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October 23, 2018

VIA ELECTRONIC FILING AND U.S. MAIL

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

**Re: Docket No. UP ___: NW Natural Water of Oregon, LLC and Sunriver Water, LLC's
Joint Application for an Order Approving the Sale of Sunriver Water, LLC.**

Attention Filing Center:

Attached for filing is an electronic copy of NW Natural Water of Oregon, LLC and Sunriver Water, LLC's Joint Application for an Order Approving the Sale of Sunriver Water, LLC. Confidential copies will be sent to the Commission via U.S. Priority Mail.

Please contact this office with any questions.

Sincerely,

Alisha Till
Legal Assistant

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UP _____

In the Matter of the Joint Application for an Order Approving the Sale of Sunriver Water, LLC to NW Natural Water of Oregon, LLC pursuant to ORS 757.480 and OAR 860-036-2120.

**JOINT APPLICATION FOR AN
ORDER APPROVING THE SALE OF
SUNRIVER WATER, LLC**

I. INTRODUCTION

1 Pursuant to ORS 757.480(5) and OAR 860-036-2120, NW Natural Water of Oregon,
2 LLC (“Oregon Water”) and Sunriver Water, LLC (“SRW”) (collectively, “Parties”) submit to
3 the Public Utility Commission of Oregon (“Commission”) this joint application requesting
4 approval of the sale of SRW to Oregon Water (“Joint Application”). SRW is an Oregon water
5 utility, currently owned by Sunriver Resort Limited Partnership (“Sunriver Resort”).

6 In Docket No. UM 1804, Northwest Natural Gas Company (“NW Natural”) sought—
7 and the Commission approved—authorization to reorganize into a holding company
8 structure.¹ Northwest Natural Holding Company was formed on October 1, 2018, and is the
9 100 percent owner of both NW Natural and NW Natural Water Company, LLC (“NWN Water
10 LLC”), which in turn is the 100 percent owner of Oregon Water. The corporate
11 reorganization was intended in part to facilitate Northwest Natural Holding Company’s
12 strategy for growth, which includes the acquisition of water utilities. NWN Water LLC is the
13 acquisition platform for this new venture, and the Commission recently approved the sale of

¹ See *Northwest Natural Gas Company, dba NW Natural, Application for Approval of Corporate Reorganization to Create a Holding Company*, Docket No. UM 1804, Order No. 17-526 (Dec. 28, 2017).

1 Salmon Valley Water Company to NWN Water LLC.² More recently, Oregon Water was
2 formed to acquire Oregon water utilities under the platform NWN Water LLC. Oregon Water
3 and SRW request approval of this Joint Application as it is consistent with Northwest Natural
4 Holding Company’s growth strategy, and SRW’s customers will not be harmed and will
5 benefit from new ownership.

II. DISCUSSION

A. Description of Proposed Transaction.

6 SRW is a privately-owned, rate-regulated water utility located in Sunriver, Oregon, and
7 currently provides water service to approximately 4,722 customers in the Sunriver area.
8 SRW is currently owned by Sunriver Resort and is managed by Gary Hutter. Sunriver
9 Resort also owns Sunriver Environmental, LLC (“SRE”), a wastewater utility, which is also
10 being sold to Oregon Water. However, the Commission does not have jurisdiction over the
11 sale of interests in SRE and that portion of the transaction is not the subject of the Joint
12 Application.

13 The SRW sale is structured as a membership interest purchase agreement, in which
14 Oregon Water will purchase all of Sunriver Resort’s membership interests in SRW
15 (“Proposed Transaction”). After the Proposed Transaction is completed, SRW will become
16 a wholly-owned subsidiary of Oregon Water. The executed Membership Interest Purchase
17 Agreement between Sunriver Resort and Oregon Water (“Membership Interest Purchase
18 Agreement” or “MIPA”) is included as Confidential Exhibit A to this Joint Application.³ The
19 MIPA was executed on October 12, 2018, and Commission approval of the Proposed
20 Transaction is a condition of closing. Accordingly, the Proposed Transaction will not close

² *In the Matter of Salmon Valley Water Company, Application for Authorization of the Sale of Salmon Water Company to NW Natural Water Company, LLC*, Docket No. UP 362, Order No. 18-358 (Sept. 26, 2018).

³ The MIPA also includes Sunriver Resort’s membership interests in SRE.

1 until after the Commission issues an order in this proceeding approving the Proposed
2 Transaction.

3 After the Proposed Transaction closes, SRW will continue to exist in its current form
4 as a subsidiary of Oregon Water, and as an indirect subsidiary of NW Natural Water LLC.
5 SRW will continue to own all utility property, easements, and water rights. After closing,
6 SRW's current affiliated interest agreement with Sunriver Resort⁴ will be terminated, as
7 SRW and Sunriver Resort will no longer be affiliated. Under the Transition Services
8 Agreement, attached to the MIPA as Appendix B, Sunriver Resort will continue to provide
9 certain services to SRW for six months, unless Oregon Water determines that those
10 services are not required for the entire six-month term.

11 It is the Parties' intention that SRW's manager, Gary Hutter, will continue in his current
12 role. Moreover, the MIPA and related appendices ensure that upon completion of the
13 transaction, all of Sunriver's employees providing services to SRW—including those
14 providing office management, customer service, billing, and operations and maintenance
15 support for SRW—will have the opportunity to continue to do so as employees of Oregon
16 Water.⁵ Thus, from the perspective of SRW's customers, the transition of ownership to
17 Oregon Water will be seamless.

⁴ See *In the Matter of Sunriver Water LLC, Request for Approval of Affiliated Interest Agreement with Sunriver Resort Limited Partnership*, Docket No. UI 378, Order No. 16-452 (Nov. 23, 2016).

⁵ See, Confidential Exhibit A, MIPA, Section 7.8, and Transition Services Agreement, attached to the MIPA as Appendix B. Note that the personnel currently performing services for SRW are employees of Sunriver Resort. Pursuant to Section 7.8, upon closing, those employees, if still employed by Sunriver Resort as of the closing date, will be offered employment by Oregon Water—except that certain persons providing administrative services will remain employed by Sunriver Resort and will provide transition services pursuant to the Transition Services Agreement. Most of Sunriver Resort's employees currently performing services for SRW split their time between SRW and its unregulated affiliated, SRE. After closing, Oregon Water intends to continue to share employees between SRW and SRE, and commits that the costs associated with shared employees will be allocated consistent with their historical allocation. Oregon Water will evaluate the appropriateness of the allocation of employee time on an ongoing basis.

B. Legal Standard - ORS 757.480(5) Imposes a “No Harm” Standard.

1 In accordance with ORS 757.480(5), Commission authorization is required before a
2 water utility doing business in Oregon may “sell, lease, assign, or otherwise dispose of”
3 water utility property necessary for public service and valued in excess of \$10,000. Pursuant
4 to the MIPA (attached as Confidential Exhibit A), all of Sunriver Resort’s membership
5 interests in SRW will be sold to Oregon Water.⁶ The statute at issue in this proceeding,
6 ORS 757.480, requires approval by the Commission for the Proposed Transaction. The
7 Commission has interpreted this statute as imposing a “no harm” standard.⁷

C. The Proposed Transaction Satisfies the “No Harm” Standard.

8 SRW’s customers will not be harmed by the Proposed Transaction, and will in fact
9 benefit from new ownership.

10 **First**, SRW’s customers will experience no disruption in service and will not be harmed
11 by the Proposed Transaction. Because SRW will continue to operate and remain intact after
12 the Proposed Transaction—with the same management and employees, same billing
13 platform, and same service—SRW’s customers will experience no disruption in service as
14 a result of the sale.

15 **Second**, SRW’s parent, Oregon Water, and its parent, NWN Water LLC, will share
16 common executive team members with their affiliate, NW Natural, and thus SRW will benefit
17 from the experience and expertise of NW Natural. In particular, SRW’s customers will
18 benefit from NW Natural’s experience and expertise in planning for, building, and
19 maintaining safe and reliable pipeline infrastructure. SRW will continue to need ongoing

⁶ Sunriver Resort will retain Well 12 (Crosswater Golf irrigation well and associated water rights) and previously abandoned Well 4, and Sunriver Resort will continue to be responsible for capital and operating costs associated with these retained facilities.

⁷ *In re Cline Butte Water, LLC*, 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”); *In the Matter of Alsea Properties, Inc., Request for Approval to Sell Westwood Vill. to Highland Water Corp*, Docket No. UP 300, Order No. 14 230 (June 24, 2014); *In the Matter of a Legal Standard for Approval of Mergers*, Docket No. UM 1011, 01-778 at 10 (Sept. 4, 2010).

1 capital investment, which Oregon Water will provide over time, therefore benefiting SRW's
2 customers.

3 **Third**, given the shared executive support between NW Natural, NWN Water LLC,
4 and Oregon Water, SRW's customers will benefit from NW Natural's depth of experience
5 with utility management and regulatory compliance.

6 **Finally**, SRW's customers will experience no immediate change in their water utility
7 rates. Although OAR 860-036-2130 authorizes an applicant to seek an acquisition
8 adjustment, Oregon Water and NWN Water LLC commit that neither entity will propose to
9 include any research and due diligence, negotiation, or other acquisition costs, or the
10 difference between the net book value and the purchase price, in customer rates in any
11 future SRW rate case filing. Going forward with its growth strategy, Oregon Water will
12 evaluate whether to seek an acquisition adjustment with other utility acquisitions on a case-
13 by-case basis.

D. Requirements for Approval of Sale.

1. Requirements of ORS 757.480(5)

14 Pursuant to ORS 757.480(5), Commission approval is required before a water utility
15 may "sell, lease, assign or otherwise dispose of the whole of the property of such water
16 utility necessary or useful in the performance of its duties to the public or any part thereof of
17 a value in excess of \$10,000, or sell, lease, assign or otherwise dispose of any franchise,
18 permit or right to maintain and operate such water utility or water utility property, or perform
19 any service as a water utility." The Commission applies a "no harm" standard in its review
20 of such transactions, and as described above in Section II.C, the Proposed Transaction
21 satisfies the "no harm" standard.

2. Requirements of OAR 860-036-2120

22 In accordance with OAR 860-036-2120(1), "[w]ater utilities must obtain Commission
23 approval to sell, lease, assign, or otherwise dispose of the whole of the property of such

1 [water utility] necessary or useful in performance of its duties, or any part thereof with a
2 value in excess of \$10,000.” As described further below, this Joint Application satisfies the
3 requirements of OAR 860-036-2120.

a. Application Form

4 OAR 860-036-2120(3) requires that “[a] water utility or the other party to these
5 transactions must request authorization using the application form available” on the
6 Commission’s website. SRW and Oregon Water have provided the information required in
7 the Commission’s application form in Section II.D.3, below.

b. Notice

8 As required by OAR 860-036-2120(4), SRW will provide notice of the Proposed
9 Transaction to its customers more than 60 calendar days prior to the closing of the
10 transaction, and will provide a copy to the Commission’s Consumer Services Section.
11 Additionally, SRW will post notice at the utility’s office and on its website. SRW’s draft notice
12 is included as Exhibit B to this Joint Application.

**3. Water Utility Application for an Order Authorizing the Sale, Transfer, or
Merger pursuant to ORS 757.480 and OAR 860-036-2120**

13 The information required by the Commission’s application form is set forth below.

**a. Attach a copy of the contract or agreement to this application. The
contract/agreement must contain the exact terms and provisions of
the transaction. The Commission will be advised in writing of the
exact date the transaction is entered into and that the terms and
provisions of the contract/agreement are the same as set forth
herein, if this application is approved.**

14 The MIPA was entered into on October 12, 2018, and is included as Confidential
15 Exhibit A to this Joint Application. SRW will be a wholly-owned subsidiary of Oregon Water.

**b. List the names, addresses, telephone numbers, and e-mail
addresses of each purchaser or party in the transaction.**

Thomas O’Shea
Sunriver Resort LP
57850 W. Cascade Rd.
Sunriver, OR 97707

Justin Palfreyman
NW Natural Water of Oregon, LLC
220 NW Second Ave
Portland, OR 97209

541-593-4915
toshea@destinationhotels.com

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c. Describe the utility property that is affected by this transaction.

1 Oregon Water is acquiring all membership interests in SRW, and SRW will continue
2 to exist as a subsidiary of Oregon Water after the transaction and will continue to own all of
3 its utility property, except for the irrigation well, Well #12, and certain associated water rights,
4 which are being retained by Sunriver Resort to provide irrigation service to Crosswater Golf
5 Course.⁸ The property owned by SRW—and which SRW will continue to own after the
6 Proposed Transaction closes—includes, but is not limited to, three domestic wells, one
7 domestic test well to be constructed, four finished water storage reservoirs, two major
8 booster pump stations with associated pressure reducing valves, water meters, fire
9 hydrants, and valves, and approximately 420,000 feet of distribution system pipelines.

d. Price and net book value.

10 The purchase price for SRW and SRE together is [REDACTED]
11 [REDACTED], payable as set forth in the MIPA attached as Confidential Exhibit A to this

⁸ Well #4—which is no longer in use, has no associated water rights, and does not supply water to the system—will be retained by Sunriver Resort.

1 Joint Application. Of that amount, [REDACTED] is
2 attributable to SRW. The net book value of SRW's assets is \$2,548,589 million.

e. List the reasons the applicant desires to sell, transfer, or merge its property and any facts supporting the reasons why the transaction is proposed.

3 The current owner of SRW desires to sell the water system because the current owner
4 is the operator of the Sunriver Resort and its associated properties and amenities. While
5 the utility business supports its ongoing businesses, the utility is not the current owner's
6 primary focus. Accordingly, the current owner believes the sale is in the best interest of the
7 community and SRW's customers. The current owner will remain the largest customer of
8 SRW following the sale and will benefit with all other customers from the ongoing efficient
9 and well-managed operation of Sunriver Water.

f. List and discuss all effects of the transaction upon current customers.

10 Oregon Water expects that the Proposed Transaction will be seamless from SRW's
11 customers' perspective, and customers will experience no interruption in service in
12 connection with the sale of SRW. There will be no immediate changes to SRW's rates or
13 billing system, and customers will continue to be able to pay bills online as they have in the
14 past. The Parties intend that SRW will retain its current management and staff, who will
15 remain available for customer service and emergency response just the same as before the
16 Proposed Transaction.⁹

g. List and discuss the benefits current customers will realize from this transaction.

17 Oregon Water expects that SRW's customers will benefit as a result of the Proposed
18 Transaction. See discussion in Section II.C, above.

⁹ See fn. 4 and accompanying text.

h. Provide evidence that the purchasers are financially able and willing to take over and operate the utility. Include any experience that the future owners have that will assist them in utility operations and the reasons why they desire to acquire the property. (Attach a copy of the purchaser's financial statements.)

1 Financial Fitness of Oregon Water. Under the Proposed Transaction, Oregon Water
2 will be the new parent company for SRW, and Oregon Water is wholly owned by NWN Water
3 LLC. Northwest Natural Holding Company will provide funds to NWN Water LLC, and NWN
4 Water LLC will provide funds to Oregon Water to complete the Proposed Transaction and
5 thus Oregon Water is financially able to acquire SRW.

6 Financial Statements. NWN Water LLC's financial statements are attached to this
7 Joint Application as Confidential Exhibit C.

8 Northwest Natural Holding Company was reorganized on October 1, 2018, and its
9 financial statements will not be available until early 2019 following the issuance of its 2018
10 10-K. The Parties will provide Northwest Natural Holding Company's financial statements
11 when they are available.

12 Oregon Water is a newly formed entity and its confidential financial statements will not
13 be available until early 2019. The Parties will provide Oregon Water's financial statements
14 when they are available.

15 Experience in Utility Management. The Parties intend that SRW will continue to be
16 run by its current manager, Gary Hutter, and will also benefit from the experience of its
17 parent companies, Oregon Water and NWN Water LLC. As indicated above, NWN Water
18 LLC and Oregon Water will share some common executive team members with NW
19 Natural—all of whom have substantial experience overseeing the operations of a regulated
20 Oregon utility distribution company—and will bring this expertise to bear for SRW.
21 Importantly, NW Natural's executives and board of directors have the regulatory, financial,
22 operational, and engineering knowledge and expertise to effectively oversee SRW's
23 operations. Both water and gas LDC businesses rely on maintenance of critical pipe

1 infrastructure and associated equipment to provide safe and reliable service. NW Natural's
2 executives (and thus, the shared executive team) understand how to plan for and build an
3 efficient pipeline system and how to maintain that system to ensure safe and reliable service.
4 In addition, both the water distribution and gas distribution businesses are largely regulated
5 by public utility commissions—a regulatory environment with which NW Natural is familiar.

6 *Desire to Acquire SRW.* As described in greater detail in NW Natural's corporate
7 reorganization proceeding, Docket No. UM 1804, the acquisition of SRW by Oregon Water
8 is consistent with the water utility corporate growth strategy that led NW Natural to seek the
9 formation of Northwest Natural Holding Company. Through this strategy, Oregon Water
10 hopes to benefit the customers of SRW by providing a long-term ownership arrangement
11 that will allow for the appropriate oversight of and ongoing investment in its water business.
12 For Oregon Water, the acquisition of SRW represents an important advancement in its plan
13 to enter the water utility business, and is therefore consistent with the strategy for growth as
14 described in NW Natural's request for corporate reorganization.

i. **Attach a copy of all grants of easements to be transferred. Also
attach all water rights to be transferred.**

15 Because Oregon Water is acquiring all of the membership interests of SRW, and SRW
16 will continue to exist as a subsidiary of Oregon Water after the transaction, all current
17 easements and water rights will continue to be in SRW's name and will not be transferred.

1 If the Parties identify any other easements that are required to be granted by Sunriver
2 Resort, those will be prepared and delivered post-closing.

III. REQUEST

3 Oregon Water and SRW request that the Commission approve the Proposed
4 Transaction in accordance with ORS 757.480(5).

5 Respectfully submitted this 23rd day of October, 2018.

MCDOWELL RACKNER GIBSON PC



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503-727-2019
Attorneys for Sunriver Water, LLC

**EXHIBIT A IS CONFIDENTIAL PER
OAR 860-001-0070 AND WILL BE
PROVIDED SEPARATELY**

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UP ____

**Exhibit B to Joint Application for an Order Approving
the Sale of Sunriver Water, LLC**

Sunriver Water, LLC's Draft Customer Notice

October 23, 2018

DRAFT CUSTOMER NOTICE

Month XX, 2018

The purpose of this notice is to inform customers of Sunriver Water, LLC (“SRW” or “Company”) of the Company’s sale to NW Natural Water of Oregon, LLC (“Oregon Water”). Oregon Water is a wholly-owned subsidiary of NW Natural Water Company, LLC (“NWN Water LLC”), which in turn is a wholly-owned subsidiary of Northwest Natural Holding Company and an affiliate of Northwest Natural Gas Company. Oregon Water and SRW entered into the purchase transaction on October 12, 2018, and the transaction will close, and the sale will be effective following regulatory approval by the Public Utility Commission of Oregon (“Commission”), no sooner than 60 days from the date of this notice.

The owners of SRW are selling the Company to Oregon Water because the owners believe the sale is in the best interest of the community and SRW’s customers. The entire company will be sold to Oregon Water and will continue to exist as SRW after the sale, with the same employees, billing platform, and customer service representatives. Oregon Water and SRW expect that the transition will be seamless, and customers will not be harmed by the transaction.

The property transaction being proposed by the water utility is under review by the Commission. For more information about the filing or to follow the regulatory process of the Commission’s review, check the Commission’s website at www.puc.state.or.us or contact the Consumer Services Section at 503-378-6600; 1-800-522-2404; or TTY 711.

If you have questions about the transaction and transition of ownership, you may contact SRW or NWN Water LLC.

Contact information for SRW:

Sunriver Water LLC
Attn: Thomas O’Shea
Mailing Address: PO Box 3699, Sunriver, OR 97707
Physical Address: 57850 W Cascade Rd, Sunriver, OR 97707
Telephone Number: 541-593-4197
Emergency Phone Number: 541-419-6469
E-mail Address: toshea@destinationhotels.com
Website: <https://www.sunriverwater.com/index.html>

Contact information for NWN Water LLC:

NW Natural Water Company, LLC
Attn: Melissa Moore
220 NW Second Avenue
Portland, Oregon 97209
E-mail Address: Melissa.Moore@nwnatural.com
Telephone Number: 503-226-4211

**EXHIBIT C IS CONFIDENTIAL PER
OAR 860-001-0070 AND WILL BE
PROVIDED SEPARATELY**