

Agenda Date: February 28, 2003  
Item Number: A4

**Docket:** UW-021667  
Company Name: Thomas Water Service, Inc.

Staff: Jim Ward, Regulatory Analyst  
Penny Hansen, Public Involvement Coordinator

**Recommendation:**

Issue a Complaint and Order Suspending the Tariff Revision filed by Thomas Water Service, Inc., in Docket UW-021667.

**Background:**

On December 17, 2002, Thomas Water Service, Inc., (Thomas Water or Company) filed to increase its rates. The Company is proposing an annual increase of \$49,010 (100%). Thomas Water serves approximately 67 customers along with an equestrian area north of Arlington in Snohomish County.

The Company states that the increase is to help recover the expenses of Satellite Management services and capital cost recovery with return.

On January 29, 2003, the Commission heard this item and customer comments. Due to the Company extending the effective date, no action was taken at that meeting. Subsequent to that meeting Commission Staff, Company representatives and Customers met to discuss the issues. Staff explained the Commission processes of rate setting, facilitated questions between the Customers and the Company, and answered questions about regulation.

The Commission received a petition with 52 signatures and seven letters stating opposition to the increase. Customers have stated the proposed increase is exorbitant and should not be allowed. Customers believe the Company has not operated prudently and it could look for more efficient methods to reduce costs. Customers state the financial contract for a certified water operator and meter reader (Snohomish County PUD); billing agent and consultant (Washington Water Service); and engineer, legal and accounting (Cheryl Henry & Assoc.) are extremely high. Customers are paying \$25.80 per month per customer for these services. Customers believe the Company contracted with the easiest and, perhaps, the most expensive service providers for their contracted services. Customers are concerned over the ownership and water rights for the Meadow Ridge Water System. Customers have stated that the Lockwood Foundation purchased Thomas Water Company to acquire two water rights

that provided much greater capacity than it needed for Meadow Ridge. Customers believe that the only reason the system was purchased was for the water rights to allow development of a subdivision known as Kackman Creek. Customers believe they are paying a much higher portion of costs due to these facts.

Thomas Water received its last rate increase in January 1999. At that time, Thomas Water notified its customers that the rate represented approximately one-half of what the Company thought it could justify. The Company said it elected not to recover the cost of capital improvements the owners made to bring the water system into compliance with the requirements of the Washington State Department of Health and did not include a return on those investments.

Thomas Water has attempted over the past four years to sell the water system to the customers (in the form of Meadow Ridge Homeowner's Association), or to Snohomish County Public Utility District (PUD). The Company received a letter dated November 20, 2002, from the Meadow Ridge Homeowner's Association declining the purchase of the system. In November 2002, Thomas Water also determined that a sale to PUD was not feasible based on a proposal for a preliminary feasibility study prepared by the PUD. The Company claims that it must now seek approval for what it calls a "full-recovery" rate.

The Company states it contracted with the PUD approximately four years ago because Thomas Water's prior experiences with individual certified operators resulted in Company being out-of-compliance with Department of Health requirements. The PUD provides Satellite Management Agency (SMA) functions for the water system. These functions include meter reading, water system testing and record keeping, chlorination service, flushing and inspections, on-call repair and routine maintenance work. A second SMA, Washington Water Service, Inc., a regulated water company, provides billing, accounting services, and regulatory consulting.

**Discussion:**

According to the current water system plan of this Company, Thomas Water owned three water systems: Meadow Ridge (67 customers), Meadowbrook (14 customers), and Ironwood Ranch (not developed, potential 143 customers). Since then, the Meadowbrook water system was sold to the customers (UW-991327). Ironwood Ranch (now called Kackman Creek) is partially developed and the water system was recently

turned over to the homeowner's association (not Commission approved). Thomas Water now consists only of the Meadow Ridge water system.

Current and proposed rates are provided below:

<u>Monthly Rate</u>	<u>Current</u>	<u>Proposed</u>
3/4 inch meter with zero allowance	\$ 40.00	\$ 62.50
Zero to 800 cubic feet, per 100 cubic feet	\$ 2.25	\$ 6.50
Over 800 cubic feet, per 100 cubic feet	\$ 3.25	\$ 8.60

Compensation costs for this Company includes the costs for a certified operator, meter reading, billing, and consulting, engineering, accounting and legal services. Commission Staff has reviewed this Company and other companies to best determine an appropriate level for compensation used to provide SMA, staffing, and consulting services. Staff has found that on a monthly basis per customer, that an expense of about \$12.00 is reasonable. The Company is now proposing a level of \$31.53 per month per customer.

Staff has found that originally, the water rights for Meadow Ridge and Kackman Creek (formerly Ironwood Ranch) belonged to Thomas Water. Due to the problems with the original five wells located in the pastureland of Meadow Ridge, some water rights were transferred to the Kackman Creek area. Four wells were drilled and placed in service. One of the wells was directly piped to the Meadow Ridge water system and is its primary source of water, allowing three of the original pastureland wells to be taken out of service. Two of the wells located in the pastureland are maintained as backup sources for Meadow Ridge water system. Three new wells in Kackman Creek area were developed and supply the Kackman Creek development, proposed for 143 connections. Due to the original ownership and subsequent transfer of water rights to Kackman Creek, Staff believes that some dollar amount should have been credited to the original Thomas Water customers located in Meadow Ridge.

While Staff does not have a cost or a value for the water rights used for Kackman Creek, Staff believes Thomas Water customers are entitled to some type of compensation for property previously owned by the water company and subsequently disposed of. Additionally, since these water rights originally belonged to Thomas Water, Staff is reviewing whether or not the transfers were subject to the sale and transfer requirements under Chapter 80.12 RCW and Chapter 480-143 WAC.

**Conclusion**

The Company has not yet demonstrated that the proposed rates are fair, just, and reasonable. Therefore, Staff recommends that the Commission issue a Complaint and Order Suspending the Tariff Revision filed by Thomas Water Service, Inc., in Docket UW-021667.