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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF GEM STATE WATER)
COMPANY, LLC'S APPLICATION FOR) **CASE NO. GSW-W-19-01**
APPROVAL OF ACQUISITION OF THE)
ASSETS OF THE WATER BUSINESS OF)
HAPPY VALLEY WATER SYSTEM INC.) **COMMENTS OF THE**
AND BITTERROOT WATER CO., INC.) **COMMISSION STAFF**
)

The Staff of the Idaho Public Utilities Commission comments as follows on Gem State Water Company, LLC's Application.

BACKGROUND

On November 18, 2019, Gem State Water Company, LLC (Gem State Water or Company) applied to the Commission for approval of its acquisition of the water business assets of Happy Valley Water System, Inc. (Happy Valley) and Bitterroot Water Co., Inc. (Bitterroot). The Company also asked for approval to transfer Happy Valley and Bitterroot's Certificates of Public Convenience and Necessity (CPCN) to Gem State Water.

Northwest Natural Gas Company is a 160-year old natural gas utility that serves customers in the Pacific Northwest. As part of a recent reorganization, Northwest Natural Gas Company formed the Northwest Natural Holding Company, which holds companies including NW Natural Water Company, LLC and its subsidiary, NW Natural Water of Idaho, LLC.

Gem State Water is a wholly owned subsidiary of NW Natural Water of Idaho, LLC. Gem State Water has applied to the Commission for authority to acquire the assets and CPCN's of two regulated Idaho water utilities, Happy Valley and Bitterroot. Happy Valley serves about 27 customers under CPCN No. 390 in or near Kootenai County, Idaho. Bitterroot serves about 160 residential customers and one commercial customer under CPCN No. 319 in or near Kootenai County, Idaho.

Gem State Water is not requesting any changes to rates, rate structure, or other charges in this Application and states that any future changes will be based on prudently incurred capital expenditures and other accepted ratemaking principles.

STAFF ANALYSIS

Idaho law does not specifically address the acquisition of water companies. As in previous water company acquisition cases, Staff relied on the standards outlined in *Idaho Code* § 61-328 related to the sale of electric utilities. Those standards require the Commission to determine that:

- a) The transaction is consistent with the public interest;
- b) The cost of and rates for supplying service will not be increased by reason of such transaction; and
- c) The applicant for such acquisition or transfer has the bona fide intent and financial ability to operate and maintain the system in the public service.

Having used these requirements for its analysis, and after a thorough review of all relevant documentation related to the sale, Staff recommends approval of the acquisition of Happy Valley and Bitterroot by Gem State Water and approval of the transfer of CPCN No. 390 for Happy Valley and CPCN No. 319 for Bitterroot to Gem State Water. Staff's comments will address Happy Valley and Bitterroot together with regard to the standards outlined in *Idaho Code* § 61-328.

Acquisition Documentation Review

Staff reviewed the Application including the Asset Purchase Agreement (Agreement), responses to production requests, and Idaho Department of Environmental Quality (IDEQ) sanitary surveys. One of the objectives of the document review is to determine if the assets being purchased and/or transferred will allow the system to operate at least as reliably as it has been

under the current owner by matching assets in the Agreement to those contained in IDEQ's sanitary surveys. Through its review, Staff discovered two issues: (1) an inadvertent error in a parcel number in the Agreement, and (2) a System Disapproval by IDEQ of the Bitterroot water system.

The parcel number error was related to property owned by Bitterroot to be purchased by Gem State as part of the acquisition. Through production requests with Gem State Water, the Company provided the correct parcel number. The parcel in question provides access to Pump House Number 1. Staff does not believe this issue should affect the acquisition; however, Staff recommends that the Company correct the error in the Agreement prior to the sale to avoid potential future access problems.

In addition, Staff discovered during its investigation a System Disapproval letter from IDEQ dated April 16, 2019 for the Bitterroot system. The IDEQ disapproval was due to, "material modifications without design basis provided by a qualified professional engineer licensed in the State of Idaho..." In Production Request No. 3, Staff asked Gem State Water about the status of the System Disapproval and how it would affect the acquisition. In its response, Gem State Water stated the Company's General Manager, Leslie Rayner, has been communicating with the IDEQ and her contact at IDEQ verbally supported Gem State Water's acquisition of the assets of the Bitterroot Water Company. In addition, Gem State Water stated it does not expect the current status of the IDEQ System Disapproval to affect its acquisition. Staff believes that the issue is being addressed proactively by Gem State Water and that the Disapproval should not affect the acquisition.

A. The Transaction is Consistent with the Public Interest

Staff notes that Gem State Water, in conjunction with its parent companies, is actively seeking to expand its operations in Idaho. Gem State Water and associated companies have shown commitment to their growth plan through the acquisition of Falls Water (FLS-W-18-01), Spirit Lake East/Lynnwood Water (SPL-W-19-01), Bar Circle S Water/Diamond Bar Estates (BCS-W-19-01/DIA-W-19-01), Taylor Mountain Water (FLS-W-19-01), and the submission of this Application. The acquisitions of water systems by Gem State Water may provide benefits through operational efficiencies and economies of scale as it acquires more systems. In the case of Happy Valley and Bitterroot, Staff expects any efficiency or overhead savings to remain

relatively small unless or until Gem State Water can acquire more water systems sufficiently close in proximity to operate in conjunction with each other.

B. The Cost of and Rates for Supplying Service will Not Increase Due to the Transaction

Gem State Water states it will maintain the existing rates and charges post-acquisition, and that it will not seek to include the transaction expenses related to the acquisition in rates. Palfreyman Direct at 7. When Gem State Water eventually files a general rate case, Staff will ensure that the requested rate increase was not driven by the transaction, and that rates will not be higher than they would have been absent the transaction.

C. Gem State Water has the Bona Fide Intent and Financial Ability to Operate and Maintain the System in the Public Service

Staff believes the Company has demonstrated its bona fide intent and financial ability to provide continued operation of the system and reliable service. Gem State Water has committed in its Application to provide safe and reliable service and to meet the infrastructure needs of Happy Valley and Bitterroot. *See* Application at 5. The Company has employed Leslie Rayner as their general manager. Ms. Rayner is an experienced water operator with whom Commission Staff has worked in the past. In these past interactions, Ms. Rayner has been responsive to requests for information from Staff and has complied with Commission orders.

Water systems routinely require repair, replacement, and extension of infrastructure to provide reliable and ample water service to customers. Financing this infrastructure at a reasonable cost is a challenge for smaller water systems. Gem State Water, through its parent company, Northwest Natural Holdings, has the necessary access to capital markets to proactively address Happy Valley and Bitterroot's infrastructure needs in a timely manner at a competitive cost. *See* Application at 2. Northwest Natural Holdings has an A2 credit rating from Moody's and an AA- credit rating from Standard and Poor's. Northwest Natural Holdings has net income of \$64.5 million, cash flow from operations of \$168.8 million, and a revolving credit line of \$400 million. Improved access to capital markets usually helps lower financing costs that ultimately are passed on to customers.

CUSTOMER NOTIFICATION AND PRESS RELEASE

Rule 125 of the Commission's Rules of Procedure does not require customer notification unless the Company is requesting a rate change. IDAPA 31.01.01.125. In its Application, the Company stated its intention to publish a Customer Notice in the local newspaper regarding Gem State Water's agreement to purchase Happy Valley and Bitterroot. It is unclear whether the Company has already published this notice. Regardless of whether the Company published this notice, if the Commission approves the sale of Happy Valley and Bitterroot to Gem State Water, Staff recommends that Gem State Water provide direct notice to customers of the purchase, either through a separate mailing, a message on bills, or as an insert sent with bills.

COMPANY TARIFF

Currently, Happy Valley and Bitterroot, including the Rickel Water Company operated under Bitterroot, have separate Commission-approved Tariffs, each with different rates, charges, rules, and regulations. If the sale is approved and Gem State Water wishes to create a single combined Tariff that lists all the separate rates and charges for the water systems owned and operated by Gem State Water, Staff recommends the Company work with Staff to combine the separate Tariffs following issuance of the final order in this case.

COMPANY DOCUMENTS

The Company must update customer documents to reflect any changes brought about by the sale of the Companies. Staff is willing to work with Gem State Water to update its billing and collection documents as well as its Explanation of Rates and Annual Rules Summary. Staff recommends the Company work with Staff to make any necessary revisions within three months of issuance of the final order in this case.

STAFF RECOMMENDATIONS

Staff recommends the Commission:

- Approve the sale of Happy Valley to Gem State Water.
- Approve the transfer of Happy Valley's CPCN No. 390 to Gem State Water.
- Approve the sale of Bitterroot to Gem State Water.
- Approve the transfer of Bitterroot's CPCN No. 319 to Gem State Water.

- Order Gem State Water to notify customers directly of the sale of Happy Valley and Bitterroot to Gem State Water, either through a separate mailing, a message on bills, or as a bill insert.
- Order Gem State Water to work with Staff to file conforming Tariffs if the Company wishes to create a single combined tariff for the water systems owned and operated by Gem State Water.
- Order Gem State Water to work with Staff to make any necessary revisions to its billing and collection documents and its Explanation of Rates and Annual Rules Summary within three months of issuance of the Commission's final order in this case.

Respectfully submitted this 19th day of February 2020.



Matt Hunter
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF FEBRUARY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. GSW-W-19-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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