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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPROVAL
OF ACQUISITION OF THE ASSETS OF
DIAMOND BAR ESTATES, L.L.C.
AND BAR CIRCLE "S" WATER, INC.;
FOR TRANSFER OF CERTIFICATES
OF PUBLIC CONVENIENCE AND
NECESSITY OF DIAMOND BAR
ESTATES, L.L.C. (NO. 413) AND BAR
CIRCLE "S" WATER, INC. (NO. 296);
AND REQUEST FOR MODIFIED
PROCEDURE

Case No. BLS-W-19-01/DIA-W-19-01

APPLICATION FOR APPROVAL OF
ACQUISITION OF THE ASSETS OF
DIAMOND BAR ESTATES, L.L.C.
AND BAR CIRCLE "S" WATER, INC.;
FOR TRANSFER OF CERTIFICATES
OF PUBLIC CONVENIENCE AND
NECESSITY OF DIAMOND BAR
ESTATES, L.L.C. (NO. 413) AND BAR
CIRCLE "S" WATER, INC. (NO. 296);
AND REQUEST FOR MODIFIED
PROCEDURE

Gem State Water Company, LLC ("Gem State Water") seeks the Idaho Public Utilities Commission's ("Commission") approval of Gem State Water's acquisition of the assets of Diamond Bar Estates, L.L.C. ("Diamond Bar") and Bar Circle "S" Water, Inc. ("Bar Circle"). Gem State Water also seeks approval to transfer the Certificates of Public Convenience and Necessity ("CPCN") of Diamond Bar (No. 413) and Bar Circle (No. 296) to Gem State Water. Gem State Water requests that this Application be processed by modified procedure.

BACKGROUND

Notice

1. Please serve all notices and communications with regard to this Application upon:

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Gem State Water

2. Gem State Water is an Idaho limited liability company created to own and operate water utilities in Idaho. Gem State Water is a wholly owned subsidiary of NW Natural Water of Idaho, LLC, which is in turn wholly owned by NW Natural Water Company, LLC (“NW Natural Water”). An organizational chart is attached to the testimony of Justin Palfreyman, the President of Gem State Water and NW Natural Water. Mr. Palfreyman’s testimony is provided as **Attachment 1** to this Application.

3. Gem State Water and NW Natural Water are members of a family of companies held by Northwest Natural Holding Company (“NW Natural Holdings”), which was created during a recent corporate reorganization of Northwest Natural Gas Company and its affiliates. Northwest Natural Gas Company is a 160-year old natural gas utility serving customers in the Pacific Northwest. NW Natural Water notified the Commission of the planned corporate

reorganization during NW Natural Water's acquisition of Falls Water Company, Case No. FLS-W-18-01 ("Falls Water Case"). The Commission approved the acquisition but did not address the corporate reorganization.¹

4. NW Natural Holdings and NW Natural Water have financial resources and access to capital markets to sufficiently capitalize Gem State Water so that it can provide safe and reliable water utility service and proactively address the infrastructure needs of the utility. *See* Palfreyman Testimony at 3. Additionally, Gem State Water will benefit from its parent companies' and affiliates' core competencies in constructing and maintaining infrastructure, providing exemplary customer service, and effectively managing regulated utilities. *Id.* NW Natural Water recently acquired water utilities in Oregon, Washington, and Idaho. *Id.* at 4. These acquisitions, and the continued operation of these water utilities, were seamless, with no disruptions to customers' service. *Id.* This experience will carry over to Gem State Water.² *Id.*

5. Gem State Water intends to acquire substantially all the assets of Diamond Bar and of Bar Circle through the transaction described below, to serve existing and future customers of these water systems, and to maintain or improve the existing level of services without any disruption to customers. *Id.* at 6. Importantly, as described below, the transfer of ownership to Gem State Water will not result in a change to the rates or rate structure of Diamond Bar or Bar Circle.

¹ In the Falls Water Case, NW Natural Water sought the Commission's approval of the corporate reorganization "to the extent the Commission deems such approval necessary." Case No. FLS-W-18-01, Application for Approval of Acquisition of Falls Water Company by NW Natural Water Company, LLC and Request for Modified Procedure at 5. The Commission approved the acquisition but did not address the corporate reorganization. *See* Order No. 34103.

² On February 15, 2019, Gem State Water filed an application with the Commission requesting approval of its acquisition of Spirit Lake East Water Company and Lynnwood Water. The Commission assigned Case No. SPL-W-19-01 to the matter, and issued a Notice of Modified Procedure in its Order No. 34271, dated March 13, 2019.

Diamond Bar and Bar Circle

6. Diamond Bar is a regulated water utility that serves approximately 46 customers in or near Kootenai County, Idaho, in accordance with CPCN No. 413.

7. Bar Circle is a regulated water utility that serves approximately 218 residential customers and one commercial customer in or near Kootenai County, Idaho, in accordance with CPCN No. 296.

THE TRANSACTION

8. Gem State Water and the selling parties (Diamond Bar, Bar Circle, Bar Circle “S” Ranch, Inc. and Robert N. Turnipseed and Clara B. Turnipseed) entered into an Asset Purchase Agreement (“Agreement”) and an Addendum to Asset Purchase Agreement (“Addendum”), both effective as of March 14, 2019.³ The Agreement and Addendum, attached to Mr. Palfreyman’s testimony, and the actions they contemplate (the “Transaction”) are contingent upon the Commission’s approval. Agreement ¶5.1(f).⁴

9. If approved under the Agreement, Gem State Water will acquire substantially all the assets of Diamond Bar and Bar Circle.

10. Gem State Water is not requesting any change to rates, rate structure, or other charges in this Application. Any future changes will be based on prudently incurred capital expenditures and other accepted ratemaking principles. Palfreyman Testimony at 6.

³ Bar Circle “S” Ranch, Inc. (the “Ranch”) owns real property and easements on which some utility assets are located.

⁴ The Agreement and Addendum have been filed as “Confidential” per Commission rules. Very generally speaking, the Addendum addresses the disposition of aspects of certain pending activities by Diamond Bar and/or Bar Circle. *See, e.g.*, Case No. BCS-W-18-01, In the Matter of Bar Circle S Water Company’s Application to Extend Water Line, Order No. 34290, dated March 29, 2019.

11. Bar Circle's Commission-approved tariffs are available on the Commission's website.⁵ If the Transaction is approved, Gem State Water will submit revised tariffs that reflect the ownership change but retain the existing rates, rate structure, and other charges for current Diamond Bar and Bar Circle customers.

12. Gem State Water currently has a pending acquisition of Spirit Lake East Water Company and Lynwood Water in Case No. SPL-W-19-01. If these transactions are approved, the Gem State Water tariff will include separate rate schedules for Spirit Lake, Lynwood, Diamond Bar and Bar Circle. In the event that Gem State Water believes it is in the customers' interest to consolidate the rate schedules of the legacy water systems operated by Gem State Water, Gem State Water will address any such changes in a ratemaking proceeding.

13. Gem State Water submits that the Transaction is in the public interest. The Transaction will provide access to capital that is not currently available to Diamond Bar or Bar Circle. Gem State Water, through its parent companies, will offer expertise in operating regulated utilities. The Transaction also creates the potential for economies of scale as more companies are acquired. Finally, Gem State Water will maintain the existing rates, rate structure and other charges and will maintain or improve the level of services currently provided.

REQUEST TO AMEND AND TRANSFER CPCN

14. Diamond Bar currently holds CPCN No. 413 and Bar Circle currently holds CPCN No. 296.

15. As described above, Gem State Water intends to provide service to Diamond Bar

⁵ <https://www.puc.idaho.gov/fileroom/tariff/water/BAR%20CIRCLE%20S%20WATER.pdf>. It appears that the Commission's website has not been updated to reflect Diamond Bar's current tariff, filed and effective on August 30, 2016 in Case No. DIA-W-15-00, in accordance with Order No. 33578, dated August 29, 2015. See **Attachment 2** to this Application.

and Bar Circle customers. Accordingly, Gem State Water respectfully requests that CPCN Nos. 413 and 293 be transferred to Gem State Water.

16. The transfer of the CPCNs is necessary to effectuate the Transaction, and to realize the public benefits discussed above. The transfer of the CPCNs is in the public interest for the same reasons as the Transaction more generally.

NOTICE

17. Gem State Water issued a press release regarding the Transaction on March 22, 2019, provided as **Attachment 3** to this Application. Gem State Water also intends to publish a notice to customers in the local newspaper (**Attachment 4** to this Application) regarding the Transaction and the Application, although no notice is required because Gem State Water is not proposing any changes to rates. IDAPA 31.01.01.125.

MODIFIED PROCEDURE

18. Gem State Water believes a hearing is not necessary to consider the issues presented in this Application and respectfully requests that it be processed by modified procedure, using written submissions rather than a hearing, under the Commission's Rules of Procedure 201 through 210.

Gem State Water respectfully requests that the Commission enter an order:

1. Authorizing this matter to be processed by modified procedure.
2. Approving the Transaction, finding that it is consistent with the public interest, that the cost and rates for supplying service will not be increased by reason of the Transaction, and that Gem State Water has the bona fide intent and financial ability to operate and maintain Diamond Bar's and Bar Circle's property in the public service.

3. Finding that the transfer of CPCN Nos. 413 and 296 is in the public interest and transferring CPCN Nos. 413 and 296 to Gem State Water.

4. Granting such other relief as the Commission deems just and reasonable.

DATED: April 29, 2019.

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