

Agenda Date: July 30, 2015  
Item Number: A7

Docket: UW-150688  
Company Names: Fragaria Landing Water Company,  
Lowper, Incorporated dba Lowper Water Company,  
Marbello Water Co., Inc.  
SJM Water Service, Inc. and  
Iliad Water Services, Inc.

Staff: Jim Ward, Regulatory Analyst  
John Cupp, Consumer Protection Staff

### **Recommendation**

Grant the application for the sale and transfer of stock, and approve the merger of Fragaria Landing Water Company; Lowper, Incorporated dba Lowper Water Company; Marbello Water Co., Inc. and SJM Water Service, Inc. into Iliad Water Services, Inc. and the adoption the tariffs by Iliad Water Services.

### **Discussion**

On April 21, 2015, Fragaria Landing Water Company (Fragaria), Lowper, Incorporated dba Lowper Water Company (Lowper), Marbello Water Co., Inc. (Marbello) and SJM Water Service, Inc. (SJM) and Iliad Water Services, Inc. (collectively, the companies), filed with the Washington Utilities and Transportation Commission (commission) an application for sale and transfer of stock pursuant to the provisions of RCW 80.12.

The requested petition for sale and transfer is presented in two parts. The first step transfers the shares of stock for Fragaria, Lowper, Marbello and SJM to Iliad Water Services. The shares of stock for Fragaria, Lowper, Marbello and SJM will be cancelled and new shares reissued on the books of Iliad Water Services. The second step will merge Fragaria, Lowper, Marbello and SJM into Iliad Water Services done pursuant to a plan of merger and the filing of Articles of Merger with the Secretary of State.<sup>1</sup> Iliad Water Services as the surviving entity shall continue its existence under the laws of the State of Washington, and upon the merger, Iliad Water Services shall possess all the rights, privileges, immunities, powers and obligations of Fragaria, Lowper, Marbello and SJM.

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<sup>1</sup> After the shares are transferred, Derek Dorland will become sole director and President of each company.

The chart below shows the pertinent information for each of the water companies and their respective water systems.

Name – system	DOH ID#	Customer Count	Location	County
Fragaria				
Fragaria Landing	266519	85	Port Orchard	Kitsap
Hunt I & II	00567T	24	Port Orchard	Kitsap
Lowerper	019595	7	Sequim	Clallam
Marbello	51530M	98	Monroe	Snohomish
SJM – Cherry Creek	23101W	54	Duvall	Snohomish
Iliad Water Services				
Alder Lake	221957	35	Eatonville	Pierce
Cascade Creek	31203Y	46	Lake Stevens	Snohomish
Western Stavis II & III*	01668H	24	Poulsbo	Kitsap

\*System transferred to Kitsap PUD in 2011.

Fragaria, Lowerper, Marbello and SJM's current owners no longer desire to own and operate the water systems as stand-alone businesses whereas, Iliad Water Services desires to own and operate the water systems on an ongoing basis. The companies claim several benefits of this sale and transfer of stock and new ownership, one of which is Iliad Water Services will be able to bring economies of scale benefits to the utilities in certain areas, such as operations, project financing, billing, and insurance. Iliad Water Services will continue to use the same operations and billing staff who are familiar with each of the utility's operations resulting in no disruption of service.

Iliad Water Services will acquire the stock of each company for the sum of One Dollar (\$1.00) and other valuable consideration. Upon approval of this sale and transfer, Iliad Water Services will adopt Fragaria, Lowerper, Marbello and SJM's tariff. Monthly water rates and ancillary charges for services will not change at this time.

After the merger, Iliad Water Services will have a total customer count of about 350 users with annual income of \$206,000 and total company assets of approximately \$1,600,000.

The proposed transfer and tariff adoption will have an effective date of August 1, 2015. This date coincides with Fragaria, Lowerper, Marbello and SJM's billing periods. For accounting purposes, the utility's accounting records will be transferred and effective on that date.

Staff must determine consistent to RCW 80.12.020 and WAC 480-143-170, that the applicants in the transaction must “at least demonstrate no harm to the public interest.”<sup>2</sup> Staff must also look to the new company’s financial and managerial fitness to run the operations.<sup>3</sup> Staff believes the applicants have shown there are substantial benefits to the proposed sale and transfer and that the application meets the requirements of RCW 80.12 and WAC 480-143.

Iliad Water Services assumes the regulatory obligations of the purchased utilities. If the commission approves the sale and transfer of Fragaria, Lowper, Marbello and SJM to Iliad Water Services. Iliad Water Services will be subject to any obligations the commission imposed on Fragaria, Lowper, Marbello and SJM.

If the sale and transfer is allowed, the commission neither approves nor disapproves the reasonableness of any fees, charges, rates, purchase price, or accounting allocations involved with the transaction. The commission reserves the right to review those fees, charges, rates, or accounting allocations in a future rate proceeding.

### **Conclusion**

After reviewing the joint application of Fragaria, Lowper, Marbello and SJM filed in Docket UW-150688 on April 21, 2015, staff believes that the Application of the Sale and Transfer of Stock by Fragaria, Lowper, Marbello and SJM to Iliad Water Services and the merger of companies is in the public interest and should be approved. This merger will consolidate five separate companies into one allowing for economies of scale in management and operations. A larger customer base will help to support plant cost and future industry issues.

### **Customer Comments**

On April 21, 2015, the company notified its customers of the proposed merger by mail. Staff received no comments regarding the proposed merger. Customers may contact John Cupp at 1-888-333-9882 or [jcupp@utc.wa.gov](mailto:jcupp@utc.wa.gov) with questions or concerns.

### **Recommendation**

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<sup>2</sup> *In Re Application of PacifiCorp & Scottish Power, LLC*, Docket UE-981627, Third Supplemental Order on Prehearing Conference at 2-3 (April 2, 1999).

<sup>3</sup> *Id.*