 SR 525, Freeland, Washington 98249. Communications regarding this Application should be addressed to the following:

Zachary D. Kravitz  
NW Natural  
220 NW Second Avenue  
Portland, OR 97209-3991  
Telephone: (503) 220-2379  
Facsimile: (503) 220-2584  
Email: [zdk@nwnatural.com](mailto:zdk@nwnatural.com)

Lisa Rackner  
McDowell Rackner Gibson PC  
419 SW 11<sup>th</sup> Ave., Suite 400  
Portland, OR 97205  
Telephone: 503-595-3925  
Facsimile: 503-595-3928  
Email: [dockets@mrg-law.com](mailto:dockets@mrg-law.com)

Eric W. Nelsen  
NW Natural  
220 NW Second Ave  
Portland, OR 97209-3991  
Telephone: (503) 721-2476  
Facsimile: (503) 220-2584  
Email: [eric.nelsen@nwnatural.com](mailto:eric.nelsen@nwnatural.com)

7           The Monterra sale is structured as an asset purchase for cash consideration, in which Cascadia will pay [REDACTED] to acquire substantially all the assets of Monterra, [REDACTED]

[REDACTED]. The Asset Purchase Agreement between Cascadia and Monterra (“Monterra Asset Purchase Agreement” or “Monterra APA”) was executed on January 22, 2019, and is attached to this Application as Confidential Exhibit 3. In this Application, the Monterra sale will be referred to as the “Monterra Transaction.”

8           After the Monterra Transaction is complete, Monterra will cease operating as a water utility, and Cascadia will provide water service to Monterra’s customers. The water service to customers will not be interrupted by the transition to Cascadia. Cascadia is proposing to amend its WN U-1 Tariff by adopting Monterra’s tariff, as included in this Application as Exhibit 4 (“Cascadia Tariff”). The Cascadia Tariff adopts Monterra’s tariff in its entirety, and proposes to adopt Monterra’s rates for customers on the legacy Monterra system as part of its tariff. Additionally, the Cascadia Tariff proposes to adopt Estates’ tariff in its entirety for the customers on the legacy Estates system so that those customers

do not experience any change in service resulting from the acquisitions. While Cascadia understands that there may be a future need to consolidate and conform these adopted tariffs, Cascadia intends to address any such changes on a consolidated basis in the first general rate case to be filed that includes these new Cascadia assets—thereby ensuring efficient and consistent review of all of Cascadia’s adopted tariffs.

**B. Applicable Legal Standard.**

9 In accordance with RCW Chapter 80.12.040 and WAC 480-143-130, Cascadia must obtain Commission approval prior to completing the purchase of Monterra, and in accordance with RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120, Monterra must obtain Commission approval prior to selling, leasing, assigning, or otherwise disposing of any of its property that is necessary or useful in the performance of its duties to the public. The Commission applies a public interest “no harm” standard in its review of property transfer applications.<sup>4</sup> The Commission also considers “the new company’s financial and managerial fitness to run the operations.”<sup>5</sup>

**C. Cascadia’s Acquisition of Monterra Satisfies the “No Harm” Standard and Is Consistent with the Public Interest (RCW 80.12.040 and WAC 480-143-130).**

10 As described above, Cascadia is a wholly-owned subsidiary of NWN Water, which in turn is a wholly-owned subsidiary of NW Natural Holdings. Under the proposed reorganization, Cascadia would become a direct subsidiary of Washington Water, which is

---

<sup>4</sup> WAC 480-143-170.

<sup>5</sup> *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)).

a direct subsidiary of NWN Water. Accordingly, Cascadia provides the following analysis demonstrating that Cascadia's customers will not be harmed by the Monterra Transaction, and that the Monterra acquisition will have no impact on Cascadia's ability to provide water service to its customers. Additionally, Cascadia's customers will benefit from the consolidated NWN Water's growth that it is seeking to achieve through its water utility acquisition strategy.

11           **First**, the Monterra acquisition will not in any way affect the financial, technical, or managerial abilities of Cascadia to continue to provide high-quality, reliable service to its water customers. After the Monterra acquisition is complete, the Company will continue to provide the same safe and reliable water service to its customers. Importantly, Monterra will be managed by Cascadia's team of local water utility professionals, and the operation of Monterra will not affect Cascadia's day-to-day operations. Mr. Eric Thomas, the current owner representative of Monterra, will continue to be involved in the operations of Monterra.

12           **Second**, the Monterra acquisition represents an important step in NWN Water's plan to enter the water utility business, and is therefore consistent with NWN Water's strategy for growth being facilitated through the corporate reorganization. In particular, NWN Water believes that business growth—through acquisition of water utilities—will provide enhanced financial strength, access to capital markets and overall shareholder 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 Monterra's operations through Cascadia and its parent companies,

Washington Water (proposed) and NWN Water. NW Natural Holdings' water and gas LDC businesses rely on maintenance of and investment in critical pipe infrastructure to drive organic growth. NWN Water and Cascadia 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 NWN Water and NW Natural are familiar. For these reasons, Cascadia believes that its ownership of Monterra will result in a stronger, and more financially sound water company—and a stronger consolidated corporate structure.

**D. The Sale of Monterra Satisfies the “No Harm” Standard and Is Consistent with the Public Interest (RCW 80.12.020, WAC 480-110-555, WAC 480-143-120).**

13 Monterra's customers will not be harmed by the Monterra Transaction, and will in fact benefit from new ownership.

14 *First*, Monterra's customers will experience no disruption in service and will not be harmed by the Monterra Transaction. Monterra will be managed by Cascadia's team of local water utility professionals, who will provide operations and management support for the water system and customer service support for the benefit of customers. Mr. Eric Thomas, the current owner representative of Monterra, will continue to be involved in the operations of Monterra. After the close of the Monterra Transaction, customers will interface with Cascadia for billing. To help ensure a smooth transition, Monterra and Cascadia, before closing the transaction, will send bill inserts describing the transaction and the process for transition to Cascadia, provide new email and phone number contact information as well as the URL for Cascadia's website, and describe any changes for

Monterra's customers related to Cascadia's customer billing and payment practices. As a result of these efforts, Monterra's customers will experience no disruption in service and the Monterra Transaction will be seamless for Monterra's customers.

15           **Second**, Monterra's customers will benefit from the utility industry experience of Cascadia, NWN Water and NW Natural. In particular, Monterra'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. Monterra will need capital investment in the future, and the current owners do not have the financial capacity to invest in the system. NW Natural Holdings, the ultimate parent of Cascadia, is a publicly-owned company with a market cap of approximately \$1.8 billion, and it has revolving credit facilities aggregating to approximately \$400 million. Cascadia, through its parent companies, will be able to provide this investment over time, therefore benefiting Monterra's customers.

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

17           **Fourth**, Monterra's customers will experience no immediate change in their water utility rates, and will receive service under the Cascadia Tariff, which will maintain the rates and charges from Monterra's tariff with no proposed modifications.<sup>6</sup> Additionally, the Monterra Transaction does not include an acquisition adjustment, and Cascadia, Washington Water, NWN Water and NW Natural Holdings commit that they will not

---

<sup>6</sup> At some point in the future, Cascadia intends to migrate to a unified rate structure for the customers of the legacy Estates and Monterra systems, which will be proposed in a future rate case filing.



propose to include any research and due diligence, negotiation, or other acquisition costs associated with the acquisition of Monterra in customer rates in any future rate case filing. Going forward with its growth strategy, Cascadia, Washington Water, NWN Water and NW Natural Holdings will evaluate whether to seek an acquisition adjustment with other utility acquisitions on a case-by-case basis.

**E. Financial and Managerial Fitness of Cascadia**

18           Financial Fitness of Cascadia. Under the Monterra Transaction, Cascadia will acquire the Monterra system. Cascadia’s parent company, NWN Water, is a wholly-owned subsidiary of NW Natural Holdings. Under the proposed reorganization, Cascadia would become a direct subsidiary of Washington Water, which is a direct subsidiary of NWN Water. NW Natural Holdings will provide funds for Cascadia to complete the Monterra Transaction, and thus Cascadia is financially able to acquire Monterra. (See also Exhibit 5).

19           Financial Statements. NW Natural Holdings’ 10-K for 2018 is not currently available, but will be filed with the Commission as Exhibit 5 to this Application when it is published in early March 2019.

20           Experience in Utility Management. Monterra will be operated by Cascadia’s team of local water utility professionals. Additionally, Monterra 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 the Monterra water system. Importantly, NW Natural Holdings’ executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee Monterra’s operations through NWN Water, Washington Water

(proposed) and Cascadia. Both water and gas LDC 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 NWN Water and NW Natural are familiar.

**F. 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 Company will coordinate with Commission Staff to determine the date on which the Application will be scheduled for Commission action, and will plan to provide notice to Monterra's customers at least 30 days in advance of that date. The Draft Monterra Customer Notice is included with this Application as Exhibit 6.

**G. Exhibits**

22 The following exhibits are included with this Application:

- Exhibit 1 – NW Natural Holdings' Organizational Chart – Current and Proposed (Confidential)
- Exhibit 2 – Monterra 2017 Annual Report (includes Financial Statements)
- Exhibit 3 – Monterra Asset Purchase Agreement (Confidential)
- Exhibit 4 – Cascadia Tariff
- Exhibit 5 – NW Natural Holdings' 10-K for 2018 (Placeholder)
- Exhibit 6 – Draft Monterra Customer Notice

### III. CONCLUSION

23 Cascadia respectfully requests that the Commission approve its Application in accordance with RCW 80.12.020 and RCW 80.12.040, and WAC 480-110-555, WAC 480-143-120, and WAC 480-143-130. The Monterra Transaction will not harm Cascadia's customers or Monterra's customers, and will benefit Monterra's customers, and accordingly, the Monterra Transaction is consistent with the public interest.

Respectfully submitted this 21st day of February, 2019.

**MCDOWELL RACKNER GIBSON PC**

*/s/ Lisa Rackner*

\_\_\_\_\_  
Lisa Rackner, WSBA No. 39969

419 SW 11th Ave. Ste. 400

Portland, OR 97205

503-595-3925

[lisa@mrg-law.com](mailto:lisa@mrg-law.com)

Attorney for Cascadia Water, LLC

NORTHWEST NATURAL

Eric W. Nelsen

Senior Regulatory Attorney

220 NW Second Ave

Portland, OR 97209