



WENDY MCINDOO
Direct (503) 290-3627
wendy@mrg-law.com

January 17, 2019

VIA ELECTRONIC FILING

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

Re: Consolidated Docket Nos. UP 384 and UP 391

Attention Filing Center:

Attached for filing is an electronic copy of the Direct Testimony of Justin Palfreyman on behalf of NW Natural Water of Oregon, LLC. The confidential portion of the testimony will be sent in a separately sealed envelope via Priority Mail to the parties who have signed Protective Order No. 18-410. Please contact this office with any questions.

Sincerely,

Wendy McIndoo
Office Manager

Attachment

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

**Consolidated Dockets
UP 384 and UP 391**

**Direct Testimony of
NW Natural Water of Oregon, LLC
Justin Palfreyman**

REDACTED

TABLE OF CONTENTS

1	I.	INTRODUCTION AND SUMMARY	1
2	II.	BACKGROUND REGARDING OREGON WATER	2
3	III.	OVERVIEW OF THE PROPOSED TRANSACTION.....	5
4	IV.	THE PROPOSED TRANSACTION WILL MEET THE NO HARM STANDARD.....	7
5		SRW’s Customers Will Experience No Disruption in Service.....	8
6		SRW’s Customers Will Experience No Immediate Change in Rates	10
7		Oregon Water’s Financial and Managerial Fitness to Purchase and Operate SRW.....	11

1 I. INTRODUCTION AND SUMMARY

2 Q. Please state your name and title.

3 A. My name is Justin Palfreyman, and I am the President of NW Natural Water of Oregon
4 (Oregon Water) and Vice President of Strategy and Business Development for Northwest
5 Natural Gas Company (NW Natural).

6 Q. Please summarize your professional experience and educational background.

7 A. I have worked for 17 years in strategy, finance and corporate development functions. Prior
8 to joining NW Natural, I worked as a Director in Lazard's Power, Energy and Infrastructure
9 Group in New York, where I provided strategic and financial advice to utilities,
10 corporations, institutional investors, and government clients. My advisory assignments
11 related to general strategic advice; mergers, acquisitions and divestitures; raising capital;
12 restructurings; corporate preparedness/takeover defense; and capital structure
13 optimization. Prior to Lazard, I worked in the Infrastructure Investment Banking Group at
14 Goldman Sachs in New York. I also previously held various positions in finance, strategy
15 and business development at both Apex Learning and Accenture in Seattle, Washington.

16 I hold an MBA from The University of Chicago Booth School of Business, a Master
17 of Public Policy from The University of Chicago Irving B. Harris School of Public Policy
18 and a Bachelor of Business Administration from Pacific Lutheran University.

19 Q. Please summarize your testimony.

20 A. My testimony is intended to provide information supporting the Joint Application for an
21 Order Approving the Sale of Sunriver Water, LLC (Joint Application). First, I will provide
22 background regarding the purchaser, Oregon Water, and describe similar acquisitions that
23 have been completed by Oregon Water's parent company, Northwest Natural Water
24 Company, LLC (NWN Water LLC). Next, I will describe the proposed sale of SRW to
25 Oregon Water and relevant elements of the purchase agreement related to the transition
26 of ownership to Oregon Water. Finally, I will explain why the sale meets the applicable

1 legal standard—the “no harm” standard. SRW’s customers will not be harmed as a result
2 of the sale because:

- 3 • Oregon Water has a plan for the transition of ownership and SRW’s customers will
4 experience no disruption in service;
- 5 • SRW’s customers will not be subject to a rate increase as a result of the acquisition;
6 and
- 7 • Oregon Water has the financial and managerial fitness to own and operate SRW.

8 **Q. Are any other witnesses providing direct testimony regarding the Joint**
9 **Application?**

10 A. Yes. Tom O’Shea, Area Managing Director of Sunriver Resort Limited Partnership
11 (SRLP), which is the current owner of SRW, will also be providing direct testimony
12 regarding the Joint Application. Mr. O’Shea’s testimony will provide additional information
13 regarding SRLP’s ownership and operation of SRW, explain why SRLP decided to sell
14 SRW, describe the termination of the affiliated interest agreement between SRLP and
15 SRW, and describe the SRW assets that will be transferred to SRLP prior to the closing
16 of the transaction and explain why assignment of those assets will not harm SRW’s ability
17 to serve its customers.

18 **II. BACKGROUND REGARDING OREGON WATER**

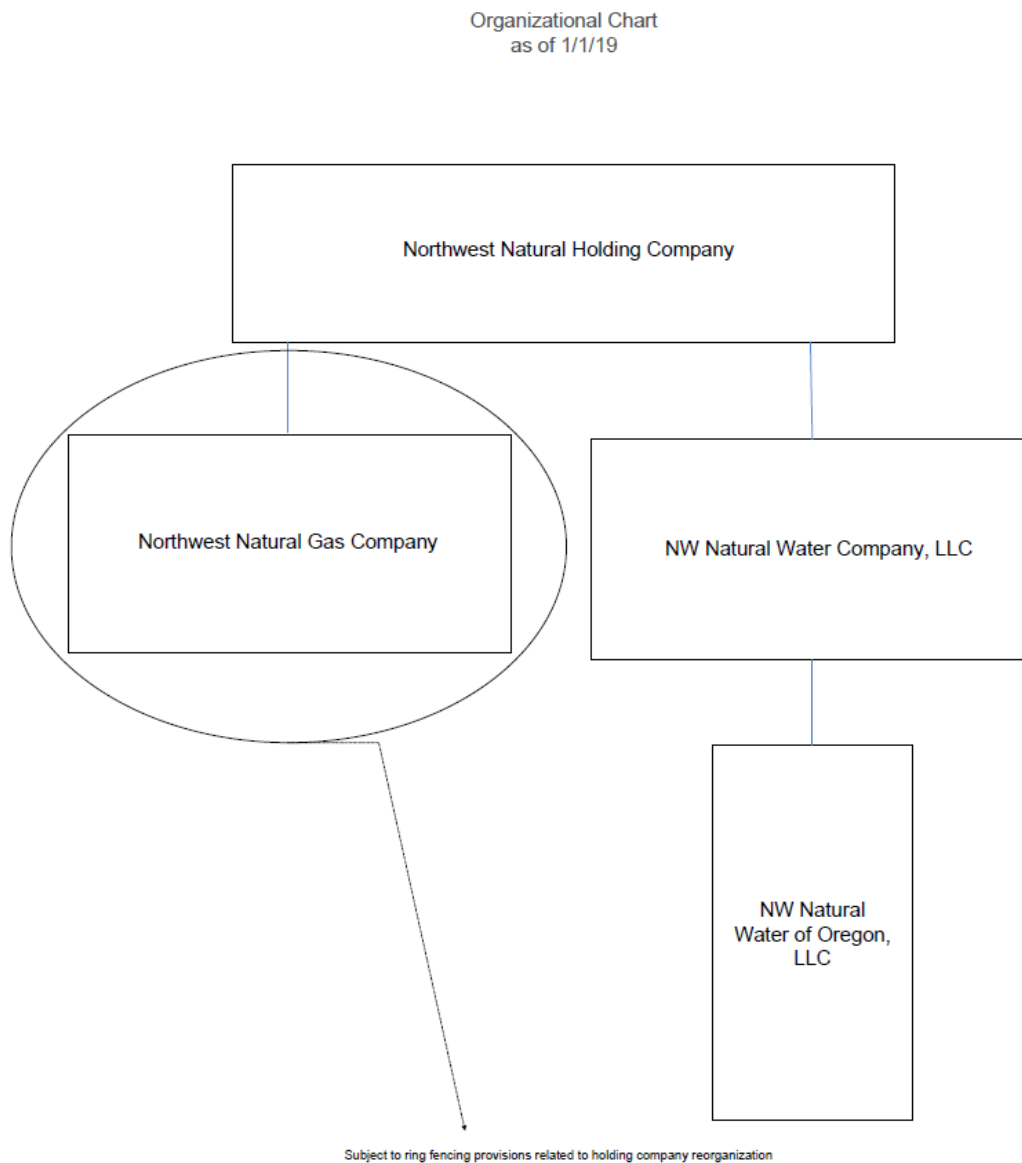
19 **Q. Please provide a brief overview of the formation of Oregon Water.**

20 A. In 2017, NW Natural sought approval for reorganization into a holding company structure,
21 which was intended in part to facilitate a strategy for growth involving the acquisition of
22 water utilities. The Public Utility Commission of Oregon (Commission) approved NW
23 Natural’s request for reorganization,¹ and Northwest Natural Holding Company (NW
24 Natural Holdings) was formed on October 1, 2018. NW Natural Holdings is the 100
25 percent owner of NWN Water LLC. Oregon Water was formed in October 2018 to acquire

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 Oregon water utilities under the NWN Water LLC platform. The relationship between NW
2 Natural Holdings, NWN Water LLC, Oregon Water, and NW Natural is illustrated in the
3 organizational chart, shown below.

4 **Figure 1. Organizational Chart**



1 **Q. Why does Oregon Water wish to acquire SRW?**

2 A. As described in greater detail in NW Natural's corporate reorganization proceeding,
3 Docket No. UM 1804, the acquisition of SRW by Oregon Water is consistent with the water
4 utility corporate growth strategy that led NW Natural to seek the formation of NW Natural
5 Holdings. Through this strategy, Oregon Water hopes to benefit the customers of SRW
6 by providing long-term ownership of SRW that will bring decades of utility management
7 experience and the ability to access capital markets to provide low cost financing of
8 necessary infrastructure investments.

9 **Q. Has Oregon Water's parent company, NWN Water LLC, acquired any other water**
10 **utilities in Oregon?**

11 A. Yes. The Commission recently approved the sale of Salmon Valley Water Company
12 (Salmon Valley) to NWN Water LLC in Docket No. UP 362.² Oregon Water was formed
13 after the Salmon Valley transaction was completed, and the sale described in this
14 proceeding will be Oregon Water's first water utility acquisition.

15 **Q. Has NWN Water LLC acquired any other water utilities in other jurisdictions?**

16 A. Yes. The Washington Utilities and Transportation Commission recently approved the
17 transfer of assets of two water utilities, Sea View Water, LLC and Lehman Enterprises,
18 Inc. to Cascadia Water, LLC (a wholly-owned subsidiary of NWN Water LLC).³
19 Additionally, the Idaho Public Utilities Commission approved the sale of Falls Water
20 Company, Inc. to NWN Water LLC.⁴

² *In the Matter of Salmon Valley Water Co., Application for Authorization of the Sale of Salmon Valley Water Co. to Nw. Natural Water Co., LLC, Pursuant to ORS 757.480 and OAR 860-036-2120, Docket No. UP 362, Order No. 18-358 (Sept. 26, 2018).*

³ *In the Matter of the Application of Sea View Water, LLC, Applicant, for the Sale and Transfer of Assets to Cascadia Water, LLC, Docket UW-180629, Order 01 (Oct. 11, 2018); In the Matter of the Application of Lehman Enterprises, Inc., Applicant, for the Sale and Transfer of Assets to Cascadia Water, LLC, Docket UW-180630, Order 01 (Oct. 11, 2018).*

⁴ *In the Matter of the Application of Nw. Natural Water Co., LLC to Acquire Falls Water Co., Case No. FLS-W-18-01, Order No. 34103 (July 10, 2018).*

1 **Q. Have any of these transactions closed?**

2 A. Yes, all of these transactions have closed. As of November 2018, these water utilities are
3 now being managed by Oregon Water's parent, NWN Water LLC.

4 **Q. Have there been any disruptions in service or other issues for customers as a result
5 of the transition of ownership of these other entities?**

6 A. No. In each case, the transition of ownership has gone smoothly, without any disruptions
7 in service or any other issues for customers related to the change of ownership. Each
8 water utility owned by NWN Water LLC has a local management team and operational
9 staff dedicated to serving customers. These teams have primarily remained the same
10 through the change in ownership.

11 **III. OVERVIEW OF THE PROPOSED TRANSACTION**

12 **Q. Please describe the transaction through which SRW will be sold to Oregon Water.**

13 A. The SRW sale is structured as a membership interest purchase agreement, in which
14 Oregon Water will purchase all of SRLP's membership interests in SRW (Proposed
15 Transaction). The executed Membership Interest Purchase Agreement between Sunriver
16 Resort and Oregon Water (Membership Interest Purchase Agreement or MIPA) was
17 included as Highly Confidential Exhibit A to the Joint Application.

18 **Q. Is Oregon Water also purchasing the wastewater utility, Sunriver Environmental,
19 LLC (SRE)?**

20 A. Yes. SRLP also owns SRE, and SRE is being sold to Oregon Water. However, that portion
21 of the transaction is not the subject of the Joint Application because SRE is not regulated
22 by the Commission.

23 **Q. When was the MIPA executed?**

24 A. The MIPA was executed on October 12, 2018.

1 **Q. When will the Proposed Transaction close?**

2 A. Commission approval of the Proposed Transaction is a condition of closing, and
3 accordingly, the Proposed Transaction will not close until after the Commission issues an
4 order in this proceeding approving the Proposed Transaction. After the Commission
5 issues its order, Oregon Water expects that the Proposed Transaction will close within
6 approximately three to four weeks.

7 **Q. Will SRW be merged into Oregon Water after closing?**

8 A. No. After the Proposed Transaction closes, SRW will become a wholly-owned subsidiary
9 of Oregon Water. SRW will continue to exist in its current form and will continue to own
10 all utility property, easements, and water rights, with the exception of the assets that are
11 proposed to be assigned from SRW to SRLP and which are described in greater detail in
12 the testimony of Mr. O'Shea.

13 **Q. Please describe SRW's current management.**

14 A. SRW is currently owned by SRLP and is currently managed by Gary Hutter. SRLP
15 provides executive support and oversight, as well as certain services through an affiliated
16 interest agreement, which the Commission approved in Order No. 16-452.

17 **Q. Will SRW's affiliated interest agreement with SRLP be terminated after closing?**

18 A. Yes. After closing, SRW's current affiliated interest agreement with SRLP will be
19 terminated, as SRW and SRLP will no longer be affiliated.

20 **Q. Will SRLP continue to provide certain services to SRW after closing?**

21 A. Yes. Under the Transition Services Agreement, attached to the MIPA as Appendix B,
22 SRLP will continue to provide certain services to SRW for six months, unless Oregon
23 Water determines that those services are not required for the entire six-month term.

24 **Q. After the Proposed Transaction closes, who will manage SRW?**

25 A. Oregon Water intends for SRW's utility manager, Gary Hutter, to continue in his current
26 role. Oregon Water is also planning to hire a new general manager to oversee the financial

1 management and administration of both SRW and SRE. The general manager will be on
2 site in Sunriver, and will serve as the primary point of contact between SRW and SRE and
3 their stakeholders, including customers, the Commission, the Oregon Water Resources
4 Department, Oregon Health Authority, and the Department of Environmental Quality.

5 **Q. Does the Proposed Transaction contemplate that the employees that currently**
6 **provide services to SRW will continue to do so?**

7 A. Yes. The MIPA and related appendices ensure that upon completion of the transaction,
8 all of SRW's employees—including those providing office management, customer service,
9 billing, and operations and maintenance support for SRW—will have the opportunity to
10 continue to serve as employees of Oregon Water. Certain SRLP employees providing
11 administrative services will remain employed by SRLP, and will provide transition services
12 pursuant to the Transition Services Agreement.

13 **Q. In accordance with the MIPA, certain assets owned by SRW will be assigned to**
14 **SRLP prior to closing. Please describe these assets.**

15 A. As provided in the MIPA, and as discussed in greater detail in Mr. O'Shea's testimony, the
16 assignment of assets from SRW to SRLP includes Well #12 and related water rights and
17 real property, structures, and equipment, Well #4 and related real property, structures and
18 equipment, and portions of the fiber optic cable and conduit system utilized to provide
19 network services to Sunriver Resort.

20 **IV. THE PROPOSED TRANSACTION WILL MEET THE NO HARM STANDARD**

21 **Q. What is your understanding of the applicable legal standard for the Commission's**
22 **review of the Joint Application?**

23 A. My understanding is that the sale requires approval under ORS 757.480(5), and that the
24 Commission applies a "no harm" standard in its review of such transactions.

1 **Q. Why do you believe the Proposed Transaction will meet the “no harm” standard?**

2 A. As I will describe in detail below, the Proposed Transaction will meet the “no harm”
3 standard because:

- 4 • Oregon Water has a plan for the transition of ownership, and there will be no disruption
5 in service for SRW’s customers;
- 6 • SRW’s customers will not experience a rate change as a result of the acquisition, and
7 Oregon Water and NWN Water LLC commit that neither entity will propose to include
8 an acquisition adjustment in any future SRW rate case filing; and
- 9 • Oregon Water has the financial and managerial fitness to purchase and operate SRW.

10 ***SRW’s Customers Will Experience No Disruption in Service***

11 **Q. Will SRW’s customers experience any disruption in service as a result of the**
12 **transition of ownership to Oregon Water?**

13 A. No. Oregon Water expects that the transition of ownership from SRLP to Oregon Water
14 will be seamless from the customer’s perspective. As I explained above, NWN Water LLC
15 has successfully managed the transition of ownership for four other water utilities, and
16 expects to be able to do the same for SRW.

17 **Q. Why do you believe the transition of ownership will be seamless for customers?**

18 A. There will be no interruption in service because SRW will continue to operate and remain
19 intact after the Proposed Transaction closes. As I explained above in my description of
20 the Proposed Transaction, Oregon Water plans to retain the same management and
21 employees. Accordingly, SRW’s customers will continue to benefit from local
22 management and oversight, including local customer service representatives and
23 operations and maintenance employees to respond to service calls.

24 **Q. Has Oregon Water undertaken any other steps to make sure that the transition goes**
25 **smoothly?**

26 A. Yes. Oregon Water also entered into a Transition Services Agreement with SRLP
27 (Appendix B to the MIPA), which is intended to allow for a post-closing transition period of

1 up to six months in which SRLP will continue to provide certain services for SRW as
2 needed.

3 **Q. Will there be any incremental increase in costs resulting from the change in**
4 **ownership?**

5 A. Oregon Water does not expect any incremental cost burdens to be placed on SRW as a
6 result of the change of ownership, and anticipates that the shared services and functions
7 currently provided by SRLP will be replaced by NW Natural under a similar shared services
8 agreement at an equivalent overall cost.

9 **Q. Should customers expect any major changes to SRW's billing system or process**
10 **after the Proposed Transaction closes?**

11 A. No. SRW's customers will continue to receive monthly bills for water service as provided
12 for in SRW's current tariff.

13 **Q. After the Proposed Transaction closes, will SRW's customers be able to continue**
14 **using the same payment methods that are currently available to customers?**

15 A. Yes. SRW's customers currently can pay their bills with a credit card or electronic check
16 through the online payment system on SRW's website, through an automatic withdrawal
17 from the customer's checking or savings account, by mailing a check, or dropping off
18 payment at SRW's office. After the Proposed Transaction closes, SRW's customers will
19 continue to be able to use these same methods for payment without any disruption.

20 **Q. You previously explained that certain assets will be assigned from SRW to SRLP.**
21 **Will the assignment of Well #12, Well #4, and portions of the fiber optic cable and**
22 **conduit segment to SRLP disrupt service for SRW's customers?**

23 A. No. As explained in Mr. O'Shea's testimony, SRW uses Well #12 to provide irrigation
24 service to the Crosswater golf course and the Caldera Springs Owners Association
25 (CSOA), and following closing of the Proposed Transaction, SRW will use other wells to
26 provide irrigation service to CSOA, and SRLP will have sole responsibility for irrigating the

1 Crosswater golf course. Well #4 has no associated water rights and is not used to provide
2 service to SRW's customers. Accordingly, Oregon Water expects that the assignment of
3 Well #12 and Well #4 will not impact SRW's ability to provide service to its customers.

4 Regarding the assignment of the fiber optic cable and conduit segment, Oregon
5 Water's IT team is working to ensure that SRW's assignment of fiber and conduit segment
6 to SRLP will not disrupt service for SRW's customers. Oregon Water has committed to
7 implementing a standalone IT network for SRW and SRE that will be operated separately
8 from the Sunriver Resort IT network. The development of a standalone IT network for
9 SRW and SRE will provide customer benefits, including increased safety, cybersecurity
10 and system reliability. Importantly, Oregon Water commits that SRW's customers will be
11 held harmless from the assignment of the fiber and conduit segment to SRLP.

12 ***SRW's Customers Will Experience No Immediate Change in Rates***

13 **Q. Will rates increase as a result of Oregon Water's ownership?**

14 A. No, there will not be an increase in rates resulting from the transition in ownership. Oregon
15 Water plans to evaluate the appropriate timing of the next rate case after closing the
16 transaction. [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 **Q. Will Oregon Water seek to include an acquisition adjustment in customer rates?**

20 A. No. Although the Commission's rules⁵ allow for an applicant to request an acquisition
21 adjustment such that some or all of the difference between the net book value and the
22 purchase price may be included in the purchasing utility's rate base, Oregon Water and
23 NWN Water LLC commit that neither entity will propose to include an acquisition
24 adjustment related to SRW in customer rates in any future rate case filing.

⁵ OAR 860-036-2130.

1 **Q. Will any transaction costs be included in customer rates?**

2 A. No. Oregon Water and NWN Water LLC commit that neither entity will propose to include
3 any research and due diligence, negotiation, or other acquisition costs in customer rates
4 in any future SRW rate case filing.

5 ***Oregon Water's Financial and Managerial Fitness to Purchase and Operate SRW***

6 **Q. Please describe Oregon Water's financial fitness to purchase SRW.**

7 A. NW Natural Holdings will provide funds to NWN Water LLC, which in turn will provide
8 funds to Oregon Water to complete the purchase of SRW. NWN Water LLC's financial
9 statements were included with the Joint Application as Confidential Exhibit C. NW Natural
10 Holdings' and Oregon Water's financial statements will not be available until March 1,
11 2019, and Oregon Water will supplement the Joint Application by filing these financial
12 statements when they are available.

13 **Q. Please describe Oregon Water's financial fitness to operate SRW.**

14 A.

[REDACTED]

18 **Q. Please describe Oregon Water's managerial fitness to operate SRW.**

19 A. While Oregon Water plans for SRW to continue to be run by its current utility manager,
20 Gary Hutter, and an additional general manager for SRW and SRE that will be hired in
21 parallel with the closing of the Proposed Transaction, SRW will also benefit from the
22 experience of its parent companies, Oregon Water and NWN Water LLC. NWN Water
23 LLC and Oregon Water will share some common executive team members with NW
24 Natural—all of whom have substantial experience overseeing the operations of a
25 regulated Oregon utility distribution company—and will use this expertise for the benefit
26 of SRW and its customers. Importantly, NW Natural's executives and board of directors

1 have the regulatory, financial, operational, and engineering knowledge and expertise to
2 effectively oversee SRW's operations. Additionally, NWN Water LLC has water utility
3 employees in Oregon, Washington, and Idaho that have significant experience in water
4 utility management and operations.

5 **Q. How is the experience of NW Natural's executives relevant to the operation of a**
6 **water utility?**

7 A. Both water and gas LDC businesses rely on maintenance of critical pipe infrastructure and
8 associated equipment to provide safe and reliable service. NW Natural's executives (and
9 thus, the shared executive team) understand how to plan for and build an efficient
10 distribution pipeline system and how to maintain that system to ensure safe and reliable
11 service. In addition, both the water distribution and gas distribution businesses are largely
12 regulated by public utility commissions—a regulatory environment with which NW Natural
13 is familiar.

14 **Q. Does this conclude your testimony?**

15 A. Yes it does.

CERTIFICATE OF SERVICE

I hereby certify that on January 17, 2019 I have served by Priority Mail the foregoing documents upon all parties of record in Consolidated Docket Nos. UP 384 and UP 391.

<p>FILING CENTER (C) (HC) PUBLIC UTILITY COMMISSION OF OREGON PO Box 1088 Salem, OR 97308-1088 puc.filingcenter@state.or.us</p>	<p>STEPHANIE YAMADA (C) (HC) PUBLIC UTILITY COMMISSION PO Box 1088 Salem, OR 97308-1088 <stephanie.yamada@state.or.us></p>
<p>SOMMER MOSER (C) (HC) PUBLIC UTILITY COMMISSION Department of Justice 1162 Court St. NE Salem, OR 97301 sommer.moser@doj.state.or.us</p>	<p>MICHAEL GOETZ (C) (HC) OREGON CITIZENS UTILITY BOARD 610 SW Broadway, STE 400 Portland, OR 97205 <mike@oregoncub.org></p>
<p>OREGON CITIZENS' UTILITY BOARD 610 SW Broadway, STE 400 Portland, OR 97205 <dockets@oregoncub.com></p>	<p>ROBERT JENKS (C) (HC) OREGON CITIZENS UTILITY BOARD 610 SW Broadway, STE 400 Portland, OR 97205 bob@oregoncub.org</p>
<p>LAWRENCE REICHMAN (C) (HC) PERKINS COIE LLP 1120 NW COUCH ST – 10 FL PORTLAND, OR 97209-4128 lreichman@perkinscoie.com</p>	<p>ZACHARY KRAVITZ (C) NORTHWEST NATURAL 220 NW 2nd Ave. Portland, OR 97209 zdk@nwnatural.com</p>
<p>JOSH NEWTON (C) (HC) KARNOPP PETERSEN LLP 360 SW BOND ST. STE 401 BEND, OR 97702 jn@karnopp.com</p>	<p>TOM O'SHEA (C) SUNRIVER RESORT PO BOX 3699 SUNRIVER, OR 97707 toshea@destinationhotels.com</p>
<p>HUGH PALCIC (C) SUNRIVER OWNERS ASSOCIATION PO BOX 3278 SUNRIVER, OR 97707 hughp@srowners.org</p>	<p>JOHN W STEPHENS (C) (HC) ESLER STEPHENS & BUCKLEY 121 SW MORRISON ST STE 700 PORTLAND, OR 97204-3183 stephens@eslerstephens.com ortez@eslerstephens.com</p>

DATED: January 17, 2019



 Wendy McIndoo
 Office Manager