ORDER NO. 18 358

ENTERED SEP 26 2018

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UP 362

In the Matter of SALMON VALLEY WATER COMPANY, Application for Authorization of the Sale of Salmon Valley Water Company to NW Natural Water Company, LLC, Pursuant to ORS 757.480 and OAR 860-036-2120.	ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on September 25, 2018, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.

BY THE COMMISSION:

Michael Grant
Chief Administrative Law Judge

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Circuit Court for Marion County in compliance with ORS 183.484.

ORDER NO. 18 358

ITEM NO. CA9

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 25, 2018

REGULAR ____ **CONSENT** X **EFFECTIVE DATE** N/A

DATE: September 18, 2018

TO: Public Utility Commission

FROM: Stephanie Yamada

THROUGH: Jason Eisdorfer, Bryan Conway, and Bruce Hellebuyck

SUBJECT: SALMON VALLEY WATER COMPANY: (Docket No. UP 362) Requests Approval for the Sale of All Capital Stock in Salmon Valley Water Company to Northwest Natural Water Company, LLC.

STAFF RECOMMENDATION:

Staff recommends that the Public Utility Commission of Oregon (Commission) approve the sale of all issued and outstanding capital stock in Salmon Valley Water Company (Salmon Valley) to Northwest Natural Water Company, LLC (NWN Water) subject to the following conditions:

1. NWN Water is currently a subsidiary of NW Natural Gas Company (NW Natural), but will become a direct subsidiary of HoldCo upon formation of HoldCo. The acquisition of Salmon Valley may not close until after the formation of HoldCo and the transfer of NWN Water to HoldCo. Therefore, at the close of the transaction, Salmon Valley will be acquired by NWN Water and held indirectly under HoldCo. As a result, at no point will Salmon Valley be held directly or indirectly by NW Natural. Additionally, following the formation of HoldCo and close of the transaction, at no future point in time will Salmon Valley be held by NW Natural or any subsidiary of NW Natural.

2. Salmon Valley shall provide the Commission access to all books of account as well as all documents, data, and records that pertain to the transfer of properties or to transactions between Salmon Valley and NWN Water or any other affiliate.

3. Salmon Valley shall notify the Commission if substantive changes are made to the Stock Purchase Agreement between NWN Water and Salmon Valley (the SPA), including any material changes in price. Any substantive changes to the SPA terms that alter the intent or extent of the SPA from those approved herein

shall be submitted for approval in application for a supplemental order (or other appropriate form) in this docket.

4. Salmon Valley will provide notice to the Commission within 10 days of the close of the sale.

5. The Commission reserves the right to review for reasonableness all financial aspects of this arrangement in any rate proceeding.

6. Salmon Valley will not file a general rate case prior to one year after the closing date of the transaction. Salmon Valley will not file to increase any of its rates, charges, or fees prior to its first general rate case filing following the transfer of ownership.

7. Salmon Valley and NWN Water (including all the entities in the NW Natural corporate family) will not seek rate recovery of an acquisition adjustment (or goodwill) for the price paid for NWN Water's acquisition of Salmon Valley.

8. Approval of this transaction does not constitute a prudence finding with respect to Salmon Valley investments not yet included in rates.

9. Salmon Valley will file affiliated interest applications pursuant to ORS 757.495 and OAR 860-036-2210 within 90 days of closing for any transactions involving affiliates.[1]

10. Following the sale, Salmon Valley and its parent(s) shall remain separate legal entities.

11. Salmon Valley will maintain separate financial statements on a stand-alone basis, though Salmon Valley's financials may be included in the consolidated financial statements of its parent for financial reporting purposes.

12. Salmon Valley's books and records shall be available in accordance with the applicable uniform system of accounts, or, as appropriate, generally accepted accounting principles, noting that the water company will utilize a different system

[1] Several different relationships create an "affiliated interest" with a public utility pursuant to ORS 757.015. Applicable to this transaction are: "Every corporation five percent or more of whose voting securities are owned by any person or corporation owning five percent or more of the voting securities of such public utility or by any person or corporation in any chain of successive ownership of five percent or more of voting securities of such public utility," ORS 757.015(3); and given that each member of the Board of Directors of NWN Water is also an executive officer of NW Natural, "Every corporation that has two or more officers or two or more directors in common with such public utility," ORS 757.015(5).

of accounts than does its gas affiliate, NW Natural.

13. Salmon Valley shall not issue, secure, or guarantee the debt of NWN Water, NW Natural, HoldCo, or any other affiliate of Salmon Valley as defined in ORS 757.015 without prior approval of the Commission.

14. Salmon Valley shall not make any short-term loans to any affiliate, except as allowed pursuant to the Commission's affiliated interest statutes and rules.

15. Salmon Valley shall maintain its assets and liabilities, and books and records relating thereto, in such a manner that ascertaining or identifying its individual assets and liabilities as separate and distinct from those of its parent will not entail significant costs or difficulty.

16. NWN Water commits that Salmon Valley will not advocate for a higher cost of capital than would have prevailed for Salmon Valley absent NWN Water ownership.

17. Salmon Valley will track and exclude costs related to this transaction from rates.

DISCUSSION:

Issue

Whether the Commission should approve the sale of all issued and outstanding capital stock in Salmon Valley to NWN Water.

Applicable Rule or Law

ORS 757.480(5) and OAR 860-036-2120(1) require water utilities doing business in Oregon to obtain Commission approval prior to selling or otherwise disposing of the water utility. The Commission has traditionally applied a public interest "no harm" standard when considering whether or not to approve such a transaction.[2]

OAR 860-036-2120(3) requires the water utility or other party to the transaction to request authorization for the sale using the application form available on the Commission's website. Typically, the seller files the application for approval of the sale;

[2] *See In re Cline Butte Water, LLC*, OPUC Docket No. UP 345, Order No. 17-156 at 3-4 (May 1, 2017) ("[W]e apply a 'no harm' standard in approving water utility transfer applications").

however, it is permissible for the buyer to file the application on behalf of the seller as NW Natural has done in this particular filing.

Pursuant to OAR 860-036-2120(4), the utility must provide the Commission and its customers with notice of the sale no less than 60 days prior to the closing date of the transaction.

Analysis

Background
As noted above, in some cases, the buyer may file the application for approval of the sale of a water utility on behalf of the seller. In this case, "Salmon Valley [the seller] has requested that NW Natural [the buyer] request authorization for the sale on its behalf."[3]

Salmon Valley is a privately owned, rate-regulated water utility serving approximately 975 customers in the vicinity of Welches, Oregon. On January 17, 2018, NW Natural filed an application requesting approval of the sale of Salmon Valley to NWN Water (Application), where NWN Water was a direct subsidiary of NW Natural. Staff had concerns about the Application approach given that NW Natural had recently received Commission approval of a corporate reorganization pursuant to ORS 757.511, where "HoldCo" would be the parent of NW Natural and the parent of to-be-acquired, non-regulated businesses.[4] NW Natural was carefully ring-fenced from HoldCo so that future HoldCo acquisitions would be significantly less likely to impact NW Natural. However, based on the Application structure, it appeared that HoldCo would not be used to acquire Salmon Valley, rather NWN Water, a direct and wholly-owned subsidiary of NW Natural would be the acquirer of Salmon Valley.

As a result of productive discussions, on June 22, 2018, NW Natural filed an amended application (Amended Application), stating that its purpose was "to revise the Company's original request so that the approval for the sale of Salmon Valley is made contingent upon the formation of NW Natural's holding company, as authorized in Docket UM 1804."[5]

NW Natural also filed a separate application for approval of its acquisition of Salmon Valley pursuant to ORS 757.485 and OAR 860-027-0025 at the same time that it filed its initial Application. That separate application was docketed as UP 361. Staff and NW Natural agreed to take no action on UP 361 because the Amended Application clarifies that NWN Water, a subsidiary of HoldCo, will be the acquirer of Salmon Valley;

[3] Amended Application, Page 6, Lines 3-4.
[4] See proceedings in Docket No. UM 1804.
[5] Amended Application, Page 1, Lines 9-11.

therefore, ORS 757.485 is not implicated. Staff recommends that UP 361 be withdrawn by NW Natural, or that the Commission indicate in its UP 362 order that UP 361 is disposed of with no action taken. As discussed further below, NW Natural has confirmed through Information Request (IR) responses that Salmon Valley will at no time be a subsidiary of NW Natural (even indirectly through NWN Water); NW Natural therefore does not require regulatory approval to acquire Salmon Valley.

In this docket, Staff issued 35 IRs to NW Natural and 12 IRs to Salmon Valley. Staff reviewed the terms of the sale, corporate structure that will exist following the transaction, purchaser's financial position, scope and terms of the Stock Purchase Agreement, transfer pricing, public interest compliance, proposed capital improvements, customer issues, and records availability associated with the proposed transaction. Staff's analysis in each of these areas is discussed below.

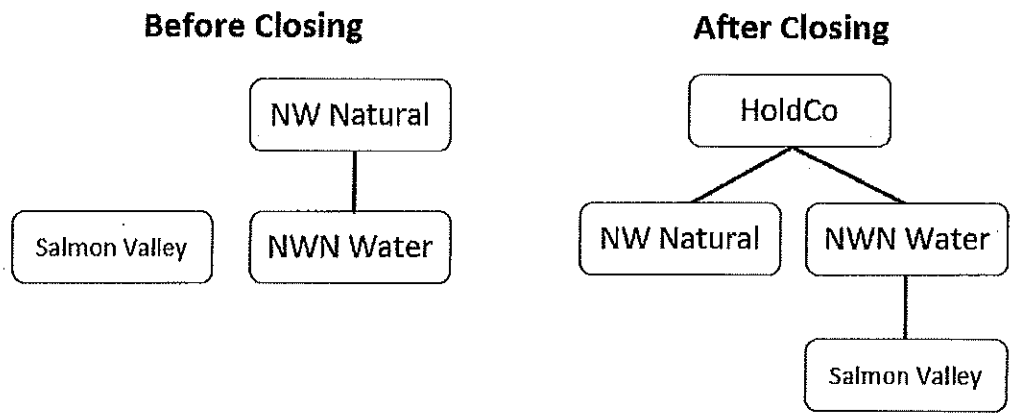
The Sale
The sale of Salmon Valley is structured as a stock sale for cash consideration. The current owner of Salmon Valley, JoAnn Bowman, seeks approval to sell all issued and outstanding capital stock of Salmon Valley to NWN Water. The Amended Application states that the reason for the sale is that "the current owner of Salmon Valley runs the utility as a family business, and desires to sell the water system because the owner believes it is in the best interest of the community, its customers and its stockholder."[6] The Stock Purchase Agreement (SPA) was executed on December 18, 2017, but the transaction cannot close without regulatory approval.

Salmon Valley currently has 2,267 shares of capital stock issued and outstanding. Ms. Bowman currently owns all issued and outstanding shares; each of three other shareholders sold 271.36 shares of issued and outstanding voting common stock in Salmon Valley to Ms. Bowman on December 16, 2017.[7]

Post-Transaction Corporate Structure
NWN Water, the purchaser, is currently a wholly-owned subsidiary of NW Natural. However, NW Natural has explained through IR responses that it is currently in the process of undergoing a corporate reorganization which will result in both NW Natural and NWN Water becoming wholly-owned subsidiaries in separate branches of a newly formed holding company (HoldCo).[8] NW Natural clarified in its Amended Application that as soon as HoldCo is legally formed, NWN Water "will be transferred to HoldCo,

[6] Amended Application, Page 7, Lines 9-11.
[7] *See* Attachment A, Salmon Valley's Response to Staff's IR 8 to Salmon Valley.
[8] *See* Order No. 17-526 in Docket No. UM 1804, NW Natural's Application for Approval of Corporate Reorganization to Create a Holding Company.

and thereafter HoldCo will be the 100 percent owner of both NW Natural and NWN Water."[9] At that time, NWN Water will cease to be a subsidiary of NW Natural and will instead become a "sister" affiliate of NW Natural. Importantly to Staff, especially in terms of timing, NW Natural explained that the sale of Salmon Valley will not close until *after HoldCo has been formed and NWN Water has been transferred to a HoldCo branch that is separate from NW Natural*, meaning that Salmon Valley will "for no duration of time, however limited, be a direct or indirect subsidiary" of NW Natural as a result of the SPA or as a result of the terms of HoldCo formation.[10] NW Natural "expects to effectuate the transfer of NWN Water LLC from a subsidiary of NW Natural to a subsidiary of holding company on the same day that the holding company structure is implemented."[11] The date on which NW Natural expects to implement the holding company structure, along with other transaction information designated as confidential, is provided separately in a confidential attachment to this memo.[12] The relationships between HoldCo, NW Natural, NW Natural Water, and Salmon Valley before and after the close of the sale are summarized in the diagram below.[13]



Following the transfer of stock, Salmon Valley will continue to exist in its current form with the name Salmon Valley Water Company, and will continue to own all utility property, easements, and water rights currently owned by Salmon Valley. In some cases, the sale of a utility may involve the sale of all of the utility's assets. However, because the present transaction is structured as a stock sale rather than a sale of assets, the assets currently held by the Salmon Valley entity will continue to be held by

[9] Amended Application, page 2, lines 1-2.
[10] *See* Attachment B, NW Natural's response to Staff's IR 8 to NW Natural.
[11] *See* Attachment C, NW Natural's response to Staff's IR 14 to NW Natural.
[12] *See* Attachment D, NW Natural's confidential response to Staff's IR 10 to NW Natural.
[13] The diagram does not include affiliated entities that are not relevant to the proposed sale of Salmon Valley. The full corporate structure of HoldCo and its subsidiaries is shown in confidential Attachment E, NW Natural's response to Staff's IR 16, Attachment 1.

the Salmon Valley entity following the sale. Staff notes that this is primarily an accounting distinction; by acquiring all issued and outstanding capital stock in Salmon Valley, NWN Water will effectively acquire complete control over Salmon Valley and all assets held by Salmon Valley.

Financial Position of Purchaser
NW Natural provided its financial statements as Exhibit C to the Amended Application. NW Natural later clarified that "[c]urrently, NW Natural's financial statements depict the financial condition for the consolidated entity (i.e. NW natural and all of its subsidiaries" and that upon HoldCo formation, "HoldCo's financial statements will be identical to NW Natural's financial statements today, as the HoldCo finances will depict the financial condition for the consolidated entity (i.e. HoldCo and all of its subsidiaries)."[14] Furthermore, the Amended Application states that "HoldCo will provide funds for NWN Water LLC to complete the Proposed Transaction, and thus NWN Water LLC is financially able to acquire Salmon Valley."[15] NW Natural also states that "NWN Water LLC's financial statements do not exist yet" and that "HoldCo will sufficiently capitalize NWN Water LLC before closing the transaction."[16] Staff reviewed NW Natural's financial statements and has no concerns regarding the financial ability of NWN Water to own Salmon Valley. Finally, NW Natural has confirmed for Staff that "The source of funds for the Salmon Valley acquisition is NW Natural's retained earnings ("shareholder dollars"), and no utility assets will be used to fund the Salmon Valley acquisition."

Scope and Terms of the Stock Purchase Agreement
All utility property currently owned by Salmon Valley is included in this transaction. This includes four groundwater supply wells, two storage tanks with 460 thousand gallons of combined capacity, and approximately 11 miles of distribution system pipelines. Staff reviewed the SPA and noted no unusual or restrictive terms to the agreement.

Transfer Pricing and Allocation of Gain
The sales price is confidential[17] and the book value of the Salmon Valley water system is $406,162. The net value of the assets to be transferred pursuant to the SPA (after adjusting for Contributions in Aid of Construction as well as certain non-plant assets) is provided separately in a confidential attachment to this memo.[18] Because the proposed transaction is taking place between NWN Water and Salmon Valley's current shareholder, there is no gain or loss on the sale of assets to be recorded on Salmon

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[14] *See* Attachment F, NW Natural's response to Staff's IR 19 to NW Natural.
[15] Amended Application, Page 8, Lines 11-12.
[16] *See* Attachment G, NW Natural's response to Staff's IR 22 to NW Natural.
[17] *See* Attachment H, Confidential Exhibit J in Docket No. UP 361.
[18] *Id.*

Valley's accounting records. However, as the acquirer, NWN Water will record the difference between the purchase price and the net value of the assets on its books as goodwill.[19] The dollar amount of goodwill to be recorded in NWN Water's books is shown separately in a confidential attachment to this memo.[20] All parties agree that goodwill is not allowed in customer rates.[21]

Public Interest Compliance
Salmon Valley and NW Natural expect the proposed transaction to be seamless from the customers' perspective, and assert that customers of Salmon Valley will experience no interruption in service due to NW Natural's acquisition of Salmon Valley. This is because no immediate changes to Salmon Valley's management, rates, service, or billing system are expected, and customers will maintain the ability to pay bills online as they have in the past. Furthermore, the Amended Application states that Salmon Valley will retain its current management, water master, and independent contractors, who will remain available for customer service and emergency response just the same as before the sale of Salmon Valley.[22]

In addition to retaining Salmon Valley's current employees for the purpose of continuity and maintaining water utility expertise, NW Natural states that Salmon Valley will "also benefit from the utility industry expertise of the officers of NWN Water LLC and the access to resources and capital that the holding company structure will provide."[23] Each member of the Board of Directors of NWN Water is also an executive officer of NW Natural.[24] NW Natural states that its "executives (and thus, the shared executive team) understand how to plan for and build an efficient pipeline system and how to maintain that system to ensure safe and reliable service."[25] NW Natural also notes that it is familiar with the regulatory environment for public utilities due to its experience with its regulated gas operations.[26] Because the proposed transaction will result in Salmon Valley retaining its current employees who possess familiarity with the utility's day-to-day operations, while gaining access to NW Natural executives who are experienced in utility operation and regulatory matters, Staff finds that Salmon Valley will be able to operate normally following the transfer of ownership and customers will not be harmed.

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[19] *See* Attachment I, NW Natural's response to Staff's IR 25 to NW Natural.
[20] *See* Attachment H, Confidential Exhibit J in Docket No. UP 361.
[21] Docket No. UM 1209, Order No. 06-082 at 12-13 (Feb. 24, 2006) (the Commission explained: "we cannot foresee a situation in which this Commission would include the acquisition premium in rates. It is a significant policy of this Commission to not include goodwill in rates.")
[22] Amended Application, page 8, lines 2-5.
[23] *See* Attachment J, NW Natural's response to Staff's IR 28 to NW Natural.
[24] *See* Attachment K, NW Natural's response to Staff's IR 33 to NW Natural.
[25] Amended Application, Page 9, Lines 5-7.
[26] Amended Application, Page 9, Lines 7-9.

The Amended Application states that "Salmon Valley customers will experience no immediate change in their water utility rates."[27] As noted previously, NWN Water will record goodwill on its books resulting from its acquisition of Salmon Valley. However, NW Natural states that "[g]oodwill will not be included in the rate base of Salmon Valley in future rate case filings."[28] NW Natural also states that "[t]he acquisition has no impact on NW Natural Gas Company and, as such, it will have no impact on customers' rates."[29] Furthermore, NWN Water commits that Salmon Valley will not file a general rate case prior to one year after the closing date of the transaction. This stay-out period will allow Salmon Valley's costs under new ownership to be recorded for a period of time so that any change in operating costs resulting from the transfer of ownership can be reflected in Salmon Valley's next general rate proceeding. Staff supports this approach because it will help to ensure that the rates established in Salmon Valley's next rate proceeding accurately reflect costs under NWN Water ownership, and will enable any operating efficiencies gained from NWN Water ownership to be reflected in rates going forward.

Proposed Capital Improvements
As summarized in the table below, Salmon Valley and NW Natural have identified several capital improvement projects which they assert are necessary for service, and are expected to take place between 2018 and 2020.[30]

Project	Estimated Cost	Estimated Time to Complete
Completion of new well	$ 400,000	1 Month
Improvements to tank road	$ 20,000	1 Month
Distribution line replacements	$ 300,000	Not available
Install water treatment system	$ 200,000	Not available
Total	**$ 920,000**	

Salmon Valley states that the new well is necessary because the utility is in need of additional water supply, especially in the peak summer months.[31] Salmon Valley also states that improvements to the tank road are necessary because access to the road is dangerous in inclement weather, and that distribution line replacements are necessary to address deferred maintenance issues.[32] Finally, Salmon Valley asserts that the

[27] Amended Application, Page 4, Lines 21-22.
[28] *See* Attachment L, NW Natural's response to Staff's IR 26 to NW Natural.
[29] *Id.*
[30] *See* Attachment M, Salmon Valley's response to Staff's IR 6 to Salmon Valley.
[31] *Id.*
[32] *Id.*

installation of a water treatment system is needed to treat water for iron content and to ensure that other National Secondary Drinking Water Regulations remain at acceptable levels.[33]

Staff notes that small water utilities often have very limited access to capital when compared to larger utilities. As such, Salmon Valley will likely have significantly improved access to capital under NWN Water ownership (a subsidiary of HoldCo) than it would otherwise.

Customer Issues
Salmon Valley provided notice to customers of the proposed sale via first class mail on March 1, 2018.[34] The notice contained the information required by OAR 860-036-2120(4) and was provided more than 60 days prior to the closing date of the sale. The notice is also posted on Salmon Valley's website.

The Commission received no customer complaints pertaining to the proposed sale of Salmon Valley, but one customer contacted the Commission to seek information about the potential for rate increases as a result of the transfer of ownership. A Consumer Services representative spoke with the customer and answered the customer's questions regarding the proposed transfer of ownership. The Consumer Services representative also provided the customer with instructions for accessing the UP 361 and UP 362 docket information on the PUC website. The customer's needs appear to have been satisfied by speaking with the Consumer Services representative, and the customer did not contact the Commission again regarding the proposed sale.

Records Availability, Audit Provisions, and Reporting Requirements
The Conditions for approval of the sale, listed at the beginning of this Staff Report, afford the necessary Commission examination of Salmon Valley's books and records concerning the sale.

Conclusion

Staff finds that the sale of Salmon Valley to NWN Water will cause no harm to Salmon Valley customers and not result in diminished service or increased rates for customers. NWN Water and Salmon Valley appear to possess the necessary expertise and financial position to ensure that Salmon Valley will continue to operate normally following the transfer of ownership. Furthermore, the Conditions for approval of the sale above ensure that neither goodwill nor costs relating to the transfer of ownership will be included in Salmon Valley's rates. Customer rates will also not change until the

[33] *Id.*
[34] *See* Attachment N, Salmon Valley's response to Staff's IR 9 to Salmon Valley.

conclusion of Salmon Valley's next rate proceeding, during which the utility's costs can be thoroughly vetted. Consequently, Staff finds that the sale of all capital stock in Salmon Valley to NWN Water meets the public interest, no harm standard, and should be approved.

PROPOSED COMMISSION MOTION:

Approve the sale of all capital stock in Salmon Valley to NWN Water, a direct subsidiary of HoldCo and sister affiliate of NW Natural, subject to the seventeen Conditions listed in Staff's recommendation.

UP 362.Salmon Valley Sale

Docket No.	Staff Request Nos.	Response Due By
UP 362	IR 1-12	April 25, 2018

8. Page 1 of the Application for the Sale of Salmon Valley Water Company states that "Salmon Valley is currently owned by a single shareholder, JoAnn Bowman." However, Page 5 of Salmon Valley's 2016 Annual Results of Operations Report shows ownership of Salmon Valley as being distributed among multiple shareholders. Regarding the transfer of stock from all other shareholders to JoAnn Bowman,

   a. When did each stock transfer take place?

   b. Please provide the dollar amount of consideration and the number of shares exchanged for each stock transfer.

Response:

8. Stock transfers from Kimberly Beckwith, Cindy Nylen, and Becky Downard ("shareholders") to JoAnn Bowman occurred on December 16, 2017. Each shareholder sold 271.36 shares of issued and outstanding voting common stock of the Company to JoAnn Bowman. The consideration paid to each shareholder in exchange for the shareholders' 271.36 shares was $31,116.85.

NW Natural®

Rates & Regulatory Affairs
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Data Request Response

Request No.: UP 362 OPUC IR 8
8. In a telephone conversation with NW Natural Gas Co, NW Natural Gas Co represented that the sale of Salmon Valley will not close until (1) after HoldCo has been formed and (2) until after NWN Water LLC has been transferred from its current position as a subsidiary of NW Natural Gas Co to its final position as a subsidiary of HoldCo. Please confirm the following:

a. That the above statement in IR 8 is true and accurate. If not, please explain.

b. That Salmon Valley will for no duration of time, however limited, be a direct or indirect subsidiary of NW Natural Gas Co as a result of the Stock Purchase Agreement for Salmon Valley that was submitted confidentially with the Application, or as a result of the terms of HoldCo formation.

Response:

a. NW Natural confirms that the sale of Salmon Valley will not close until (1) after HoldCo has been formed and (2) until after NWN Water LLC has been transferred from its current position as a subsidiary of NW Natural Gas Co to its final position as a subsidiary of HoldCo.

b. NW Natural confirms that Salmon Valley will for no duration of time, however limited, be a direct or indirect subsidiary of NW Natural Gas Co as a result of the Stock Purchase Agreement for Salmon Valley that was submitted confidentially with the Application, or as a result of the terms of HoldCo formation.

NW Natural

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Data Request Response

Request No.: UP 362 OPUC IR 14
14. When will NW Natural Gas Co actually effectuate such transfer (NWN Water LLC over to HoldCo) described in IR 13?

Response:

NW Natural expects to effectuate the transfer of NWN Water LLC from a subsidiary of NW Natural to a subsidiary of holding company on the same date that the holding company structure is implemented. [Confidential begins] [redacted] [Confidential ends].

NW Natural

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Data Request Response

Request No.: UP 362 OPUC IR 10
10. What is the exact date on which HoldCo will be formed?

Response:

NW Natural's most recent Form 10-Q filed with the United States Securities and Exchange Commission states that NW Natural expects to implement the holding company structure on October 1, 2018 or at the beginning of 2019. [Confidential Begins] [redacted] [Confidential Ends]

Attachment E is confidential and is subject to

Protective Order No. 18-022.

NW Natural

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Data Request Response

Request No.: UP 362 OPUC IR 19
19. In Exhibit C of the Amended Application NW Natural Gas Co provided the financial statements for NW Natural Gas Co. However, NW Natural Gas Co will not be the parent of Salmon Valley; rather, a newly formed holding company shell (HoldCo) will be the ultimate parent of Salmon Valley. Please provide a narrative explanation answering the following:

a. Why should Staff rely on financial statements of a sister affiliate company (NW Natural Gas Co) of Salmon Valley in its assessment of whether HoldCo, the acquirer of Salmon Valley, is appropriately capitalized and currently has the financial resources necessary to provide safe and reliable service to Salmon Valley?

b. Is HoldCo in an appropriate financial position to acquire and hold Salmon Valley such that Salmon Valley customers will not be harmed? If yes, please explain.

c. Why should Staff rely on financial statements of a sister affiliate company (NW Natural Gas Co) to NWN Water LLC in its assessment of whether NWN Water LLC, the immediate parent of Salmon Valley, is appropriately capitalized and currently has the financial resources necessary to provide safe and reliable service to Salmon Valley?

d. Is NWN Water LLC is in an appropriate financial position to acquire and hold Salmon Valley such that Salmon Valley customers will not be harmed?19. In Exhibit C of the Amended Application NW Natural Gas Co provided the financial statements for NW Natural Gas Co. However, NW Natural Gas Co will not be the parent of Salmon Valley; rather, a newly formed holding company shell (HoldCo) will be the ultimate parent of Salmon Valley.

Response:

a. Currently, NW Natural's financial statements depict the financial condition for the consolidated entity (*i.e.* NW Natural and all of its subsidiaries). After the reorganization, HoldCo's financial statements will be identical to NW Natural's financial statements today, as the HoldCo finances will depict the financial condition for the consolidated entity (i.e. HoldCo and all of its subsidiaries).

b. Yes, see NW Natural's response to 19a.

c. See NW Natural's response to 19a.

d. Yes, NWN Water LLC is an appropriate position to acquire and hold Salmon Valley such that Salmon Valley's customers will not be harmed because NWN

Water LLC will be financially backed by its parent company, HoldCo. See also NW Natural's response to IR 23.

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Data Request Response

Request No.: UP 362 OPUC IR 22
22. Please provide the financial statements for NWN Water LLC and its capitalization. If this information is not available because it does not exist, please explain what NWN Water LLC's capitalization will be on the date it is transferred below HoldCo.

Response:

NWN Water LLC's financial statements do not exist yet. HoldCo will sufficiently capitalize NWN Water LLC before closing the transaction.

Attachment H is confidential and is subject to

Protective Order No. 18-022.

NW Natural

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Data Request Response

Request No.: UP 362 OPUC IR 25
25. Please explain why NW Natural Gas Co agreed to a purchase price for Salmon Valley that significantly exceeds the net book value of Salmon Valley's assets. On whose books will the goodwill from this transaction be booked?

Response:

The acquisition price is based on negotiations with the seller and supported by a fundamental valuation of the projected cash flows of the business over a long-term period. The assets, while heavily depreciated, are still in use. The goodwill from the transaction will sit on the books of NW Natural Water Company, LLC.

NW Natural®

Rates & Regulatory Affairs
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Data Request Response

Request No.: UP 362 OPUC IR 28
28. Does NWN Water LLC possess the necessary expertise to own and operate a water utility? Please explain. Please provide the credentials and describe the experience of employees that will be involved with NWN Water's ownership and operation of Salmon Valley.

Response:

NWN Water LLC is not an operating entity with employees that will be engaged in day-to-day operations of Salmon Valley. NWN Water LLC is an intermediate holding company that will access capital needs for Salmon Valley. Salmon Valley has the necessary expertise to operate a water utility, and it will retain that expertise because the employees of Salmon Valley remain at the company after the acquisition. Salmon Valley will also benefit from the utility industry expertise of the officers of NWN Water LLC and the access to resources and capital that the holding company structure will provide. Further, NWN Water LLC and NW Natural will share common executive team members – all of whom have substantial experience overseeing the operations of a regulated Oregon distribution company – and will bring this expertise to bear for Salmon Valley. Additionally, there will be other executive and employee support among NW Natural and NWN Water LLC that have expertise in regulatory, financial, operational, and engineering disciplines to effectively oversee Salmon Valley's operations.

NWN Water LLC's executive team is comprised of:

Justin Palfreyman, President;

Brody Wilson, Treasurer;

Shawn Filippi, Corporate Secretary;

Alison Pear, Assistant Corporate Secretary.

The Board of Directors for NWN Water LLC is provided in response to IR 31.

NW Natural

Rates & Regulatory Affairs
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Data Request Response

Request No.: UP 362 OPUC IR 33
33. Please provide the names, titles, and experience related to the operation and maintenance of water utilities of all members of NWN Water LLC's Board of Directors.

Response:

The members of the Board of Directors of NW Natural Water Company, LLC are:

David H. Anderson, Chair;

Frank H. Burkhartsmeyer, Director;

Lea Anne Doolittle, Director; and

MardiLyn Saathoff, Director.

Each member of the Board of Directors is an executive officer of Northwest Natural Gas Company, and collectively the Board of Directors has decades of experience in the operation and maintenance of regulated utilities, primarily those located in the Pacific Northwest. Their biographical information, including title and experience, is available on Northwest Natural Gas Company's website at http://www.snl.com/irweblinkx/od.aspx?iid=4057132.

NW Natural

Rates & Regulatory Affairs
UP 362
Sale of Salmon Valley
Data Request Response

Request No.: UP 362 OPUC IR 26
26. Regarding the portion of the purchase price that exceeds the net book value of Salmon Valley's assets, please confirm that no entity (Salmon Valley, NWN Water LLC, HoldCo, nor NW Natural Gas Co) will seek to include the goodwill and/or amount over net book value in either NW Natural Gas Co.'s or Salmon Valley's customers' rates in any future rate proceeding.

Response:

Goodwill will not be included in the rate base of Salmon Valley in future rate case filings. The acquisition has no impact on NW Natural Gas Company and, as such, it will have no impact on customers' rates.

Docket No.	Staff Request Nos.	Response Due By
UP 362	IR 1-12	April 25, 2018

6. Page 3 of the Application for the Sale of Salmon Valley Water Company states that "Salmon Valley is currently in need of capital investment, which NW Natural intends to provide over time, therefore benefiting Salmon Valley's customers." Please describe the capital investments needed by Salmon Valley, and for each project identified, please provide

   a. An explanation for why the project is necessary,

   b. The estimated cost of completing the project,

   c. An approximate date on which the project will commence,

   d. The estimated time it will take to complete the project, and

   e. A reference to a discussion of the project in Salmon Valley's Master Plan.

Response:

6. In the near term (2018-2020), the Company and NW Natural have identified the following projects:

   Completion of new well.

   a. The Company is in need of additional supply, especially in the peak summer months.

   b. Up to $400,000 for completion of the well.

   c. September 2018.

   d. 1 month.

   e. Please see Section 5 of the 1996 Master Plan for Existing and Future Water Deficiencies. The Company intends to update its Master Plan, which will more accurately capture current distribution system needs.

   Improvements to tank road.

   a. Access to tank road is dangerous in inclement weather.

   b. Up to $20,000.

c. Summer 2018.

d. 1 month.

e. This improvement is not identified in the 1996 Master Plan.

Distribution Line Replacements

a. Address deferred maintenance.

b. Approximately $300,000.

c. 2018-2020.

d. The Company does not have a projection at this time.

e. Please see Section 6 of the 1996 Master Plan for Alternatives and Costs for Correcting Deficiencies. The Company intends to update its Master Plan, which will more accurately capture current distribution system needs.

Install Water Treatment System

a. Needed to treat water for iron content and ensure other National Secondary Drinking Water Regulations levels remain at acceptable levels.

b. Approximately $200,000.

c. 2018-2020.

d. The Company does not have a projection at this time.

e. This improvement is not identified in the 1996 Master Plan.

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UP 362	IR 1-12	April 25, 2018

9. Regarding the customer notice provided with the Application for the Sale of Salmon Valley Water Company,

   a. On what date was the notice provided to customers?

   b. In what format was the notice provided to customers (e.g., bill insert, separate mailer, website posting, etc.)?

   c. If any changes were made to the notice attached to the application, please provide a copy of the revised notice.

Response:

9. The customer notice provided with the Application for the Sale of Salmon Valley Water Company was provided to the Company's customers via first class mail on March 1, 2018. The notice is also posted on the Company's website and was posted on the website beginning March 5, 2018. There were changes made to the notice that was provided to customers from the notice that was attached to the Company's application. The revised notice is attached as Exhibit B.