

Agenda Date: April 27, 2005  
Item Number: A9

**Docket:** UW-050515  
Company Names: Gamble Bay Water, Inc., and  
Washington Water Service Company

Staff: Jim Ward, Regulatory Analyst  
Gene Eckhardt, Assistant Director of Transportation and Water

**Recommendation:**

Approve the application by Gamble Bay Water, Inc., and Washington Water Service Company for the sale and transfer of assets of Gamble Bay Water, Inc., in Docket UW-050515, to become effective May 1, 2005.

**Background:**

On March 31, 2005, Gamble Bay Water, Inc., (Gamble Bay) and Washington Water Service Company (Washington Water Service) filed an application pursuant to the provisions of chapter 80.12 RCW for the sale and transfer of assets of Gamble Bay Water, Inc.

Gamble Bay serves 286 customers on 13<sup>1</sup> water systems in Mason, Kitsap and Snohomish counties. The current owners (Mike and Charlene Knapp) accepted ownership as a result of a bankruptcy proceeding of the previous owners (the Randles) and want to get out of the water business.

The water systems owned by Gamble Bay and that are part of this application include Bucklin \ Vincent Water System ID #66936L, Foss Road Water System ID #63918X, Johanson Water System ID #36782F, Northwood Water System ID #62100E, and Phelps Road Water System ID #63210W, and are located mainly in the Bremerton, Poulsbo areas and serve approximately 185 customers. The transfer application shows that Washington Water Service is a Washington corporation formed to act as a utility holding company. Washington Water Service, located in Gig Harbor, currently has two operating districts serving over 17,000 customers. Washington Water Service will acquire all operations and property of Gamble Bay for \$1.00 and assumption of loans totaling \$334,464.88.

Gamble Bay notified its customers of the proposed sale and transfer of assets on March 25, 2005. The Commission has received no comments from those customers.

The benefits of this merger include expanded financial resources, in-house engineering

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<sup>1</sup> The Bucklin Hill and Vincent Road systems are now intertwined and considered to be one system - Bucklin \ Vincent Road.

and water quality staff to provide all aspects of water system repair and operations. Washington Water Service anticipates centralizing some services later to help economize operations.

Rates charged to water customers on these water systems would not change because of this transfer and any future rate changes would be reviewed by this Commission. On May 1, 2005, Washington Water Service would begin billing monthly for all services at the rates shown below.

<u>Monthly Rates</u>	<u>Current</u>
Bucklin\Vincent, Foss, Northwood, & Phelps Water Systems:	
Base Charge, includes 400 cubic feet	\$26.00
401 to 1,000 cubic feet (per 100 cubic feet)	2.74
> 1,001 cubic feet (per 100 cubic feet)	3.00
Johanson Water System:	
Base Charge, includes 500 cubic feet	\$20.50
> 500 cubic feet (per 100 cubic feet)	1.05
Johanson Well Surcharge*	\$ 2.27

\*Surcharge will remain in effect until it repays the loan of \$27,500 plus interest, fees, or taxes or November 15, 2005, whichever occurs first.

**Discussion:**

The owners of Gamble Bay are proposing to dispose of all water systems and get out of the water business. By letter dated April 15, 2005, the owners state:

The current owners of Gamble Bay Water do not have the funds available or the means necessary to correct the mistakes and bad business decisions of the previous owners. We had this situation forced upon us after the previous owners filed for bankruptcy in Oregon. We have been unable to find a buyer for the company as a whole and have worked for over a year to find responsible companies to continue operations.

If these filings cannot be approved or need to be suspended, Gamble Bay Water Inc. will file for Chapter 7 Bankruptcy immediately. The company continues to lose money every month it continues operation.

We as owners do not feel this would be the best approach for our customers or all other parties.

Bucklin\Vincent, Foss Road, Johanson, Northwood, and Phelps Road water systems are

proposed in this docket to transfer to Washington Water Services. Gamble Bay filed a separate petition in Docket UW-050504 to transfer Piper, Pinewood and Lightmoor water systems to T&T Professional Services. Littlewood water system will go to Silverdale Water District. Owenwood and Pioneer water systems will go to Kitsap County PUD. The Commission does not have jurisdiction over transfers to PUDs or water districts.

The sole remaining system is the Rimrock Water System (Rimrock). Gamble Bay has been unable to find anyone willing to take Rimrock. On March 26, 2004, Gamble Bay sent a notice to DOH and customers stating that it would discontinue service by March 26, 2005. In March 2004, Rimrock had approximately 57 connections. Since then, approximately 35 to 40 customers have drilled their own well or found an alternative water supply. Although there are no DOH orders or written directives to make improvements, Rimrock is in fragile condition and expected to require significant capital investment to make improvements. Snohomish County PUD No. 1 prepared a report that estimated the costs of upgrading Rimrock ranged from just over \$1 million if operated by a water association to \$2.3 million to bring the system up to Snohomish County PUD No. 1 standards.<sup>2</sup>

On March 22, 2005, the Commission held a public meeting in Everett to take comments from Rimrock customers, and other interested parties, regarding Gamble Bay's proposal to discontinue providing water service. The Commission received comments from many customers opposing the sale and transfer of Gamble Bay's other water systems. Many of these Rimrock customers noted that they have paid surcharges in the past for improvements to other Gamble Bay water systems<sup>3</sup>, and feel the company should be left intact and customers of all water systems should now pay their share for improvements to Rimrock.

The issue of Gamble Bay discontinuing water service to Rimrock customers was resolved on March 24 when the Snohomish County Superior Court granted DOH's receivership petition and appointed Snohomish County as the receiver of Rimrock. The court will later decide on the best ownership option for Rimrock and its customers. One possible outcome would, with the approval of DOH, return Rimrock to Gamble Bay. However, if the Commission grants the pending transfer applications, the owners have said they intend to get out of the water business and there likely would be no Gamble Bay in existence.

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<sup>2</sup> "Engineering Feasibility Study For Rimrock Water System (ID# 01906k) Snohomish County, WA" prepared for the State Department of Health, Department of Drinking Water by Snohomish County PUD #1, Water Utility, p3.

<sup>3</sup> Effective March 1, 2001, the Commission approved a \$2.27 surcharge for all Gamble Bay customers to pay the cost of drilling a new well on the Johanson Water System.

There is no statutory deadline requiring the Commission to take action today. However, Gamble Bay stated in its April 15, 2005, letter that it will immediately file Chapter 7 bankruptcy if the Commission denies or suspends the transfer applications. Because of Rimrock's "negative value," it appears likely that a Chapter 7 bankruptcy would result in the break up of the company's assets. A Chapter 7 bankruptcy would also likely result in the discharge (excuse) of substantial debt owed by Gamble Bay to the Washington State Drinking Water Revolving Fund.

The Public Works Board staff filed a letter asking the Commission to approve the proposed transfers. Gamble Bay holds a loan for the Bucklin \ Vincent Water System with a principal balance of \$311,434, and is currently delinquent \$33,249. The Board has approved the transfer of that loan to Washington Water Service Company, subject to Commission approval of the transfer of ownership.

Board staff asks that the UTC approve the transfer or ownership as requested by Gamble Bay. Approval of the transfer will allow the Public Works Board to assign the loan to Washington Water Service. Assigning the loan assures us the delinquent payment will be collected immediately, and the outstanding balance of the loan will be collected over the remainder of the loan term. Obviously, bankruptcy proceedings do not provide the same level of assurance the loan will be repaid.

Either the Commission grants both transfer applications or Gamble Bay will file for Chapter 7 bankruptcy. Both actions result in the break up of Gamble Bay, Gamble Bay going out of business as a company, and the Rimrock Water System and customers "stranded." Chapter 7 bankruptcy would take additional time and money, create additional uncertainty for customers regarding ownership, and would also likely result in the discharge (excuse) of substantial debt owed by Gamble Bay to the Washington State Drinking Water Revolving Fund.

Although we have serious concerns regarding the future of the Rimrock Water System and its customers, Staff thinks the best option is the voluntary transfer of water systems to willing owners and recommends that the Commission approve the application by Gamble Bay Water, Inc., and Washington Water Service Company for the sale and transfer of assets of Gamble Bay Water, Inc., in Docket UW-050515, effective May 1, 2005.