

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

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

SEA VIEW WATER, LLC

To

CASCADIA WATER, LLC

DOCKET NO. UW-\_\_\_\_\_

APPLICATION FOR SALE AND  
TRANSFER OF ASSETS

**I. INTRODUCTION**

*I* 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, Northwest Natural Gas Company (“NW Natural” or “Company”) files this application requesting approval from the Washington Utilities and Transportation Commission (“Commission”) of the sale and transfer of assets from Sea View Water, LLC (“Sea View”) to Cascadia Water, LLC (“Cascadia”) (“Application”). Cascadia is a wholly-owned subsidiary of Northwest Natural Water, LLC (“NWN Water LLC”), which in turn is a wholly-owned subsidiary of NW Natural. Concurrent with the filing of this Application, NW Natural is also filing for regulatory approval for the sale and transfer of assets from Lehman Enterprises, Inc. (“Lehman”) to Cascadia, and NW Natural respectfully requests that these two applications be consolidated for purposes of processing the applications at the Commission.

2           In Docket UG-170094, NW Natural sought—and the Commission approved—authorization to reorganize into a holding company structure.<sup>1</sup> Once the holding company (“HoldCo”) is formed, Cascadia’s parent, NWN Water LLC<sup>2</sup> will be transferred to HoldCo, and thereafter HoldCo will be the 100 percent owner of both NW Natural and NWN Water LLC. NW Natural recently obtained shareholder approval to form HoldCo, and plans to do so before the end of this year. In the event that the Commission approves this Application before the formation of HoldCo, NW Natural requests that the Commission order in this proceeding also approve the subsequent transfer of ownership of Cascadia/NWN Water LLC (and Sea View) from NW Natural to HoldCo. If HoldCo is formed prior to the issuance of a Commission order in this proceeding, NW Natural requests that the Commission approve the transfer of ownership of Sea View to Cascadia/NWN Water LLC with HoldCo as the ultimate parent company.

3           In this Application, NW Natural presents both sides of the Sea View transaction for review by the Commission. First, NW Natural provides an analysis of the purchases by Cascadia/NWN Water LLC/NW Natural 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, NW Natural presents an analysis of the sale of utility assets by Sea View under RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120 to ensure that the selling utility’s customers will not be harmed. As described in detail in this Application, NW Natural’s customers will not be harmed, and Sea View’s

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<sup>1</sup> 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).

<sup>2</sup> NWN Water LLC is a non-operating entity formed solely to serve as a corporate platform to hold the stock of any water utility it may acquire.

customers will not be harmed and will benefit from new ownership, and thus Cascadia's acquisition of Lehman and Sea View is consistent with the public interest.

## II. DISCUSSION

### A. Description of the Sea View Transaction.

4 Sea View is a regulated water utility subject to the Commission's jurisdiction, which provides water service to approximately 190 residential customers on Whidbey Island in Island County. Sea View is currently owned by John Morgan and Jeff Breilein.

5 Cascadia is a wholly-owned subsidiary of NWN Water LLC, which in turn is a wholly-owned subsidiary of NW Natural. NW Natural is a utility that is subject to the Commission's jurisdiction under RCW 80.04.010. NW Natural's principal business office is located at 220 NW Second Avenue, Portland, Oregon 97209. Communications regarding this Application should be addressed to the following:

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6 The Sea View sale is structured as an asset purchase for cash consideration, in which NWN Water LLC will pay [Confidential] [REDACTED] [Confidential] to acquire substantially all the assets of Sea View, to be paid in cash at close. Additionally, NWN Water LLC will pay [Confidential] [REDACTED] [Confidential] for a 20-acre lot associated

with Sea View to be used as a future well site, to be paid in cash at close. The Asset Purchase Agreement between NW Natural Water Company, LLC and Sea View Water LLC (“Sea View Asset Purchase Agreement” or “Sea View APA”) was executed on May 11, 2018 and is attached to this Application as Confidential Exhibit 1. In this Application, the Sea View sale will be referred to as the “Sea View Transaction.”

7           After the Sea View Transaction is complete, Sea View will cease operating, and Cascadia provide water service to Sea View’s customers. Sea View’s customers’ water service will not be interrupted by the transition to Cascadia. Cascadia is proposing a new tariff which is included in this Application as Exhibit 2 (“Cascadia Tariff”). The Cascadia Tariff adopts Sea View’s tariff in its entirety, and proposes to adopt Sea View’s rates for customers on the legacy Sea View system as part of its tariff. Additionally, the Cascadia Tariff proposes to adopt Lehman’s tariff in its entirety for the customers on the legacy Lehman system so that those customers do not experience any change in service resulting from the acquisitions.

**B.     Applicable Legal Standard.**

8           In accordance with RCW Chapter 80.12.040 and WAC 480-143-130, Cascadia, as an indirect subsidiary of NW Natural, must obtain Commission approval prior to completing the purchase of Sea View, and in accordance with RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120, Sea View 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>3</sup> The Commission also considers “the new company’s financial and managerial fitness to run the operations.”<sup>4</sup>

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

9 As described above, Cascadia is a wholly-owned subsidiary of NWN Water LLC, which in turn is a wholly-owned subsidiary of NW Natural. Accordingly, NW Natural provides the following analysis demonstrating that NW Natural’s customers will not be harmed by the Sea View Transaction, and that the Sea View acquisition will have no impact on the Company’s ability to provide natural gas service. Additionally, NW Natural’s customers will benefit from the consolidated Company’s growth that it is seeking to achieve through its water utility acquisition strategy.

10 *First*, the Sea View acquisition will not in any way affect the financial, technical, or managerial abilities of NW Natural to continue to provide high-quality, reliable service to its LDC customers. After the Sea View acquisition is complete, the Company will continue to provide the same safe and reliable natural gas service to its customers that it has provided for over one hundred years. Importantly, day-to-day oversight of Sea View

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<sup>3</sup> WAC 480-143-170.

<sup>4</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)).

will be managed by Cascadia's team of local water utility professionals,<sup>5</sup> and therefore the operation of Sea View will not affect NW Natural's day-to-day operations.

11            **Second**, no costs associated with Sea View will be included in NW Natural's gas utility rates. Upon closing of the Sea View Transaction, NW Natural will observe all corporate separations and affiliated interest requirements as provided by the Commission's statutes and rules.<sup>6</sup> Following the corporate reorganization described above, NW Natural will be bound by the conditions described in its Amended Application in UG-170094 relating to the corporate and financial separation between NW Natural and its affiliates.

12            **Third**, the Sea View acquisition represents an important step in the Company's plan to enter the water utility business, and is therefore consistent with the Company's strategy for growth as described in its request for corporate reorganization. In particular, the Company 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 customer service to the Company's LDC customers. Importantly, NW Natural's executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee Sea View's operations. Both water and gas LDC businesses rely on maintenance of and investment in critical pipe infrastructure to drive organic growth. NW Natural understands how to plan for and build an efficient pipeline system and how to maintain that system to ensure safe and reliable

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<sup>5</sup> As part of the Company's proposed acquisition of Lehman, Lehman's current management team will become employees of Cascadia and provide management and operations oversight of the legacy Lehman and Sea View water systems, and provide local customer service support.

<sup>6</sup> RCW Chapter 80.16; WAC 480-110-545; WAC 480-110-575.

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 is familiar. For these reasons, NW Natural believes that its ownership of Sea View will result in a stronger, and more financially sound water company—and a stronger consolidated corporate structure.

13           **Finally**, in the event that NW Natural can achieve synergies through its water utility acquisition strategy, all of our customers should, over time, benefit from cost savings. Savings achieved will be passed through to NW Natural’s gas customers; Condition 36, in NW Natural’s Amended Application in UG-170094 specifically provides that any savings achieved by NW Natural as a result of HoldCo’s future mergers and acquisitions, to the extent they are greater than \$50,000 will be deferred and credited to Washington customers until NW Natural’s second rate case following the Commission’s order in docket UG-170094.<sup>7</sup> Thus, NW Natural’s gas utility customers may benefit from these acquisitions through reductions in costs that occur even before the Company’s next rate case is filed. After the Company’s second general rate case, the savings flowing from the Company’s water utility acquisitions will benefit customers through subsequent ratemaking proceedings.

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

14           Sea View’s customers will not be harmed by the Sea View Transaction, and will in fact benefit from new ownership.

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<sup>7</sup> *In the Matter of Northwest Natural Gas Company’s Application for Approval of Corporate Reorganization to Create a Holding Company*, Docket UG-170094, Supplement to Application at 10 (Dec. 21, 2017).

15           **First**, Sea View’s customers will experience no disruption in service and will not be harmed by the Sea View Transaction. Although Sea View will cease operating after the Sea View Transaction is complete, Sea View’s management team will continue to work for Cascadia for one year following the close of the Sea View Transaction to ensure a smooth transition to Cascadia. Additionally, Cascadia’s water utility Staff—which consists of the former water utility management team from Lehman—will provide operations and management support for the water system and customer service support for the benefit of customers. After the close of the Sea View Transaction, customers will interface with Cascadia. To help ensure a smooth transition, before closing the transaction, Sea View and Cascadia will send bill inserts describing the transaction and the process for the 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 Sea View’s customers related to Cascadia’s billing and payment practices. As a result of these efforts, Sea View’s customers will experience no disruption in service.

16           **Second**, Sea View customers will benefit from the utility industry experience of its affiliate, NW Natural. In particular, Sea View’s customers will benefit from NW Natural’s experience and expertise in planning for, building, and maintaining safe and reliable pipeline infrastructure. Sea View is currently in need of capital investment, and the current owners do not have the financial capacity to invest in the system. Cascadia, through its parent companies, NW Natural Water LLC and HoldCo, will be able to provide this investment over time, therefore benefiting Sea View’s customers.



17            **Third**, given the shared executive support among NW Natural and NWN Water LLC, Sea View’s customers will benefit from NW Natural’s depth of experience with regulatory compliance.

18            **Fourth**, Sea View’s customers will experience no immediate change in their water utility rates, and will receive service under Cascadia’s tariff, which will maintain the rates and charges from Sea View’s tariff with no proposed modifications.<sup>8</sup> Additionally, the Sea View Transaction does not include an acquisition adjustment, and HoldCo and NWN Water LLC commit that neither entity will propose to include any research and due diligence, negotiation, or other acquisition costs associated with the acquisition of Sea View in customer rates in any future rate case filing. Going forward with its growth strategy, HoldCo and NWN Water LLC 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/NWN Water LLC**

19            Financial Fitness of NWN Water LLC. Under the Sea View Transaction, Cascadia will acquire the Sea View system. Cascadia’s parent company, NWN Water LLC, is currently a wholly-owned subsidiary of NW Natural, which will be transferred to HoldCo immediately upon its formation. NW Natural or HoldCo will provide funds for NWN Water LLC to complete the Sea View Transaction, and thus NWN Water LLC is financially able to acquire Sea View. (See also Exhibit 3).

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<sup>8</sup> At some point in the future, Cascadia intends to migrate to a unified rate for the Sea View and Lehman systems, which will be proposed in a future rate case filing.

20            Financial Statements. NW Natural’s financial statements are included with this Application as Exhibit 3. Upon its formation, HoldCo will provide its financial statements to the Commission.

21            Experience in Utility Management. Sea View will be operated by Cascadia’s water utility personnel, which will be comprised of the former management team of Lehman that has over twenty years of experience running water distribution systems. For the first year following the close of the Sea View Transaction, Sea View’s current management will remain employees of Sea View to ensure a smooth transition to the new Cascadia management team. Additionally, Sea View 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 Sea View water systems. Importantly, NW Natural’s executives and board of directors have the regulatory, financial, operational, and engineering knowledge and expertise to effectively oversee Sea View’s operations. Both water and gas LDC businesses rely on maintenance of critical pipe infrastructure to drive organic growth. NW Natural’s 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 is familiar.

**F. Notice to Customers**

22            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 Sea View's customers at least 30 days in advance of that date. The Draft Sea View Customer Notice is included with this Application as Exhibit 3.

**G. Exhibits**

23 The following exhibits are included with this Application:


- Exhibit 1 – Sea View Asset Purchase Agreement (Confidential)
- Exhibit 2 – Cascadia Tariff
- Exhibit 3 – NW Natural Financial Statements
- Exhibit 4 – Sea View Annual Report (includes Financial Statements)
- Exhibit 5 – Draft Sea View Customer Notice

### III. CONCLUSION

24 NW Natural 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 Sea View Transaction will not harm NW Natural's customers or Sea View's customers, and will benefit Sea View's customers, and accordingly, the Sea View Transaction is consistent with the public interest.

Respectfully submitted this 17<sup>th</sup> day of July, 2018.

**MCDOWELL RACKNER GIBSON PC**



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