

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application for the Sale and Transfer of Assets from	DOCKET NO. UW-_____
ESTATES WATER SYSTEMS, INC.	APPLICATION FOR SALE AND 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 Estates Water Systems, Inc. (“Estates”) to Cascadia (“Application”).¹

2 In addition, as part of this Application, to achieve a more efficient organizational structure for Cascadia’s ownership of the Estates and other utility assets, Cascadia requests Commission approval pursuant to RCW 80.12.020 for a reorganization of Cascadia’s corporate structure—one which will have no practical impact on Cascadia’s operations or its customers. Cascadia is currently a wholly-owned subsidiary of NW Natural Water

¹ 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).

Company, LLC (“NWN Water”),² which in turn is a wholly-owned subsidiary of Northwest Natural Holding Company (“NW Natural Holdings”).³ Under the proposed reorganization, Cascadia will become a direct subsidiary of NWN Water of Washington, LLC (“Washington Water”)—another NWN Water subsidiary. 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.

3 Concurrent with the filing of this Application, Cascadia is also filing for regulatory approval for the sale and transfer of assets from Monterra, Inc. (“Monterra”) to Cascadia, and Cascadia respectfully requests that these two applications be consolidated for purposes of processing the applications at the Commission.

4 In this Application, Cascadia presents both sides of the Estates 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 Estates under RCW 80.12.020,

² 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 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.

³ 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).

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

II. DISCUSSION

A. Description of the Estates Transaction.

5 Estates is a regulated water utility subject to the Commission's jurisdiction, which provides water service to approximately 365 customers in or near Sequim, Washington. Estates currently is owned by Mr. Eric Thomas and Ms. Kim Thomas. A copy of the 2017 Annual Report of Estates 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

Lisa Rackner
McDowell Rackner Gibson PC
419 SW 11th Ave., Suite 400
Portland, OR 97205
Telephone: 503-595-3925
Facsimile: 503-595-3928
Email: 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

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

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

8 After the Estates Transaction is complete, Estates will cease operating as a water utility, and Cascadia will provide water service to Estates’ 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 Estates’ tariff, as included in this Application as Exhibit 4 (“Cascadia Tariff”). The Cascadia Tariff adopts Estates’ tariff in its entirety, and proposes to adopt Estates’ rates for customers on the legacy Estates system as part of its tariff. Additionally, the Cascadia Tariff proposes to adopt Monterra’s tariff in its entirety for the customers on the legacy Monterra 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.⁴

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 Estates, and in accordance with RCW 80.12.020, WAC 480-110-555, and WAC 480-143-120, Estates 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.⁵ The Commission also considers “the new company’s financial and managerial fitness to run the operations.”⁶

C. Cascadia’s Acquisition of Estates 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

⁴ Cascadia further understands that Estates’ preexisting tariff contains placeholder values that would similarly be updated on a consolidated basis in Cascadia’s next general rate case. *See, e.g.*, Exhibit 4 at 18 (showing placeholder value for monthly dwelling unit charge).

⁵ WAC 480-143-170.

⁶ *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)).

reorganization, Cascadia would become a direct subsidiary of Washington Water, which is a direct subsidiary of NWN Water. Accordingly, Cascadia provides the following analysis demonstrating that Cascadia's customers will not be harmed by the Estates Transaction, and that the Estates 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 Estates 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 Estates acquisition is complete, the Company will continue to provide the same safe and reliable water service to its customers. Importantly, Estates will be managed by Cascadia's team of local water utility professionals, and the operation of Estates will not affect Cascadia's day-to-day operations. Mr. Eric Thomas, the current owner representative of Estates, will continue to be involved in the operations of Estates.

12 **Second**, the Estates 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 Estates' 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 Estates will result in a stronger, and more financially sound water company—and a stronger consolidated corporate structure.

D. The Sale of Estates 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 Estates' customers will not be harmed by the Estates Transaction, and will in fact benefit from new ownership.

14 *First*, Estates' customers will experience no disruption in service and will not be harmed by the Estates Transaction. Estates 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 Estates, will continue to be involved in the operations of Estates. After the close of the Estates Transaction, customers will interface with Cascadia for billing. To help ensure a smooth transition, Estates and Cascadia, before closing the transaction, 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 Estates' customers

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 Estates' customers at least 30 days in advance of that date. The Draft Estates 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 – Estates 2017 Annual Report (includes Financial Statements)
- Exhibit 3 – Estates Asset Purchase Agreement (Confidential)
- Exhibit 4 – Cascadia Tariff
- Exhibit 5 – NW Natural Holdings' 10-K for 2018 (Placeholder)
- Exhibit 6 – Draft Estates 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 Estates Transaction will not harm Cascadia's customers or Estates' customers, and will benefit Estates' customers, and accordingly, the Estates 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

Attorney for Cascadia Water, LLC

NORTHWEST NATURAL

Eric W. Nelsen

Senior Regulatory Attorney

220 NW Second Ave

Portland, OR 97209