

# AFFILIATED INTEREST CONTRACT APPLICATION

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DATE: March 27, 2024

COMPANY NAME: **Sunstone Water, LLC**  
ADDRESS: **250 SW Taylor St.**  
CITY, STATE, ZIP: **Portland, OR 97204**

Public Utility Commission of Oregon  
Filing Center  
P.O. Box 1088  
Salem, OR 97308-1088

**RE: Sunstone Water, LLC Affiliated Interest Application pursuant to ORS 757.495 and OAR 860-036-2210**

This affiliated interest application for an agreement between Sunstone Water, LLC (“Sunstone Water”) and NW Natural Water Services, LLC (“NW Natural Water Services”) is submitted to the Public Utility Commission of Oregon (“Commission”) in the manner and form indicated by OAR 860-036-2210.

## **Background**

On December 29, 2023, Sunstone Water acquired the assets of Hiland Water Corp. (“Hiland”).<sup>1</sup> These assets include five fully-regulated water systems<sup>2</sup> and one fully-regulated water and wastewater system,<sup>3</sup> as well as 18 service-regulated systems.<sup>4</sup> Sunstone Water is a wholly-owned subsidiary of NW Natural Water of Oregon, LLC (“NW Natural Water of Oregon”), which is a wholly-owned subsidiary of NW Natural Water Company, LLC (“NW Natural Water”), which is a wholly-owned subsidiary of Northwest Natural Holding Company. Sunstone is an affiliate of NWN Water Services.

With this application, Sunstone Water requests Commission approval to obtain shared services from NW Natural Water Services under the Services Agreement attached as Exhibit A. Under the Services Agreement, NW Natural Water Services began providing these services to Sunstone Water effective upon the close of the above-referenced transaction on December 29, 2023.

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<sup>1</sup> See UP 423, In the Matter of Hiland Water Corp Subsidiaries, Approving the Sale of Assets and Transfer of Exclusive Service Territory to Sunstone Water, LLC, Order No. 23-378 (entered October 20, 2023); and Compliance Filing made on January 2, 2024.

<sup>2</sup> Helton, Hillview, Shadow Wood, Westwood and Wilderness Canyon.

<sup>3</sup> Illahe Estates.

<sup>4</sup> Barger, Bear Creek, Boulder Creek, College Park, Echo Mountain, Fryer Hill, Heritage, JJ, Laurelwood (two systems), Lombard, Lorna, Penticton Estates, Quaker Meadows, Riverbend, Shady Cove, Stables at Coyote Run and Wyland.

## INFORMATION REQUIREMENTS

- (a) The applicant's exact name and the address of its principal business office;  
(*Utility's exact name and address.*)

Sunstone Water, LLC  
250 SW Taylor St.  
Portland, OR 97204

- (b) The name and address of the person authorized on the water utility's behalf, to receive notices, inquiries, and communications regarding the information;

Silas Olson  
General Manager  
Sunstone Water, LLC  
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Natasha Siores  
Senior Manager, Regulatory Affairs  
NW Natural  
250 SW Taylor Street  
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- (c) A statement describing the relationship between the water utility and the contracting entity as defined by ORS 757.015 and 757.490;

Sunstone Water is an Oregon limited liability corporation that is a wholly-owned subsidiary of NW Natural Water of Oregon, which is wholly-owned subsidiary of NW Natural Water. NW Natural Water Services also is a wholly-owned subsidiary of NW Natural Water, making Sunstone Water and NW Natural Water Services affiliates.

An affiliated interest relationship exists between Sunstone Water and NW Natural Water Services under ORS 757.015.

- (d) The amount, kind, and ratio to total voting securities held, if applicable;

Sunstone Water and NW Natural Water Services do not own voting securities of each other.

- (e) A list of all officers and directors of the affiliated interest who are also officers or directors of the applicant;

Sunstone Water and NW Natural Water Services share the following common officers or directors:

David Anderson, Sunstone Water Director, NW Natural Water Services Director  
Justin Palfreyman, Sunstone Water Director and Officer, NW Natural Water Services Director and Officer  
Kim Rush, Sunstone Water Director, NW Natural Water Services Director  
MardiLyn Saathoff, Sunstone Water Director, NW Natural Water Services Director

Brody Wilson, Sunstone Water Director and Officer, NW Natural Water Services  
Director and Officer  
Shawn Filippi, Sunstone Water Officer, NW Natural Water Services Officer

- (f) The pecuniary interest, directly or indirectly, of any officer or director who is a party to the contract;

No officer or director of Sunstone Water or NW Natural Water Services is a party to or has a pecuniary interest in the contemplated business transactions between Sunstone Water and NW Natural Water Services.

- (g) A description of the goods or services to be provided, the cost incurred in providing each of the goods or services, the market value of the goods or services if different from the costs, and the method or methods proposed for pricing those goods or services;

Before Sunstone Water's acquisition of Hiland's regulated assets, NW Natural Water Services was providing consulting services to Hiland Water. After Sunstone Water's acquisition of Hiland's regulated assets, NW Natural Water Services provides management and operations services to Sunstone Water.

Attached as Exhibit A is a copy of the proposed Management and Operations Agreement between Sunstone Water and NW Natural Water Services. This contract establishes the terms and conditions under which services are provided by NW Natural Water Services to Sunstone Water. NW Natural Water Services will, among other things:

- Assist with responsibility to operate and maintain, including all aspects of management.
- Assist with providing all services pertaining to customer service, billing, and collections.
- Assist with completing all tasks required to preserve and maintain the integrity of the assets.
- Assist with fulfilling all regulatory requirements.
- Assist with routine maintenance, treatment and testing services, repairs, and meter reading.
- Assist with the production and collection of monthly bills for utility customers.
- Assist with customer service for utility customers.
- Assist with regulatory reporting and compliance.
- Provide an operator of record for the Company and its subsidiaries as required by the Oregon Department of Environmental Quality and a qualified certified water operator to act as Direct Responsible Charge for the Oregon Health Authority.

- (h) An estimate of the amount the water utility will pay annually for the goods or services and the accounts in which it will record the charges;

Sunstone Water and NW Natural Water Services at this time do not have an estimate of the amount Sunstone Water will pay annually for the shared services provided by NW Natural Water Services. NW Natural Water Services was formed in 2023, and this is the first instance in which NW Natural Water Services, in addition to NW Natural Water, is providing shared services to one of NW Natural Water's regulated utilities (Sunstone Water).

- (i) The reasons, in detail, relied upon by the water utility for procuring the proposed goods or services from the affiliate and benefits, if any, utility customers and the general public will derive from the provision of goods or services,

Sunstone Water is an affiliate of NW Natural Water Services. Sunstone Water's customers will benefit from the expertise of NW Natural Water Services' experience and expertise in managing and operating the Sunstone Water assets when they were owned by Hiland Water. The Management and Operations Agreement enables the sharing of this expertise through a shared service framework.

- (j) A description of the procurement process and the reasons, in pertinent detail appropriate to the complexity of the procurement, relied upon by the water utility for procuring the proposed goods or services without a competitive procurement process, if such a process is not used.

As described above, absent the Management and Operations Agreement, Sunstone Water would be required to hire additional employees to independently provide the services.

- (k) Transfer prices in contracts or agreements for the procurement of goods or services under competitive procurement shall be presumed to be the market value, subject to evaluation of the procurement process;

The shared services pricing is based on the actual wages and benefits paid to the employees of NW Natural Water Services providing services to Sunstone Water, and these rates are market rates.

#### **ATTACHMENT**

- (l) A copy of the proposed contract or agreement between the water utility and the contracting entity; and

Please see enclosed Exhibit A - A copy of the proposed Management and Operations Agreement between Sunstone Water and NW Natural Water Services.

- (m) Copies of all resolutions of directors authorizing the proposed transactions and, if stockholders' approval has been obtained, copies of the resolutions approved by the stockholders.

Not applicable. No resolutions or stockholder approval was necessary.

For the reasons set forth above, **Sunstone Water, LLC** respectfully requests that the Commission issue an order approving the affiliated interest contract between **Sunstone Water, LLC** and **NW Natural Water Services, LLC**, pursuant to the provisions of ORS 757.495 and OAR 860-036-2210.

DATE: March 27, 2024

NAME OF COMPANY: Sunstone Water, LLC

/s/ Silas Olson\_\_\_\_\_

Silas Olson\_\_\_\_\_

General Manager\_\_\_\_\_

## MANAGEMENT AND OPERATIONS AGREEMENT

This Management and Operations Agreement (this “Agreement”) is made by and between Sunstone Water, LLC (“Purchaser”) and NW Natural Water Services, LLC (“Provider”) as of \_\_\_\_\_, 2024. Provider and Purchaser may each be referred to as a “Party” and, collectively, as the “Parties.” Provider is an affiliate of Purchaser. “Affiliates” means any entity that, directly or indirectly, controls, is controlled by or is under common control with, Provider.

### I. RECITALS

WHEREAS, Provider operates in the water services industry, and Purchaser is a water utility providing service in the State of Oregon;

WHEREAS, Provider’s officers and employees are familiar with and experienced in all facets of the water utility business and are qualified to aid, assist and advise Purchaser in its business operations;

WHEREAS, as a result of certain economies of scale and Provider’s experience and expertise, Provider is able to provide a range of management and operations services relating to Purchaser’s business, and Purchaser wishes to obtain these management and operations services from Provider;

WHEREAS, Purchaser cannot obtain superior quality and diversification of services on a comparable economic basis elsewhere; and

WHEREAS, Purchaser is a water utility regulated for rates and service by the Public Utility Commission of Oregon (“Commission”) and subject to Commission rules and regulations regarding affiliate interests;

**NOW, THEREFORE**, in consideration of the mutual covenants hereinafter contained, the Parties agree as follows:

### II. SERVICES

A. Provider shall make qualified employees available to perform or assist in the performance of services to be rendered for Purchaser by Provider under this agreement.

B. The services to be provided by Provider to Purchaser include, but are not limited to, the following:

1. Assist with responsibility to operate and maintain, including all aspects of management.
2. Assist with providing all services pertaining to customer service, billing, and collections.
3. Assist with completing all tasks required to preserve and maintain the integrity of the assets.
4. Assist with fulfilling all regulatory requirements.

5. Assist with routine maintenance, treatment and testing services, repairs, and meter reading.
6. Assist with the production and collection of monthly bills for utility customers.
7. Assist with customer service for utility customers.
8. Assist with regulatory reporting and compliance.
9. Provide an operator of record for the Company and its subsidiaries as required by the Oregon Department of Environmental Quality and a qualified certified water operator to act as Direct Responsible Charge for the Oregon Health Authority.

### **III. PRICING SERVICES**

- A. Services shall be rendered by the Provider for Purchaser at cost, without any profit markup. Services are rendered at cost and subject to review by the Commission during general rate cases.
- B. The following costs may be incurred by Purchaser for services rendered by Provider:
  1. Direct Costs - Costs incurred for services rendered by Provider for Purchaser that are attributable to Purchaser are assigned directly to Purchaser. For example, an employee of Provider may record his or her time directly to Purchaser for work performed repairing Purchaser's water distribution pipe.
  2. Common Costs - Costs incurred for services rendered by Provider for Purchaser that are not attributable to Purchaser shall be allocated amongst the entities benefitting from those services using the primary cost driver of the common costs, or a relevant proxy in the absence of a primary cost driver, to allocate costs between regulated and non-regulated services or products.

### **IV. PAYMENT FOR GOODS AND SERVICES**

In consideration for the services to be rendered by Provider for Purchaser as hereinbefore provided, the cost thereof will be accrued and allocated to Purchaser in the period the services are performed.

### **V. COMPENSATION AND EMPLOYMENT**

Regarding employees of Provider providing services to Purchaser:

- A. Provider will pay all wages, bonuses, and other compensation and provide employee benefits and will sponsor all employee benefit plans, including healthcare and 401(k) plans.
- B. Provider shall have authority over all decisions with respect to hiring, employing, setting the terms and conditions of employment, compensating, terminating, recruiting, interviewing, selecting, hiring, training, reprimanding, directing, controlling, and supervising.

- C. Provider will employ their services and these are not, and will not be deemed to be, employees of Purchaser, and are subject to Provider's rules, policies, and procedures regarding employment.
- D. Provider will comply with all applicable federal, state, and local laws applicable to them regarding compensation, hours of work, and other terms and conditions of employment. Provider will be solely responsible for all contributions, taxes, withholdings, assessments, and reporting obligations under all applicable federal, state, and local laws, including, without limitation, federal, state, and local income taxes, Social Security and Medicare taxes, payment of workers' compensation, disability benefit insurance, and unemployment insurance.

## **VI. FORCE MAJEURE**

Provider will not be responsible for the failure or delay in the performance of any particular service if caused by an act of God (including but not limited to fire, flood, hurricane, earthquake, drought, explosion, and unusually severe weather), acts or threats of terrorism, act of public enemy, war, hostilities, invasion, government acts or regulations, embargo, quarantine, epidemic, labor stoppages beyond its reasonable control, accident, or cause similar or dissimilar to the foregoing beyond its control. If Provider is rendered wholly or partially unable to carry out its obligations under this Agreement as a result of an event of Force Majeure, then its obligations pursuant to this Agreement will be suspended only during the continuance of such Force Majeure event, and for no longer period. Upon the commencement of such Force Majeure event, Provider will notify Purchaser and will resume performance of its obligations as soon as practicable.

## **VII. CONFIDENTIALITY**

The Parties acknowledge and agree that certain non-public information supplied by each to the other during the term of this Agreement may be proprietary or confidential. All such nonpublic information shall be received in confidence and kept confidential (unless otherwise required by applicable law and consistent with the Commission's mandate to ensure safe, reliable and high quality service at fair, just, reasonable and sufficient rates).

## **VIII. TERM OF AGREEMENT**

- A. This Agreement shall be retroactively effective as of December 29, 2023.
- B. This Agreement shall be the sole agreement by and between the Parties concerning the subject matter hereof and shall supersede all such prior agreements, written or oral.
- C. This Agreement shall continue in force and effect until terminated by either of the Parties hereto giving the other Party ninety (90) days' notice in writing. Alternatively, if either



Party ceases to be an Affiliate of the other Party at any time, then this Agreement shall be terminated automatically at such time without further action.

**IX. AMENDMENTS**

This Agreement may not be amended except in writing signed by both Parties.

**IN WITNESS WHEREOF**, the Parties have caused this agreement to be signed in their respective corporate names by their respective duly authorized officers as of the date first above written:

**PURCHASER:**

**SUNSTONE WATER, LLC**, an Oregon company

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Justin Palfreyman  
President

**PROVIDER:**

**NW NATURAL WATER SERVICES, LLC**

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Justin Palfreyman  
President