

Agenda Date: December 19, 2019
Item Number: A4

Docket: UW-190953
Company Name: Suncadia Water Company, LLC

Staff: Jim Ward, Regulatory Analyst
John Cupp, Regulatory Analyst

Recommendations

Grant the application for Sale and Transfer of Issued and Outstanding Membership Interest, of Suncadia Water Company, LLC, allow certain transactions prior to sale and transfer which are appropriate and non-regulated, and accept Adoption of Tariff as filed by Suncadia Water Company, LLC and NW Natural Water of Washington, LLC, on November 15, 2019, to become effective February 1, 2020.

Background

On November 15, 2019, Suncadia Water Company, LLC (Suncadia Water or company) and NW Natural Water of Washington, LLC (NW Natural Water of Washington) (collectively, the Applicants), filed with the Washington Utilities and Transportation Commission (commission) an application for sale and transfer of all issued and outstanding membership interests in Suncadia Water from New Suncadia, LLC (New Suncadia) to NW Natural Water of Washington pursuant to the provisions of RCW 80.12 (Application).

Suncadia Water serves approximately 1,400 customers near Cle Elum in Kittitas County. The Company's system is known as Suncadia Water Company (ID#AA317E). NW Natural Water of Washington intends to acquire all the issued and outstanding membership interests of Suncadia Water. If the commission approves the sale and transfer of Suncadia Water to NW Natural Water of Washington, NW Natural Water of Washington will be subject to any obligations the commission imposed on Suncadia Water.

Suncadia Water is a wholly owned subsidiary of New Suncadia, which operates the Suncadia Resort and develops residential homesites in a planned community. 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

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.

Discussion

The Applicants explained several benefits of the sale and transfer of all issued and outstanding membership interests. First, NW Natural Water of Washington desires to own and operate water systems on an ongoing basis and Suncadia Water's current owners no longer desire to own and operate the water system, as it is not a line of business that is aligned with New Suncadia's operational strengths. Second, NW Natural Water of Washington will be able to bring enhanced access to capital investment to Suncadia Water. Third, both water distribution and gas distribution businesses are largely regulated by public utility commissions—a regulatory environment with which NW Natural Water, NW Natural Water of Washington and NW Natural are familiar. Finally, NW Natural Water of Washington will maintain the current Suncadia Water staff who have performed operations and billing, and its staff is familiar with the company's operations. 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.

Suncadia Water notified its water utility customers of the sale and transfer of all issued and outstanding membership interests in a mailing on November 18, 2019. Suncadia Water's current rates and charges will not change as a result of this transaction and NW Natural Water of Washington or Suncadia Water will be required to notify all affected customers of any future rate increases. NW Natural Water of Washington will file with the commission the journal entries by which it proposes to record on its books the transfer all the issued and outstanding membership interests of water system, as authorized herein, within sixty (60) days of closing. The effective date for accounting purposes will be February 1, 2020.

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 the Application. New Suncadia currently owns all the issued and outstanding membership interests in Suncadia Environmental Company, LLC (SCE). SCE provide sewer and wastewater services to the Suncadia Master Planned Resort. New Suncadia is selling, and NW Natural Water of Washington is purchasing, all membership interests in SCE. SCE is not subject to the Commission's regulation.

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. The Suncadia Agreement shows 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 provided 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. Similarly, the transfer agreement shows that Suncadia Water currently owns a back-up generator and structure that are not included in its water utility 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 course. 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

regulated water utility service. 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(4) (the back-up generator does not exceed the jurisdictional threshold of the rule).

Suncadia Water also owns and operates the non-potable water system used to deliver irrigation water to the lakes that store water used to irrigate the Resort's golf courses. Suncadia Water currently provides this service at certain agreed-upon rates, but the Suncadia Water tariff does not include rates and charges for this service based upon the Commission's order in Suncadia Water's 2008 rate case, Docket UW-081226, Order 02. Under the agreement, Suncadia Water will continue to provide this service. The Commission does not impose tariffs on or regulate the rates and charges of this service. Any future tariff revisions for this service will be subject to review in a rate review.

Pursuant to RCW 80.12.020 and WAC 480-143-170, applicants proposing a transaction of this sort must "at least demonstrate no harm to the public interest."³ The commission also looks to the new company's financial and managerial fitness to run the operations.⁴

Customer Comments

On November 18, 2019, the company notified its customers of the proposed sale and transfer by mail. Customers were notified that they may contact John Cupp with questions or concerns.

General Comments

Two customers expressed concerns that the new company, being a for-profit corporation, would be interested in profit over public interest. Both were concerned that the company will be able to charge what the market will bear.

Staff Response

Staff explained that NW Natural Water of Washington will be regulated just as Suncadia Water is and will only be allowed a reasonable return on its investment.

Conclusion

Commission staff (staff) has reviewed the joint application and determined that the Applicants have sufficiently demonstrated there are substantial benefits to the transfer. Accordingly, staff recommends the commission grant the Applicants' Application.

Additionally, staff has reviewed and determined that certain transitions (as outlined above) prior to the sale and transfer of all issued and outstanding membership interest, are appropriate and consistent with regulatory practices.

³ *In Re Application of PacifiCorp & Scottish Power, LLC*, Docket UE-981627, Third Supplemental Order on Prehearing Conference at 2-3 (April 2, 1999).

⁴ *Id.*

These recommendations for approval shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this recommendation be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.

Recommendations

Therefore, staff recommends the commission grant the application for Sale and Transfer of Issued and Outstanding Membership Interest, of Suncadia Water Company, LLC, allow certain transactions prior to sale and transfer which are appropriate and non-regulated, and accept Adoption of Tariff as filed by Suncadia Water Company, LLC and NW Natural Water of Washington, LLC, on November 15, 2019, to become effective February 1, 2020.