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ATTACHMENT 1

GEM STATE WATER COMPANY

**DIRECT TESTIMONY OF
JUSTIN PALFREYMAN**

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Attorneys for Gem State Water Company, LLC

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. BCS-W-19-01//DIA-W-19-01

**DIRECT TESTIMONY OF JUSTIN PALFREYMAN
ON BEHALF OF GEM STATE WATER COMPANY, LLC**

April 29, 2019

BACKGROUND

Q. Please state your name and title.

A. Justin Palfreyman, President of Gem State Water Company, LLC (“Gem State Water”). I also serve as the President of NW Natural Water of Idaho, LLC (“NW Natural Water of Idaho”) and NW Natural Water Company, LLC (“NW Natural Water”).

Q. Please summarize your professional experience and educational background.

A. I have worked for 16 years in strategy, finance and corporate development functions. I most recently worked as a Director in Lazard’s Power, Energy and Infrastructure Group in New York, where I provided strategic and financial advice to corporations, institutional investors, private equity funds and government clients. My advisory assignments related to general strategic advice; mergers, acquisitions and divestitures; raising capital; restructurings; corporate preparedness/takeover defense; and capital structure optimization. Prior to Lazard, I worked in the Infrastructure Investment Banking Group at Goldman Sachs in New York. I also previously held various positions in finance, strategy and business development at both Apex Learning and Accenture in Seattle, Washington.

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

Q. What is the purpose of your testimony?

A. My testimony is offered to provide the Idaho Public Utilities Commission (the “Commission”) and Commission Staff with information regarding Gem State Water’s proposed acquisition of the assets of Diamond Bar Estates, L.L.C. (“Diamond Bar”) and Bar Circle “S”

Water, Inc. (“Bar Circle”).

Q. Please describe NW Natural Water, and the relationship among NW Natural Water, NW Natural Water of Idaho, Gem State Water, and other related companies.

A. NW Natural Water is a wholly owned subsidiary of NW Natural Holding Company (“NW Natural Holdings”). NW Natural Holdings, which is headquartered in Portland, Oregon, is a publicly owned company with a market cap of approximately \$1.8 billion. It has revolving credit facilities aggregating to approximately \$400 million. NW Natural Holdings’ Form 10-K for 2018 filed with the Securities and Exchange Commission on March 1, 2019, is attached as Exhibit 1.

NW Natural Water was created to own and operate water utilities, through subsidiaries, in Oregon, Washington, and Idaho. NW Natural Water also has significant financial assets. It currently owns and operates three water utilities, including Falls Water in eastern Idaho.

Gem State Water is a wholly owned subsidiary of NW Natural Water of Idaho, which is in turn wholly owned by NW Natural Water. Gem State Water was created to operate water utilities in Idaho, including Diamond Bar and Bar Circle. Gem State Water and NW Natural Water of Idaho will have access to the financial resources and the utility expertise of NW Natural Water, NW Natural Holdings and their affiliates.

An organizational chart illustrating NW Natural Holdings’ corporate structure is attached as Exhibit 2. The chart has been designated “Confidential” per Commission rules.

Q. Please describe NW Natural Water’s interest in, and recent acquisitions, in the water sector.

A. In recent years, leadership of the NW Natural family of businesses undertook a comprehensive strategic review process to identify and evaluate potential growth opportunities

that, among other criteria, would offer a risk profile consistent with our core utility business and a long-term opportunity to grow beyond our existing business. The outcome of the strategic review process was a strategy and plan to pursue opportunities in the water utility and infrastructure sector, in addition to the ongoing focus on our 160 year old gas utility, storage and infrastructure business. We believe that a water strategy is a compelling fit for NW Natural because it would build on our core competencies of constructing, operating and maintaining infrastructure, providing best-in-class customer service, ensuring safety and reliability, and effectively managing a regulated utility.

NW Natural Water has been actively pursuing this strategy. NW Natural Water recently acquired, and is currently operating, three water companies through direct or indirect subsidiaries. These companies include Falls Water in eastern Idaho; Cascadia Water, LLC, in Washington; and Salmon Valley Water Company in Oregon. By owning and operating these water utilities, NW Natural Water has gained valuable experience in the water sector. These acquisitions, and the continued operation of these water utilities, were seamless, with no disruptions to customers' service. NW Natural Water will bring this experience to Gem State Water. Recently, Gem State Water filed an application with the Commission to acquire the assets of Spirit Lake East Water Company and Lynnwood Water, and the Commission is considering that application (Case No. SPL-W-19-01).

THE TRANSACTION

Q. Please describe Diamond Bar.

A. Diamond Bar is a privately owned, rate-regulated water utility located in or near Kootenai County in northern Idaho. I understand that Diamond Bar serves approximately 46 customers. Diamond Bar holds Certificate of Public Convenience and Necessity ("CPCN") No.

413.

Q. Please describe Bar Circle.

A. Bar Circle is a privately owned, rate-regulated water utility located in or near Kootenai County in northern Idaho. I understand that Bar Circle serves approximately 218 residential customers and one commercial customer. Bar Circle holds CPCN No. 296.

Q. Why is Gem State Water interested in acquiring the assets of Diamond Bar and Bar Circle?

A. Acquiring these assets fits squarely into NW Natural Water's continued growth in the water sector. Gem State Water, NW Natural Water of Idaho and NW Natural Water believe that Diamond Bar and Bar Circle are well-run and well-maintained. However, like many water utilities, the water systems are in need of capital investment to support system growth and maintain system integrity. Gem State Water, NW Natural Water of Idaho and NW Natural Water have the financial strength to support these needs. These two systems also give Gem State Water, NW Natural Water of Idaho and NW Natural Water an expanding platform for potential additional acquisitions in Idaho. Gem State Water, NW Natural Water of Idaho and NW Natural Water also believe that the acquisitions will provide a seamless transition from the current ownership of Diamond Bar and Bar Circle.

Q. Please describe the proposed transaction to acquire Diamond Bar and Bar Circle.

A. Gem State Water and the selling parties entered into an Asset Purchase Agreement ("Agreement") and an Addendum to Asset Purchase Agreement ("Addendum"),¹ both effective as of March 14, 2019. Under the Agreement and Addendum, attached as Exhibit 3, if approved

¹ Very generally speaking, the Addendum addresses the disposition of aspects of certain pending activities by Diamond Bar and/or Bar Circle.

by the Commission, Gem State Water will acquire substantially all the assets of Diamond Bar and Bar Circle, as well as the assets of Bar Circle “S” Ranch, Inc. (“Ranch”), an unregulated company.² Gem State Water intends to acquire the substantially all the assets of Diamond Bar and of Bar Circle through the transaction, 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. The Agreement and Addendum are designated “Confidential” per Commission rules.

Q. Is Gem State Water asking for any other action by the Commission?

A. Yes. Gem State Water is seeking Commission approval to transfer Diamond Bar’s CPCN No. 413 and Bar Circle’s CPCN No. 293 to Gem State Water.

Q. Is Gem State Water seeking to change rates for Diamond Bar or Bar Circle customers through this transaction?

A. No. Gem State Water is not seeking to change rates, rate structure, or other charges for Diamond Bar or Bar Circle customers through this transaction. The current rate structure, rates, and other charges will remain the same for each customer group. We understand that Idaho law authorizes the Commission to provide for acquisition adjustments in certain circumstances for entities acquiring water utilities in the State, but Gem State Water does not seek an acquisition adjustment with this particular transaction, and Gem State Water will not seek any increase to rates as part of this transaction. Any future rate increases would be related to prudent capital investments or other increased expenses, and would need to be justified at that time.

Q. Does this conclude your testimony?

A. Yes.

² Bar Circle “S” Ranch, Inc. (the “Ranch”) owns real property and easements on which some utility assets are located.