

Agenda Date: April 30, 2015
Item Number: A3

Docket: UW-150573
Company Names: Rainier View Water Company, Inc.
Eastwood Park Water Co. Inc.

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

Recommendations

1. Approve the Sale and Transfer of the assets of Eastwood Park Water Co., Inc., to Rainier View Water Company, Inc.
2. Approve an acquisition adjustment for Rainier View Water Company, Inc., to capitalize for rate base, the difference between the purchase price and Eastwood Park Water Co., Inc.'s rate base as of December 31, 2014.
3. Approve the adoption of Eastwood Park Water Co., Inc.'s rates and charges by Rainier View Water Company, Inc., to become effective May 1, 2015.
4. Require Rainier View Water Company, Inc., to file no later than December 1, 2015, to shift Eastwood Park customers to the rates and charges applicable to Rainier View's current customers.

Discussion

On March 2, 2015, Rainier View Water Company, Inc. (Rainier View or company) and Eastwood Park Water Co., Inc., (Eastwood Park) filed a joint application with the Washington Utilities and Transportation Commission (commission) for sale and transfer of assets of Eastwood Park pursuant to the provisions of RCW 80.12. Eastwood Park's service area is located near Spanaway in Pierce County serving 86 residential customers. The company's system is also known as Eastwood Park Water System (Department of Health ID # 221957).

Rainier View is located near Graham and provides water service to approximately 17,500 customers served on 26 water systems located in Pierce County with two water systems located in Kitsap County.

Asset Acquisition Agreement

Rainier View and Eastwood Park signed an 'Agreement to Sell and Purchase' (Agreement) water system assets on February 13, 2015. Rainier View agrees to purchase substantially all the assets of Eastwood Park, but not the company itself. The Eastwood Park net rate base was \$52,310, as of December 2014, whereas the agreed purchase price of the Eastwood Park assets is \$75,000. The purchase price exceeds the rate base by \$22,690. Rainier View proposes and staff supports a resulting acquisition adjustment of the \$22,690.

This adjustment would be recovered over the remaining average useful life of the water system assets which is eight years. If recovered from Eastwood Park customers only the annual amount per customer would be about \$33 for eight years. In contrast, if recovered from all Rainier View customers (including Eastwood Park) the annual amount per customer would be \$0.16 for eight years. Staff supports the eight-year recovery from all customers.

Benefits to Customers

Staff believes that the recovery of the acquisition adjustment is in the public interest for a number of reasons which benefit existing Rainier View customers as well as customers of Eastwood Park. The acquisition's primary benefit to Rainier View customers is the expansion of water rights available to the company and its customers. Currently, Rainier View's water rights are fully allocated while Eastwood Park's water rights are underutilized due to the relatively small size of the development. Therefore, the purchase of Eastwood Park provides Rainier View with an effective means of expanding the water supply available to its existing and future customer base particularly in light of the fact that the Department of Ecology is not issuing additional water rights for the area served by Rainier View.

In addition, Eastwood Park customers would receive:

- A competent operator who operates other systems nearby;
- Fewer water quality and quantity issues;
- Access to capital markets to finance additional necessary improvements to the water system infrastructure that Eastwood Park could be unable to gain funding to pursue;
- The existing water source at Eastwood Park is unreliable, and, because it is a relatively shallow well, susceptible to e-coli contamination. An intertie constructed by Rainier View that will connect Eastwood Park customers to Rainier View's system and will allow the decommissioning and abandonment of the Eastwood Park shallow well providing a more reliable water system that is not bedeviled by electric power outages that occasionally impacted the Eastwood Park system.
- The services of a staff that is experienced, professional and customer-oriented.
- A monthly savings of \$19.15 per customer as the average monthly charge will decline from \$40.79 to \$21.64 once Eastwood Park is incorporated into Rainier View's tariff and rate structure.

Effect on Rates

Rainier View agrees to assume and maintain the rates and charges of Eastwood Park. Rainier View has proposed to maintain the Eastwood Park rates until the intertie to Rainier View's water system is completed. An initial cost estimate for the intertie is projected at \$10,000. Based on current customer bills for Eastwood Park customers and Rainier View's rates for service results in an estimated cost differential of approximately \$1,634 (\$19 x 86) per month. Rainier View

should recover the intertie cost in about six to seven months from the Eastwood Park customers. After recovery of the intertie costs, Rainier View will file to shift Eastwood Park customers to Rainier View's rates and lower their monthly bills. This rate and billing option will have no impact on Rainier View's existing customers.

Eastwood Park notified its customers of the sale and transfer in a mailing on March 18, 2015. Staff received no comments on this filing. The rate structures of both companies are compared below.

Rate Comparison

Monthly Rate	Eastwood Park	Rainier View
Base Rate, 3/4-Inch Meter ¹	\$32.25	\$13.90
0 – 500 CF ² , Per CCF ³	\$1.00	NA
0 – 600 CF ² , Per CCF ³	NA	\$.94
501 – 1,000 CF, Per CCF	\$1.25	NA
601 – 3,000 CF, Per CCF	NA	\$1.00
Over 1,000 CF, Per CCF	\$1.60	NA
Over 3,000 CF, Per CCF	NA	\$2.80

1 – Based on 3/4-inch meter classification, see company's tariff for upsize meter classifications, usage blocks and rates.

2 - CF – Cubic Feet, 3 - CCF - 100 Cubic Feet.

Monthly Residential Bill Comparison

Monthly Average 783 Cubic Feet	Eastwood Park	Rainier View
3/4-Inch Metered Base	\$32.25	\$13.90
0-500 Cubic Feet	\$5.00	NA
500-783 Cubic Feet	\$3.54	NA
0-600 Cubic Feet	NA	\$5.64
600-783 Cubic Feet	NA	\$2.10
Water Bill Total	\$40.79	\$21.64
Decrease From Eastwood Park Current Rates		-\$19.15 -46.9%

Conclusion

1. Commission staff has completed its review of the Agreement to Sell and Purchase as filed and the company's supporting financial documents, books and records. Staff's review shows that the transfer of assets to Rainier View is reasonable and should result in better service to Eastwood Park customers as part of Rainier View's operations.

2. The Eastwood Park water right is underutilized due to the size of the development and by approving the transfer of assets and customers to Rainier View, the company will gain the full use of the additional water capacity for its existing customers.
3. Rainier View is requesting an acquisition adjustment of \$22,690, to be paid by all customers of the combined Rainier View and Eastwood Park system. Consolidation of Eastwood Park with Rainier View is in the public interest. This adjustment is reasonable given the condition and operation of the Eastwood Park water system. Staff concludes the revised rates and charges are fair, just, reasonable, and sufficient.
4. Rainier View will incur capital cost and operating expenses to provide water service from the Rainier View's water system. The capital costs will include the disconnection of well, pumps and piping from the distribution system and construction of an intertie with Rainier View's existing distribution piping. Staff concludes that Rainier View's adoption and continued application of Eastwood Park's rates and charges until the intertie costs are recovered is not unreasonable. No later than December 1, 2015, Rainier View will file to shift Eastwood Park customers to the rates and charges applicable to Rainier View's current customers.

The company's financial information supports Staff's opinion that the agreement, acquisition adjustment and adoption of rates and charges are in the public interest.

Recommendations

1. Approve the Sale and Transfer of the assets of Eastwood Park Water Co., Inc., to Rainier View Water Company, Inc.
2. Approve an acquisition adjustment for Rainier View Water Company., Inc., the difference between the purchase price and Eastwood Park Water Co., Inc.'s rate base as of December 31, 2014.
3. Approve the adoption of Eastwood Park Water Co., Inc.'s rates and charges by Rainier View Water Company, Inc. to become effective May 1, 2015.
5. Require Rainier View Water Company, Inc., to file, no later than December 1, 2015, the cancelation of the current Eastwood Park tariffs and the adoption of Rainier View tariffs for Eastwood Park customers.