

Agenda Date: February 9, 2005  
Item Numbers: A2 through A7

**Dockets:** UW-042119 through UW-042124  
**Company Names:** H&R Waterworks Inc.,  
The Water Company of Washington, LLC (UW-042124),  
Meadows Water System, LLC (UW-042123),  
Quail Run Water Company, Inc. (UW-042122),  
Tall Timbers Water Systems, LLC (UW-042121),  
Timberline Village Water Company, Inc. (UW-042120),  
Transitions Water Service, LLC (UW-042119),  
Utility Management Services, LLC.

**Staff:** Jim Ward, Regulatory Analyst

**Recommendation:**

Approve the applications by the above named companies for a merger of property by stock or membership acquisitions in Dockets UW-042119 through UW-042124, effective February 10, 2005.

**Discussion:**

On December 2, 2004, H&R Waterworks, Inc., (H&R Waterworks) and above listed companies filed applications pursuant to the provisions of Chapter 80.12 RCW for a merger of property by stock or membership acquisition of H&R Waterworks, Inc.

H&R Waterworks is a Washington corporation formed to act as a utility holding company. H&R Waterworks is located in Tumwater and will serve approximately 2,700 customers on 91 water systems in Thurston, Mason, Lewis, Kitsap and Pierce Counties.

The customers of the above listed companies were notified of this proposed merger of property by stock or membership acquisition of H&R Waterworks. In addition to the regulated water service operations, H&R Waterworks will also conduct non-regulated businesses including satellite management of regulated and non-regulated water systems and general contractor services in the utility industry. H&R Waterworks will acquire all operations and property of the above listed companies based on exchanging its shares of common stock or membership interest for all outstanding stock or membership of the above listed companies and assumption of outstanding debt.

The Commission received many calls from customers asking how this filing would affect their rates and service. These customers were informed that this filing does not involve changes in rates or services. One customer contacted the Commission to express strong opposition to the filing because he believes customers on efficient systems will have to pay higher rates to subsidize inefficient systems.

H&R Waterworks claims the benefits of this merger include expanded financial resources and water quality staff and equipment to provide all aspects of water system repair and operations.

H&R Waterworks also notes that regulatory agencies will be dealing with one company instead of seven. H&R Waterworks is also merging Utility Management Services (UMS) a non-regulated company that provides Satellite Management Agency (SMA) functions recognized by the Department of Health and technical staff for all prior operations of the above listed regulated water companies. H&R Waterworks will continue to provide SMA services to both regulated and non-regulated water systems to help maximize the use of former UMS staff and equipment. H&R Waterworks will continue to operate locally in Tumwater.

There is no purchase price for the water company assets as this sale and transfer is made on a merger basis in exchange for stock or membership interest. The merged assets will be owned pro-rata by the current owners of Transitions Water Service, LLC and H&R Waterworks. Staff calculates the combined rate base of H&R Waterworks will be approximately \$1,944,897 and serves a combined total of approximately 2,700 customers in five counties.

Rates for the above listed companies will not change because of this merger and the Commission will review any proposed future rate changes. H&R Waterworks will adopt each tariff of the above listed regulated water companies. In accordance with WAC 480-80-133(5), H&R Waterworks must file with the Commission within sixty days after the effective date of this Order to incorporate the adopted tariff into its own tariff consistent with its adoption of the above listed company tariffs. Also, H&R Waterworks must file with the Commission within sixty days after the effective date of this Order, the journal entries by which it proposes to record on its books the transfer of water company assets authorized herein. The effective date for accounting purposes shall be January 1, 2005.

Staff recommends that the Commission approve the applications by H&R Waterworks and the above listed regulated water companies for a merger of property by stock or membership acquisition in Dockets UW-042119 through UW-042124, effective February 10, 2005, with an accounting effective date of January 1, 2005.