

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application for the Sale
And Transfer of Assets from

STROH'S WATER COMPANY, INC.

To

WASHINGTON WATER SERVICE
COMPANY

DOCKET UW-

APPLICATION FOR SALE AND TRANSFER
OF ASSETS

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, Washington Water Service Company ("WWSC"
or the "Company") files this application requesting approval from the Washington
Utilities and Transportation Commission ("Commission") of the sale and transfer of
assets from Stroh's Water Company, Inc. ("Stroh's Water") to WWSC ("Application").
Stroh's Water joins in the Application. Stroh's Water and WWSC are collectively the
"Applicants."

2 WWSC is a wholly-owned subsidiary of California Water Service Group ("CWSG")
CWSG has the following operating subsidiaries: WWSC, California Water Service,
Hawaii Water Service, Texas Water Service and New Mexico Water Service. CWSG
subsidiaries also includes CWS Utility Services and HWS Utility Services. Corporate-
wide, CWSG and CWSG subsidiary employees share a commitment to being the leading
provider of water and wastewater services and improving the quality of life for
customers, communities, stockholders, and employees.

3 In this Application, the Applicants present both sides of the Stroh's Water
transaction for review by the Commission. First, the Applicants provide 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 (WWSC)

customers will not be harmed. Second, the Applicants present an analysis of the sale of utility assets by Stroh's Water under RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120 to ensure that the selling utility's (Stroh's Water) customers will not be harmed. As described in detail in this Application, WWSC's customers will not be harmed by the acquisition, and in fact will benefit from the system consolidation. In addition, Stroh's Water's customers will not be harmed by, and in fact will benefit from, new ownership. Thus, WWSC's acquisition of Stroh's Water is consistent with the public interest.

II. DISCUSSION

A. Description of the Stroh's Water Transaction.

4 Stroh's Water is a regulated water utility subject to the Commission's jurisdiction, which provides water service to approximately 800 customers in Pierce County, Washington. Stroh's Water's principal business address is 4511 92nd Avenue NW, Gig Harbor, WA 98335. Stroh's Water's is owned by the Estate of Dorothy Stroh. A copy of the 2021 Annual Report of Stroh's Water to the Commission is attached to this Application as Exhibit 1.

5 WWSC is a Washington water utility currently providing water service to approximately 36,500 customers, mostly in Western Washington. WWSC's principal business office is

located at 14519 Peacock Hill Avenue NW, Gig Harbor, WA 98335. Communications regarding this Application should be addressed to the following: Erin McCauley

Director of Integration
California Water Service
1720 North First Street
San Jose, CA 95112
Telephone: (408) 367-8279
Email: emccauley@calwater.com

Jennifer Kelsey
Associate General Counsel
California Water Service
1720 North First Street
San Jose, CA 95112
Telephone: (408) 367-8205
Email: jkelsey@calwater.com

Richard A. Finnigan
Law Office of Richard A. Finnigan
2112 Black Lake Blvd. SW
Olympia, WA 98512
Telephone: (360) 956-7001
Email: rickfinn@localaccess.com

- 6 The Asset and Real Property Purchase and Sale Agreement between WWSC and Stroh's Water ("Stroh's Water Asset Purchase Agreement" or "Stroh's Water APA") was executed on April 6, 2022, and is attached to this Application as Confidential Exhibit 2. The Asset Purchase Agreement was amended on August 4, 2022 to further document easements and water rights, and this amendment is attached as Exhibit 7. In this Application, the Stroh's Water sale will be referred to as the "Stroh's Water

Transaction." The Stroh's Water Transaction is structured as an asset purchase for cash consideration, in which WWSC will acquire substantially all the assets of Stroh's Water.

- 7 After the Stroh's Water Transaction is complete, Stroh's Water will cease operating as a water utility, and WWSC will provide water service to Stroh's Water's customers. The water service to customers will not be interrupted by the transition to WWSC. WWSC is proposing to adopt certain schedules from Stroh's Water's tariff, as included in this Application as Exhibit 3 ("Stroh's Water Schedules"). WWSC proposes to adopt Stroh's Water's rates for customers on the legacy Stroh's Water systems. Other than noted above, WWSC is proposing to implement existing WWSC rules and schedules to Stroh's Water customers as included in this Application as Exhibit 4 ("WWSC Rules and Schedules").

B. Applicable Legal Standard.

- 8 In accordance with RCW 80.12.040 and WAC 480-143-130, WWSC must obtain Commission approval prior to completing the purchase of the Stroh's Water assets, and in accordance with RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120, Stroh's Water 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.¹ The Commission also considers “the new company's financial and managerial fitness to run the operations.”²

C. WWSC's Acquisition of Stroh's Water Satisfies the "No Harm" Standard and Is Consistent with the Public Interest (RCW 80.12.040 and WAC 480-143130).

9 As described above, WWSC is a wholly-owned subsidiary of CWSG. Accordingly, WWSC provides the following analysis demonstrating that WWSC's customers will not be harmed by the Stroh's Water Transaction, and that the Stroh's Water acquisition will have no impact on WWSC's ability to provide water service to its customers.

Additionally, WWSC's customers will benefit from the WWSC's growth that it is seeking to achieve through its water utility acquisition strategy.

10 **First**, the Stroh's Water Transaction will not in any way affect the financial, technical, or managerial abilities of WWSC to continue to provide high-quality, reliable service to its water customers. After the Stroh's Water Transaction is complete, the Company will continue to provide the same safe and reliable water service to its customers.

Importantly, assets acquired in the Stroh's Water Transaction will be managed by WWSC's team of local water utility professionals, and the operation of Stroh's Water will not affect WWSC's day-to-day operations. In fact, WWSC has been operating the

¹ WAC 480-143-170.

² *In the Matter of the Application of Fragaria Landing Water Co., Lowerper Inc., dba Lowerper 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)).

Stroh's Water systems since 2021 and began billing the customers on Stroh's behalf in 2022.

11 **Second**, the Stroh's Water Transaction represents an important step in CWSG's plan to grow in the water utility business. In particular, CWSG believes that business growth—through acquisition of and investment in water utilities—will provide enhanced financial strength, access to capital markets and overall shareholder value that will support its continued efforts to provide safe and reliable service to customers. In addition, CWSG executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee the operations of the assets acquired in the Stroh's Water Transaction through its subsidiary WWSC.

12 CWSG's water business model relies on regular maintenance of and investment in critical infrastructure to drive organic growth. CWSG and WWSC understand how to plan for and build efficient operating systems and how to maintain these systems to ensure safe and reliable service. In addition, the water distribution business is largely regulated by public utility commissions—a regulatory environment with which CWSG and its subsidiaries are familiar. For these reasons, CWSG and WWSC believe that its ownership of Stroh's Water water systems will result in a stronger, and more financially sound water company.

D. The Sale of Stroh's Water 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

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

14 **First**, Stroh's Water's customers will experience no disruption in service and will not be harmed by the Stroh's Water Transaction. Stroh's Water will be managed by WWSC'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. To help ensure a smooth transition, Stroh's Water and WWSC, before closing the transaction, will send bill inserts describing the transaction and the process for transition to WWSC, provide new email and phone number contact information as well as the URL for WWSC's website, and describe any changes for Stroh's Water's customers related to WWSC's customer billing and payment practices. As a result of these efforts, Stroh's Water's customers will experience no disruption in service and the Stroh's Water Transaction will be seamless for Stroh's Water's customers.

15 **Second**, Stroh's Water's customers will benefit from the leading utility industry experience of WWSC and CWSG. In particular, Stroh's Water's customers will benefit from these companies' experience and expertise in planning for, building, and maintaining safe and reliable infrastructure and in providing exemplary customer service.

Undoubtedly, the operations acquired in the Stroh's Water Transaction will need capital

investment in the future. CWSG, the parent of WWSC, is a publicly-traded company with a market cap of approximately \$2.5 billion, and it and its subsidiaries have revolving credit facilities aggregating to approximately \$450 million. WWSC, through its parent company, will be able to provide the needed investment over time, therefore benefiting Stroh's Water's customers.

- 16 **Third**, given the shared executive support among WWSC and CWSG, Stroh's Water's customers will benefit from the utilities' depth of experience with regulatory compliance.
- 17 **Fourth**, Stroh's Water's customers will experience no immediate change in their basic water utility rates.

E. Financial and Managerial Fitness of WWSC

- 18 Financial Fitness of WWSC. Under the Stroh's Water Transaction, WWSC will acquire the Stroh's Water water systems. CWSG will provide funds for WWSC to complete the Stroh's Water Transaction, and thus WWSC is financially able to acquire Stroh's Water. (See also Exhibit 5, below).

- 19 Financial Statements. CWSG's 10-K for 2021 is at <https://ir.calwatergroup.com/financial-reports/quarterly-other-reports>

(Noted as Exhibit 5).

20 Experience in Utility Management. The assets acquired in the Stroh's Water Transaction will be operated by WWSC's team of water utility professionals. Additionally, this operation will benefit from the utility expertise of its parent, CWSG, and its sister subsidiaries which have 92 years of experience overseeing the operations of a regulated water distribution companies, and will bring this expertise to the acquired Stroh's Water water systems. Importantly, CWSG's executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee the operations acquired in the Stroh's Water Transaction through WWSC. CWSG executives understand how to plan for and build an efficient water distribution system and how to maintain that system to ensure safe and reliable service.

F. Notice to Customers

21 In accordance with WAC 480-143-210(1), notice of the transfer of ownership must be provided to customers thirty 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 Stroh's Water's customers at least 30 days in advance of that date. The draft Stroh's Water customer notice is included with this Application as Exhibit 6.

G. Exhibits

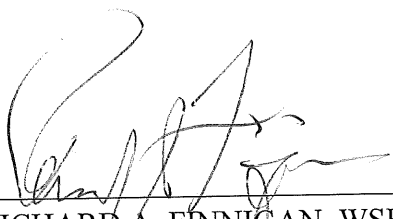
22 The following exhibits are included with this Application:

- Exhibit 1 — Stroh’s Water 2021 Annual Report (includes Financial Statements)
- Exhibit 2 — Stroh’s Water Asset Purchase Agreement (Confidential)
- Exhibit 3 — Stroh’s Water Schedules
- Exhibit 4 — WWSC Rules and Schedules
- Exhibit 5 — CWSG's 10-K for 2018
- Exhibit 6 — Draft Customer Notice
- Exhibit 7 – Stroh’s Water Asset Purchase Agreement Amendment 1

III. CONCLUSION

23 WWSC and Stroh’s Water respectfully request that the Commission approve this Application in accordance with RCW 80.12.020 and RCW 80.12.040, and WAC 480110-555, WAC 480-143-120, and WAC 480-143-130. The Stroh’s Water Transaction will not harm WWSC's customers or Stroh’s Water's customers, and will benefit Stroh’s Water's customers, and accordingly, the Stroh’s Water Transaction is consistent with the public interest.

Respectfully submitted this ^{5th} day of August, 2022.



RICHARD A. FINNIGAN, WSB #6443
Attorney for Applicants