

Agenda Date: February 12, 2015
Item Number: A3

**Docket: UW-141301
UW-090516**

Company Name: Cristalina, L.L.C.
Washington Water Service Company

Staff: Amy White, Regulatory Analyst
John Cupp, Consumer Program Specialist

Recommendations

1. Approve Washington Water Service Company's request for partial exemption from WAC 480-110-455(4) regarding establishment of a separate account for surcharge funds, and;
2. Transfer responsibility for reporting on the surcharge collections, as required in WAC 480-110-455, which were authorized in docket UW-090516, to Washington Water Service Company, and;
3. Reiterate the personal responsibility of Ms. Maria Lindberg to make payments totaling \$12,700 to Washington Water Service Company, no later than October 1, 2017, as ordered in Orders 01/02 in dockets UW-141301 and UW-090516, and;
4. Remove Cristalina, L.L.C., from regulation by this Commission and cancel its current tariff WN U-1, as requested in docket UW-141301.

Discussion

On September 23, 2014, the commission, by Order 01, approved the sale and transfer of assets from Cristalina to Washington Water Service Company (WWSC). In that docket, Cristalina also asked that, upon completion of the sale and transfer, the commission remove Cristalina from regulation. At the time of the filing, Cristalina served 84 customers (connections) near Ravensdale in eastern King County and the company and owner, Ms. Maria Lindberg, were the subjects of five active commission enforcement or investigation dockets.

WWSC, or its predecessors, has been engaged in the water business in Washington State for 44 years. It owns and operates 198 water systems in eight counties throughout western Washington, serving approximately 16,500 customers. WWSC is an affiliate under a parent company, California Water Service Group (stock ticker: CWT), listed on the New York Stock Exchange. CWT and its affiliates provide water service throughout four western states to nearly two million customers.

State Revolving Fund Surcharge/Request for Partial Exemption from WAC 480-110-455

In Docket UW-090516, Cristalina applied for and received approval to collect a \$32 per customer per month surcharge to service a \$555,500 Drinking Water State Revolving Fund (DWSRF) loan through the Public Works Board (PWB). Cristalina and Ms. Lindberg struggled with surcharge collections and accounting, culminating in an alleged embezzlement by a

bookkeeper and the company failing to make its annual loan payment to the PWB in October 2013.

Ms. Lindberg continued to collect surcharge funds throughout 2014 while she tried to sell the system. Instead of depositing these funds in a separate bank account, as required in WAC 480-110-455, she used surcharge funds to pay system operating expenses and to pay herself a salary. Ms. Lindberg was close to missing a second PWB loan payment due in October 2014, even though the customers had continued to pay surcharge funds to Ms. Lindberg. The total amount past due, including interest, was \$72,946. More details about the surcharge funds account can be found in staff's August 24, 2014 memo.

Anticipating that both the sale and transfer would be approved by the commission and that the PWB would approve WWSC's assumption of the PWB loan, WWSC filed on September 15, 2014, to request the commission grant a partial waiver of WAC 480-110-455(4), which states that:

- companies approved for surcharges must hold funds in a separate account to benefit the customers;
- the funds do not become the property of company owners;
- the funds may not be spent for anything other than the purpose for which they were approved by the commission; and
- the company must report quarterly to the commission about the separate account for surcharge funds within sixty days of the end of each quarter.

WWSC sought permission to not establish a separate bank account for the Cristalina surcharge funds as approved in docket UW-090516 but to hold these funds separate in the company's accounting using an individual general ledger account in its accounting system. WWSC has demonstrated to staff that the separate general ledger account has been established in the company's books. Staff concurs with WWSC's request for partial exemption due to the company's financial stability and proven ability to manage water system funds. Customers would benefit through lower administrative costs to manage the surcharge funds.

Additionally, staff recommends that WWSC be required to report no later than sixty days after the end of the quarter as required in WAC 480-110-455(4)(c).

Asset Acquisition Agreement and Penalty Assessments

Ms. Lindberg and WWSC signed an Asset Acquisition Agreement (Agreement) on June 9, 2014. After the commission approved the sale in Order 01/02, dated September 23, 2014, the sale closed on October 24, 2014. On that date, WWSC also filed with the commission to adopt tariff pages 20 and 24 from Cristalina's tariff.

WWSC assumed responsibility for repayment of the outstanding loan balance of approximately \$497,000 after PWB's approval in November 2014. WWSC also agreed to bring the loan

current, making an immediate payment of the past-due \$72,946 to the PWB. And, WWSC paid closing costs of \$10,678 to complete the transaction, which normally would be the seller's responsibility; Ms. Lindberg lacked the funds to pay these costs.

The commission ordered Ms. Lindberg to remit all surcharge funds "on hand" that had been collected for the 2013 and 2014 payments to Washington Water as a partial offset to the past-due amount WWSC paid to the PWB. This amount was \$19,815. The past-due payment amount, plus the closing costs, less the "on hand" surcharge funds were accounted for by WWSC as an acquisition adjustment of \$64,809 that was included in WWSC's general rate case in docket UW-143116.

The commission also ordered Ms. Lindberg to pay the \$12,700 in salary she had paid herself from the surcharge funds to WWSC by October 1, 2017, to offset the WWSC payment for the past-due amount. Failure by Ms. Lindberg to make the payment(s) would render a waived \$14,600 assessed personally against Ms. Lindberg, rather than against Cristalina, immediately due and payable to the commission.

Remove Cristalina from Regulation

After the sale and transfer of assets to WWSC, Cristalina does not provide, and does not own any assets to provide, water service. It is no longer a water company and the public interest does not require continued regulation. Staff recommends that the commission remove Cristalina from regulation.

Conclusion

All transactions necessary to complete the sale and transfer, as well as to transfer responsibility for collection of surcharge funds and for repayment of the PWB loan serviced by the surcharge authorized in docket UW-090516, have been completed by the involved parties.

Recommendations

1. Approve Washington Water Service Company's request for partial exemption from WAC 480-110-455(4) regarding establishment of a separate account for surcharge funds, and;
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3. Reiterate the personal responsibility of Ms. Maria Lindberg to make payments totaling \$12,700 to Washington Water Service Company, no later than October 1, 2017, as ordered in Orders 01/02 in dockets UW-141301 and UW-090516, and;
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