

BRANDON KARPEN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
IDAHO BAR NO. 7956

RECEIVED
2018 MAY 31 PM 1:18
IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF NORTHWEST NATURAL WATER)	CASE NO. FLS-W-18-01
COMPANY, LLC TO ACQUIRE FALLS)	
WATER COMPANY)	COMMENTS OF THE
)	COMMISSION STAFF
)	
)	

The Staff of the Idaho Public Utilities Commission submits the following comments regarding the above referenced case.

BACKGROUND

On February 21, 2018, NW Natural Water Company applied to the Commission requesting approval of its proposed acquisition of Falls Water Company. NW Natural Water is an Oregon limited liability company and a wholly-owned subsidiary of Northwest Natural Gas Company, a publicly traded Oregon corporation ("NW Natural") engaged in the natural gas distribution and storage business, located in Portland, Oregon. Falls Water is a privately held Idaho water company serving approximately 5,500 customers near Idaho Falls, Idaho. Falls Water holds Certificate of Public Convenience and Necessity ("CPCN") No. 236, as amended and approved by the Commission on August 13, 2015. According to NW Natural, Falls Water will continue to operate with its current management and employees (for at least two years), with

Brent Johnson, Falls Water's sole shareholder, retained as President (for at least one year). Application at 3, Exhibit 2 at 33. In addition, NW Natural has stated that the merger will not cause an increase in rates. Application at 3. The Application includes a number of capital improvements deemed necessary to maintain safe and reliable water service, including some improvements already approved by the Commission. Application at 4.

NW Natural has also requested that the Commission approve "the subsequent change of upstream ownership (two levels up) of Falls Water Company, associated with the formation of the NW Natural holding company, to the extent the Commission deems such an approval necessary." Application at 6.

The Commission issued notice of the Application and set an intervention deadline of March 30, 2018. No intervenors appeared in this case. The Commission set a May 31, 2018, comment deadline, and a June 7, 2018, reply deadline. Additionally, a public workshop was held on May 21, 2018. No customers attended the workshop, and no customer comments have been filed.

STAFF REVIEW

Staff recommends that the Commission approve the proposed acquisition of Falls Water by NW Natural Water. Staff's recommendation is based on its review of NW Natural Water's Application, the direct testimony and exhibits of Justin Palfreyman, Vice President of Strategy and Business Development for NW Natural, and NW Natural's responses to Staff's production requests.

Idaho law does not specifically address the acquisition of water companies. As it has done 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 dictate 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 said property in the public service.

Staff believes that the proposed acquisition by NW Natural Water meets all three standards.

Public Interest

Staff believes that this acquisition serves the public interest because, as discussed in more detail below, it provides improved access to capital needed for system upgrades and opportunities for cost savings based on economies of scale.

Cost and Rates

NW Natural Water stated that the acquisition will not cause an increase in rates. Application at 3, Palfreyman Direct at 3. See also Response to Production Request No. 16. While the Company has identified some future system improvements that could justify higher rates, those improvements are independent of the acquisition and may be necessary regardless of whether the system is acquired by NW Natural Water or continues as a stand-alone system.¹ Staff believes that the acquisition will not increase the cost to operate, maintain, and expand the Falls Water system because the system will function post-acquisition as it has pre-acquisition.

Staff believes that the acquisition will not increase costs associated with system operation. NW Natural Water has better access to capital markets than Falls Water and is therefore more likely to procure lower-cost financing for system upgrades, if and when needed. NW Natural Water has the ability to access capital markets because it is a publicly traded company with strong credit ratings from two major credit rating agencies. It has received investment-grade ratings of “A1” from Moody’s, and “AA+” from Standard and Poor’s in 2016 and 2017. Lower financing rates will help control costs that ultimately are passed on to customers.

In addition to improved access to capital markets, the acquisition may provide economies of scale for overhead and shared services functions that can lower costs for customers. NW Natural believes that shared services expenses per customer can be reduced by spreading the costs across multiple utilities. Examples are certain legal and engineering costs. Response to Production Request No. 11. Staff agrees there is potential to reduce costs to Falls Water customers, although the size of these cost savings is unknown.

Operational economies of scale are created by spreading downstream labor costs (e.g., wages and benefits of a skilled field technician) or capital equipment costs (e.g., cost of a new

¹ Falls Water and NW Natural Water have identified upgrades to Well No. 11 to meet fire flow, peak demand, and pressure regulation requirements in the next 1 to 3 years. A 1.5 million gallon storage tank near Well No. 9 may be needed at approximately the same time.

backhoe) over more systems and customers, by getting quantity discounts for material and supply purchases, or by realizing efficiencies through jointly operating nearby systems. In this case, Staff does not believe most of these savings will be realized. Many operational economies of scale are only possible when the water systems are located near each other and can share resources, and NW Natural Water does not own any such systems. The Company has stated that it intends to make future water system acquisitions, but Staff notes that these acquisitions will only contribute to operational economies of scale that benefit Falls Water customers if those water utilities are located close enough to operate in conjunction with each other.

Intent and Ability to Operate

In his direct testimony, Mr. Palfreyman indicated that one of NW Natural's long-term growth strategies is to "acquire, develop and manage a meaningful water utility business." Palfreyman Direct at 2-3. The acquisition of Falls Water appears to support NW Natural's stated long-term growth strategy and shows that it intends to continue operating the Falls Water system.

In addition to its intent, Staff believes that NW Natural Water has the ability to operate the system because it is a regulated utility with the experience, expertise, and financial resources to operate smaller water utilities. NW Natural Water has familiarized itself with the Falls Water system, developed a plan for operating the system, and demonstrated its intent to provide safe and reliable water service.

Staff also believes that NW Natural Water can successfully operate the Falls Water system because it is not making any immediate management or employment changes to existing Falls Water staff. In its Application and exhibits, NW Natural Water stated that Falls Water's current owner will remain with the Company as President for at least one year and that Falls Water employees will be employed by NW Natural Water for at least two years. Application at 3, Exhibit 2 at 33. NW Natural Water has already begun working with Falls Water employees to identify capital improvements that may be necessary in the future for the growing Falls Water system. Application at 4.

Last, Staff believes that by joining a large, publicly traded corporation, Falls Water may also avoid issues surrounding succession planning that other small utility companies often face.

Company's Request for Approval of NW Natural Holding Company Structure

NW Natural has requested that the Commission approve upstream ownership changes associated with the formation of the NW Natural holding company to the extent the Commission deems such an approval necessary. Application at 6.

Staff believes that this type of ownership change should include Commission notification but formal approval is not required. Staff believes that the only relevant consequence of NW Natural's organizational structure is whether it imposes costs on Falls Water customers that will result in future rate increases exceeding those that would have existed absent the acquisition. Staff will review this issue in future proceedings to ensure that Falls Water customers are not adversely affected.

CUSTOMER NOTICE AND PRESS RELEASE

NW Natural Water did not file a customer notice or press release with its Application. However, the Company subsequently provided customers with notice by press release of its request for approval of the Company's acquisition of Falls Water in the Post Register on May 16 and 20, 2018. The Company is not required to provide notice to customers or issue a press release because the Company is not proposing any changes to rates. IDAPA 31.01.01.125.

Public Workshop and Comments

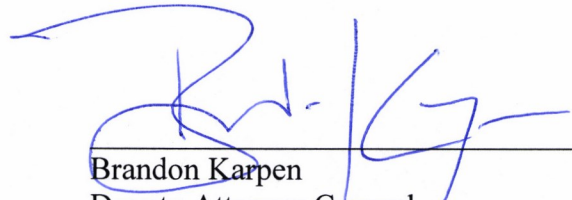
On May 9, 2018, the Commission issued a press release regarding the sale and purchase of the Company and the upcoming public workshop. The Commission Staff held a workshop on May 21, 2018, in the City Hall in Ammon, Idaho. Both Falls Water Company and NW Natural Water were represented. No customers attended the workshop.

As of May 31, 2018, the Commission has not received any comments regarding this case.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the proposed acquisition of Falls Water by NW Natural Water.

Respectfully submitted this 21st day of May 2018.



Brandon Karpen
Deputy Attorney General

Technical Staff: Bentley Erdwurm
Brad Iverson-Long
Chris Hecht
Michael Morrison

i:umisc:comments/flsw18.1bkbeblcwhmm comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31ST DAY OF MAY 2018,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF** IN
CASE NO. FLS-W-18-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID,
TO THE FOLLOWING:

MICHAEL C CREAMER
PRESTON N CARTER
GIVENS PURSLEY LLP
601 W BANNOCK ST
BOISE ID 83702
E-MAIL: mcc@givenspursley.com
prestoncarter@givenspursley.com

ZACHARY D KRAVITZ
NORTHWEST NATURAL GAS CO
220 NW 2ND AVE
PORTLAND OR 97209
E-MAIL: zdk@nwnatural.com



SECRETARY

CERTIFICATE OF SERVICE