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To: [PUC PUC Hearings * PUC](#)
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In May 2019, NW Natural Water Company, LLC, a subsidiary of NW Natural Holdings, acquired Sunriver Water, LLC and Sunriver Environmental, LLC. It has now filed for a rate increase (docket UW 186). The following remarks are hereby submitted as public comment.

NW Natural has filed to increase the rates paid by Sunriver Water customers in an amount it estimates will equal 41.90% for an average three-quarter inch (3/4") residential water connection "because current revenues are insufficient to cover the ongoing cost of continuing to provide safe, reliable and adequate service while allowing an opportunity for a reasonable return on the Company's needed capital investment."

That is over eight times the 5.17% rate of inflation from September 2018 through August 2021 (the roughly three years NW Natural has owned Sunriver Water) according to the US Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) for the western United States (http://data.bls.gov/servlet/SurveyOutputServlet?data_tool=dropmap&series_id=CUUR0400SA0,CUUS0400SA0 - All items in West urban, all urban consumers, not seasonally adjusted).

The increase is on top of an 8.79% increase approved by the PUC in 2017 (<http://apps.puc.state.or.us/edockets/orders.asp?OrderNumber=17-497>) and a 42.10% increase approved by the PUC in 2006 (<http://apps.puc.state.or.us/edockets/orders.asp?OrderNumber=06-678>). Combined, the three represent a 92.79% increase over a period of 15 years which is over twice the rate of inflation for the same period using an average annual inflation rate of 3%.

Furthermore, the claim that current revenues are insufficient to cover ongoing costs and provide a reasonable return is curious given other statements made by NW Natural.

In a press release dated October 15, 2018 (<http://www.nwnaturalwater.com/news-blog/nw-natural-water-to-purchase-water-and-wastewater-companies-in-sunriver-oregon>), NW Natural noted its acquisition of Sunriver Water would be its "fifth announced acquisition within the past year, and its first in the wastewater sector", adding that "these aggregate acquisitions are projected to be accretive [i.e. result in a gradual increase] to NW Natural Holdings' earnings per share in the first full year of operations." Notably absent is any statement indicating NW Natural projected its acquisitions would deliver insufficient revenue in less than three years.

In a press release dated March 22, 2019, NW Natural characterized its water utility acquisitions as "well-managed, well-positioned water systems" (<http://www.globenewswire.com/news-release/2019/03/22/1759783/0/en/NW-Natural-Water-Signs-Agreements-to-Purchase-Water-Companies-in-Idaho-and-Washington.html>). There was no mention these systems were evidently poorly managed with inadequate maintenance, in need of substantial capital investment, and at risk of insolvency due to insufficient revenue from operations.

In its May 7, 2019, earnings call (<http://www.fool.com/earnings/call-transcripts/2019/05/07/northwest-natural-holding-co-nwn-q1-2019-earnings.aspx>), NW

Natural CEO David Anderson boasted to investors that "through...water acquisitions, we are adding an earnings stream that has a low risk and strong cash flow profile, much like our regulated natural gas utility", adding, "I've been very pleased with the receptivity of sellers, the commissions and other stakeholders in the water sector."

On November 5, 2020, NW Natural reported it spent \$38.1 million in the first nine months of 2020 to acquire water and wastewater utilities and still expected its 2020 full-year earnings to be \$2.25 to \$2.45 per share (<http://apnews.com/press-release/business-wire/business-virus-outbreak-government-business-and-finance-state-governments-government-taxation-and-revenue-9693b1b3120b493dac6722ef7d9ca822>).

In a January 2021 Investor Presentation

(http://s23.q4cdn.com/611156738/files/doc_presentations/2021/01/Jan-IR-Deck_FINAL.pdf), NW Natural noted it has "increased dividends for the 65th consecutive year with an annual indicated dividend rate of \$1.92 per share" and in a similar March 2021 presentation (http://s23.q4cdn.com/611156738/files/doc_presentations/2021/03/March-IR-Deck_FINAL.pdf), NW Natural reported "net income from continuing operations of \$2.30 per share for 2020 reflecting contributions from Oregon 2020 and Washington 2019 rate cases and customer growth...."

A few months later, on May 5, 2021, NW Natural reported it expects its 2021 full-year earnings to be \$2.40 to \$2.60 per share

(<http://www.columbian.com/news/2021/may/05/northwest-natural-sees-q1-profit/>) and reaffirmed this on August 5, 2021

(<http://www.businesswire.com/news/home/20210805005252/en/NW-Natural-Holdings-Reports-Second-Quarter-2021-Results>).

In its filing, NW Natural states its proposed rate includes a "usual, customary and reasonable return based on the level of risk involved in the water industry. These risks include global climate changes, environmental changes, local and global weather fluctuations, natural disasters, changes in the regulatory and legal environments at the national, state and local levels, customer usage variations, and volatility of the housing market; all of which have a disproportionately large impact on smaller utilities such as Sunriver Water."

However, in a June 2021 Investor Presentation

(http://s23.q4cdn.com/611156738/files/doc_presentations/2021/06/June-IR-Deck_FINAL.pdf) NW Natural describes the value of it acquired systems, noting "demand for water and wastewater is relatively inelastic" and water systems deliver "stable, predictable cash flows". It also claims "existing constructive relationships with regulators that can be extended to [the] water sector" and that water systems are expected "to be an earnings driver and opportunity to deploy capital at attractive rates".

If, in fact, water systems are beset by the many risks described by NW Natural in its filing, it is difficult to understand why NW Natural has embarked on a whirlwind acquisition program that has seen the purchase of 18 water systems since 2018 (an average of over four systems per year) with the purchase of three more systems currently pending.

NW Natural Water also promotes any expenditure made for its own benefit as a cost incurred for the benefit of its customers, pointing to having made "substantial investment[s] in its water system and completed several key infrastructure projects that enhance service and benefit our

customers" including:

1. Launching a new billing system, which allows our customers to receive letter size bills, set up AutoPay and paperless billing, view their entire account history, and pay on-line;
2. Upgrading the Geographic Information System (GIS), which reduces the time needed to find and repair leaks, resulting in much shorter water shut-off times;
3. Installing a SCADA (telemetry) system, which allows our operators to view and monitor the water system in real time – which is critical to ensuring safe system operations;
4. Another major investment is the addition of a new well #15 (formerly known as the Test Well), which will help maintain and strengthen service reliability;
5. Starting to replace older meters with wireless read meters, since winter snowfalls often make meter reading impossible for several months of the year; and
6. Completing a master plan that takes a comprehensive look at all aspects of the water system and identifies in detail how the system operates to continue providing safe and reliable water to the community.

However, it should be obvious these "customer benefits" overwhelmingly accrue to NW Natural, not its customers. For example, while AutoPay allows customers to avoid initiating payment and the availability of paperless billing may meet some customers' environmental expectations, both predominantly benefit the company by reducing paper, printing, and mailing costs, reducing late or delinquent payments, and/or reducing costs associated with the manual receipting of payments. As for letter size bills, these have been used (with the bottom third a perforated tear-off) by Sunriver Water for years and claiming a bill on 8.5-inch by 11-inch paper is a customer benefit strains credulity.

A GIS connects data to a map, but it is unclear how it substantially reduces the time needed to find and repair leaks. Where a leak is obvious (pooling, erosion, etc.), a GIS is unnecessary. Where a leak is not obvious, "acoustic detection remains the primary means of detecting and locating pipeline leaks" and this involves "the systematic method of using listening equipment to survey the distribution system, identify leak sounds, and pinpoint the exact locations of hidden underground leaks" (<http://www.waterworld.com/home/article/14070706/successful-water-leak-detection-and-audit-methods>). Having operated safely for years without a SCADA system, it is equally unclear how a new telemetry system (for which costs were already included in the 2006 rate filing) is "critical to ensuring safe system operations." These may make it easier for staff to perform some tasks, but the customer benefit is, again, questionable.

Finally, replacing functioning meters with wireless-read meters (costs for remote read meters were already included in the 2006 rate filing) may make it easier, faster, and less costly for NW Natural to read meters and, as a result, generate bills and receive revenue, but how is this a benefit to customers?

The "customer benefits" NW Natural describes can be reasonably expected to result in operational savings--not additional cost--and calls into question their use as a basis for increasing rates.

Broadly speaking, NW Natural should not be able to have their cake and eat it too--promoting increased profits, the acquisition of "well-managed" systems, and projected returns on investment to investors while simultaneously claiming these systems are poorly performing and suffering from aging infrastructure, inadequate facilities, and insufficient revenue.

The financial condition of these utilities, including their revenue streams, and the condition of

their facilities and assets, were well-known by NW Natural before their acquisition. If these were inadequate to satisfy its expectations, the proper course of action would have been to refrain from purchasing them--not to proceed with their rapid acquisition under the assumption NW Natural's "existing constructive relationships with regulators" would allow them to force customers to make up for the excessive price paid.

Furthermore, the proposal to increase rates for Sunriver Water customers is part of a well-established pattern by NW Natural that purchases small, privately held water systems for more than their value and, shortly thereafter, files for substantial rate increases. This provides a windfall (and an incentive to sell) to the prior owners after which NW Natural recoups its acquisition costs and secures a steady stream of future income from its new captive customers. Consider that:

- NW Natural acquired Salmon Valley Water System in November 2018 and in September 2020 it filed a rate increase with the Oregon PUC (<http://apps.puc.state.or.us/edockets/edocs.asp?FileType=UAA&FileName=uaa123638.pdf&DocketID=22593&numSequence=1>). The filing anticipated an increase in the cost for an average residential customer of 78.79% by the end of 2022.

- NW Natural acquired Falls Water in September 2018, Taylor Mountain in August 2020, and Morningview Water in February 2021, combining them into Falls Water, and in June 2020 it filed a rate increase with the Idaho PUC (http://fallswater.com/wp-content/uploads/2020/11/Rates_Increase.pdf). The filing anticipated an increase in the cost for an average three-quarter inch (3/4") residential water connection of 17.7%.

- NW Natural acquired Lehman and Sea View in November 2018, Estates/Monterra in May 2019, and Del Bay Association in November 2020, combining them into Cascadia Water, and in December 2020 it filed a rate increase with the Washington UTC (<http://apiproxy.utc.wa.gov/cases/GetDocument?docID=13&year=2020&docketNumber=200979>). The filing anticipated an increase in the cost for an average three-quarter inch (3/4") residential water connection of 57.70%.

In circumstances where the state allows a company to hold monopoly power in a market (as in this case), consumers do not have the ability to use the competitive pressures of the marketplace to avoid predatory rates. As a result, the state is obligated to protect consumers through the Public Utility Commission which is charged with "ensur[ing] Oregon utility customers have access to safe, reliable, and high quality utility services at just and reasonable rates." NW Natural has shown a propensity for taking over small water systems and expending heavily on improvements in anticipation of a low-risk, virtually guaranteed return on those funds based on increased rates while making claims of customer benefits where there is little (if any) evidence of customer demand. I urge the PUC to critically evaluate Sunriver Water's operations and NW Natural's pattern of behavior and to protect the residents of Sunriver and the customers of Sunriver Water.

Finally, in 2018, Commissioner Mark Thompson was a partner with Sanger Thompson Law (now Sanger Law) that, according to its web site (<http://www.sanger-law.com/water-utility-law/>), "specializes in addressing a wide array of public utility matters, including water utility law". The site also notes that "many water utilities are subject to local service and rate regulation", extols the firm's "strong relationships with key decision makers...", and reports

that its "representative work includes rate cases...." The firm represented NW Natural on several occasions and, in a press release dated November 30, 2019 (<http://www.sanger-law.com/sanger-thompson-pc-is-now-sanger-law-pc-reflecting-mark-thompsons-appointment-to-serve-as-opuc-commissioner/>), the firm states, "we are excited [Mark Thompson] will continue to serve the state and the various interests in the energy and utilities industry as a Commissioner." Immediately prior to joining Sanger Law, Commissioner Thompson held the position of Senior Director of Rates and Regulatory Affairs at NW Natural Gas (the primary subsidiary of NW Natural Holdings and a sister company to NW Natural Water) for nearly nine years.

These close connections with NW Natural (the prime mover in this rate case) as well as entities whose contractual and/or financial interests favor rate increases call into question the objectivity of Commissioner Thompson and I urge him to recuse himself from any action taken concerning the requested rate increase to avoid the inherent conflict of interest and any appearance of impropriety on the part of the Public Utility Commission.

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