BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND) DOCKET NO. UW-040367
TRANSPORTATION COMMISSION,)
Complainant,) ORDER NO. 02
v.)
	INTERLOCUTORY ORDER
COUGAR RIDGE WATER SYSTEM,	GRANTING MOTION FOR
	SUMMARY DETERMINATION;
Respondent	GRANTING IN PART, DENYING
	IN PART MOTION TO COMPEL;
	ESTABLISHING SCHEDULE
,	FOR FURTHER PROCEEDINGS
,	
	NOTICE OF CONFERENCE
	(Friday, September 24, 2004)

Synopsis: This order grants Commission Staff's motion for summary determination; grants in part and denies in part Cougar Ridge's motion to compel; vacates the current schedule of proceedings and establishes a new schedule of proceedings.

I. INTRODUCTION

2 **NATURE OF PROCEEDING.** Docket No. UW-040367 is a special proceeding initiated by the Commission pursuant to RCW 80.04.015 to determine whether Cougar Ridge Water System (Cougar Ridge or the Company) is subject to regulation under Chapter 80.128 RCW and is performing any act requiring approval of the Commission without securing such approval.

- BACKGROUND. On June 11, 2004, Commission Staff filed a motion for summary determination of this matter. In its motion, Staff asserts that there is no genuine issue of material fact regarding the status of Cougar Ridge as a water company, as defined in RCW 80.04.010, and that, as a matter of law, Cougar Ridge is subject to Commission jurisdiction.
- On June 24, 2004, Cougar Ridge filed a response opposing Staff's motion and also filed its own motion to compel discovery.¹ During oral argument, Cougar Ridge stated it was seeking to compel answers to discovery requests propounded to Commission Staff on June 17, 2004.
- Oral argument on the motions was taken on July 19, 2004. At the time of oral argument Staff provided an additional written response addressing the issue of the meaning of the statutory terms "annual" and "per year."
- APPEARANCES. Thomas A. Brown, Attorney, Aberdeen, Washington, represents Cougar Ridge. Jonathan Thompson, Assistant Attorney General, Olympia, Washington, represents the Commission's regulatory staff ("Staff").

II. MOTION FOR SUMMARY DETERMINATION

Staff moves for summary determination under WAC 480-07-380(2)(a) which provides for such relief if the pleadings and evidentiary support show that there is no genuine issue of fact and the moving party is entitled to judgement as a matter of law.

¹ In addition to written discovery requests Cougar Ridge took discovery depositions of Eugene Eckhardt and James Ward on June 15, 2004, and filed them with the Commission on July 2, 2004.

- Staff argues that there is no genuine issue of fact regarding Cougar Ridge's status as a water company to which Commission jurisdiction applies, according to RCW 80.04.010² and WAC 480-110-255.³ Staff contends that as a matter of law, it is entitled to the relief it seeks.
- Staff's presentation of the facts is based on the sworn statements of Jonathan Thompson, the Assistant Attorney General representing Commission Staff; Eugene Eckhardt, the Commission's Assistant Director of Transportation and Water; James A. Ward, a Regulatory Analyst in the Commission's Solid Waste and Water Section, and on the responses of Cougar Ridge to various discovery questions.
- Staff contends that the facts show that:
 - Cougar Ridge provides water services to residential customers in the Cougar Ridge housing development in Thurston County, Washington. (response to Discovery Request (DR) 3).

² RCW 80.04.010 defines "water company" as follows: "Water company" includes every corporation, company, association, joint stock association, partnership and person, their lessees, trustees or receivers appointed by any court whatsoever, and every city or town owning, controlling, operating, or managing any water system for hire within this state: PROVIDED, That for purposes of commission jurisdiction it shall not include any water system serving less than one hundred customers where the average annual gross revenue per customer does not exceed three hundred dollars per year, which revenue figure may be increased annually by the commission by rule adopted pursuant to chapter 34.05 RCW to reflect the rate of inflation as determined by the implicit price deflator of the United State department of commerce...A water company cannot be removed from regulation except with the approval of the Commission. Water companies subject to regulation may petition the Commission for removal from regulation if the number of customers falls below one hundred or the average annual revenue per customer falls below three hundred dollars. The Commission is authorized to maintain continued regulation if it finds that the public interest so requires."

³ WAC 480-110-255 is the provision of the Commission's rules that governs the calculation of the jurisdictional revenue threshold. WAC 480-110-255(1)(b) indicates that the current average annual revenue threshold per customer is \$429.

- Cougar Ridge is owned by Paul A. Bitar of Hoquiam, Washington and is operated on a for-profit basis. (*responses to DRs 1 and 7*).
- Cougar Ridge provides water service to more than 43 but less than 100 customers and holds itself out to supply domestic water serve to purchasers of homes in the Cougar Ridge development. (response to DR 5).
- Cougar Ridge bills its customers on a monthly, flat-rate (non-metered) basis. (*response to DRs 9 and 17*).
- From January 2002 to June 2002, the monthly charge per customer for Cougar Ridge water service was \$32.50. From July 2002 through July 2003, the monthly charge was \$37.50. From August 2003 through October 2003, the monthly charge was \$43.00. From November 2003 to December 2003 the monthly charge was \$0. From January 2004 through April 2004, the monthly charge was \$35.00. (response to DR 17).
- According to WAC 480-110-255, the Commission must determine the
 amount the company charged each customer for service each month
 during twelve consecutive months, multiply by the number of customers
 served each month, and then divide by the total number of months each
 customer received service to determine the average annual per customer
 revenue to the company. (WAC 480-110-255(5) and Eckhardt declaration).
- Staff performed these calculations and determined that for the twelve consecutive months ending with February 2003, the Company's average annual revenue per customer was \$430.82. (Exhibit to Eckhardt declaration).

- By September 2003, the rolling average annual revenue per customer had increased to \$461.75. (Exhibit to Eckhardt declaration).
- The rolling average annual revenue per customer will be reduced to \$420.00 based on the Company's reduction of its monthly charge to \$35.00. (Eckhardt Declaration at ¶7).
- On or around July 1, 2003, Cougar Ridge had increased its charge for connecting new customers from \$600 to \$3,000. (*Response to DR 20*).
- Cougar Ridge response to motion. Cougar Ridge does not dispute these facts so much as it disputes the legal basis for the Commission's exercise of jurisdiction over the company. Cougar Ridge contends that the calculation of average annual gross revenue required under WAC 480-110-255 constitutes an improper interpretation of the statute and thus is invalid as a means of establishing the Commission's jurisdiction over the company. Cougar Ridge argues that Washington courts recognize a distinction between fiscal and calendar years. Cougar Ridge contends that the RCW 80.04.010 requires the Commission to calculate "the average annual gross revenue per customer....per year" and that because this phrase contains the combination of the terms "annual" and "per year," it clearly manifests a legislative intent to calculate revenues on an annual "calendar" year basis.
- In addition to the issue of proper statutory interpretation, Cougar Ridge also raises several other issues in opposition to Staff's motion, including the propriety of Staff meetings with Commissioners prior to the initiation of this docket; and the fact that Staff at one time advised a customer that the company was not regulated because it did not meet the jurisdictional threshold. Each of these issues is addressed below.

- Does the statutory language require calculation of the jurisdictional threshold on the basis of a calendar year?
- Staff argues that under RCW 80.04.010 and WAC 480-110-255 a water company falls under commission jurisdiction even if it serves less than 100 customers when its "average annual gross revenue per customer" exceeds \$429 per year.
- Staff further contends that WAC 480-110-255 establishes in detail the methodology for determining whether a company has become jurisdictional based on a calculation of the average annual revenue per customer. Staff argues that the rule does not require the calculation to be based on a calendar year, but rather calculates the threshold amount based on "the most recent twelve-month period." The rule provides an example of the calculation based on a twelve-month period that begins with February and ends with January.⁵
- Staff asserts that, using the methodology prescribed in WAC 480-110-255, Cougar Ridge became jurisdictional beginning in February 2003 and continuing through September 2003, or later. Staff contends that from February 2003, the company came under a statutory obligation to file a tariff. Staff argues that Cougar Ridge may not avoid jurisdiction by now reducing or eliminating its monthly charges for service and that, in any event, once jurisdiction has attached, the company remains jurisdictional unless its annual average gross revenue per customer decreases to \$300 or less and it petitions the Commission for removal of regulation. Moreover, Staff points out that RCW 80.04.010 allows the Commission "to maintain continued regulation if it finds that the public interest so requires."

⁴ Power, Inc. v. Huntley, 39 Wn.2d 191; 235 P 2d 173 (1951).

⁵ WAC 480-110-255(5)(a).

Finally, Staff contends that the public interest requires regulation of Cougar Ridge because in July 2003 the Company increased its connection charge from \$600 to \$3000. Staff believes that this connection charge may produce revenues in excess of the actual cost for connecting a new customer and may be unjustly discriminatory toward new customers.

17 Cougar Ridge contends that rules of statutory construction require giving effect to each word in the statute and determining what the legislature intended.

Cougar Ridge asserts that the language of RCW 80.04.010 referring to "annual" revenues "per year" manifests a clear legislative intent that average annual revenue for purposes of establishing Commission jurisdiction be based on a calendar year, as opposed to the "fiscal year" methodology found in WAC 480-110-255. Cougar Ridge contends that Washington case law draws a clear distinction between fiscal and calendar years, and that use of a calendar year is administratively simpler and easier for customers to understand.

Staff responds that legislative intent regarding the methodology for the revenue calculation is not clear, as Cougar Ridge contends, but that the legislature could easily have made it clear, as it has done in other statutes, by simply inserting the word "calendar" into the phrase "per year." Staff identifies statutory provisions where the legislature either designated other than a calendar year as the meaning of "annual" or specifically indicated that an annual period should be calculated based on a calendar year.⁷

Staff also argues that various dictionary definitions of the terms "annual" and "per year" demonstrate that they are not confined in meaning to "calendar year." Staff recommends the definitions from Black's Law Dictionary Abridged 6th Ed.,

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⁶ Power, Inc. v. Huntley (Powers), 39 Wn. 2d 191; 235 P 2d 173 (1951).

⁷ Id at ¶¶ 10.

West Publishing (1991) – "accruing within the space of a year" and "computed by the year" – as the most accurate representation of the meaning of the statute.8

Finally, Staff observes that use of a calendar year is not necessarily simpler to administer or understand because a water company may bill its customers using various methods that do not conform to a calendar year system.

21 **Discussion and decision.** Cougar Ridge's arguments are not persuasive. While the Washington case cited by Cougar Ridge draws a distinction between fiscal and calendar years, it is noteworthy that the statute at issue in that proceeding contained a specific definition of a year as "fiscal." No such definition related to the statutory term "annual" is contained in RCW 80.04.010. Under rules of statutory interpretation, when a statute does not define its terms, the dictionary may be consulted to give those terms their ordinary meaning.¹⁰ Commission Staff provided several references to dictionary definitions of the terms "annual" and "per year." Review of those definitions supports the interpretation of the statute represented by the calculation methodology used in WAC 480-110-255 that the average annual gross revenue per year may be calculated on other than a calendar year basis. This interpretation makes sense in light of the goal of the statute: to give the Commission a signal as to when it is appropriate to regulate a water company, and the ability to perform that regulation once jurisdiction is established. The operation of water companies is affected by seasonal variations in water supply and usage and billing is not dictated strictly by the calendar year. Hence regulation should not be premised on strict adherence to a calendar year. Staff's calculation of Cougar Ridge's average annual gross revenue per customer based on the methodology contained in the rule is proper under the statute.

⁸ Staff's reply to Cougar Ridge Response at ¶¶6, 9.

⁹ Powers at 197.

¹⁰ Dawson v. Daly, 120 Wn. 2d 782, 791; 845 P 2d 995 (1993).

- Did Staff err in calculating the average annual revenue per customer?
- Cougar Ridge states that during discovery it was revealed that Staff erred in its calculation of the jurisdictional threshold.¹¹ However, during oral argument, Cougar Ridge indicated that the calculation of average annual gross revenues per customer contained in the exhibit to Mr. Eckhardt's declaration accompanying the motion for summary judgement was accurate, albeit improper according to Cougar Ridge's view of the case. In light of this admission, it is found that Staff did not err in calculating the average avenue revenue per customer and that Cougar Ridge became a water company under the jurisdiction of the Commission as of February 2003.
 - Is the fact that Staff stated to a Cougar Ridge customer that the Attorney General had concluded that Cougar Ridge did not meet the jurisdictional threshold relevant in reaching a determination on this motion?
- Cougar Ridge argues, and the deposition taken of the Commission's Regulatory Analyst, James A. Ward indicates,¹² that Mr. Ward may have advised a Cougar Ridge ratepayer at some point prior to the Commission's initiation of this complaint, that Cougar Ridge did not meet the threshold for Commission jurisdiction. Cougar Ridge appears to argue that Mr. Ward's communication in some way binds the Commission to that erroneous advice.
- Staff's attorney denies that the Attorney General ever advised Staff that Cougar Ridge did not meet the jurisdictional threshold, but rather indicates that Staff misinterpreted its attorney's advice on the matter.¹³

 $^{^{11}}$ Cougar Ridge response to motion at \P 2.

¹² Ward deposition at 39-52.

 $^{^{13}}$ Second declaration of Jonathan Thompson at ¶ 5.

- Discussion and decision. The fact that a member of Commission Staff may have incorrectly advised a customer that Cougar Ridge did not meet the jurisdictional threshold is regrettable, but ultimately has no bearing on the Commission's determination here. If it were otherwise, the Commission's actions would be cast in stone based on incorrect Staff statements. It is well-established that the Commission speaks through its orders and Mr. Ward's statement to a Cougar Ridge customer is not supported by any Commission order.
 - Were meetings between Staff, Staff counsel and the Commissioners prior to the initiation of this complaint improper?
- Cougar Ridge points out that Commission Staff met with the Commissioners, and in particular with Chairwoman Showalter, regarding this case. 14 Cougar Ridge argues that this contact with the Commissioners was improper because it provided biased information in advance about the case to the same Commissioners who will also ultimately decide the case.
- Staff argues that under RCW 34.05.458(2),¹⁵ Commissioners who have been involved in determining probable cause for initiating an adjudicated proceeding are not automatically barred from presiding at the proceeding. Moreover, RCW 80.04.110¹⁶ allows the Commission to bring complaints "on its own motion," a

¹⁴ Eckhardt deposition at 35-37. Cougar Ridge has requested in discovery copies of an Attorney General Memorandum about the case that was circulated to the Commissioners and discussed with them at these meetings. *Cougar Ridge response to motion at* \P 5. Cougar Ridge is also requesting copies of any notes made by persons attending these meetings, including notes made by Commissioners. *Id at* \P 4. This Order addresses these requests in the section dealing with Cougar Ridge's motion to compel discovery.

¹⁵ RCW 34.05.458(2) is a section of the Washington Administrative Procedures Act that provides: "A person, including an agency head, who has participated in a determination of probably cause or other equivalent preliminary determination in an adjudicative proceeding may serve as presiding officer or assist or advise a presiding officer in the same proceeding unless a party demonstrates grounds for disqualification in accord with RCW 34.05.425."

¹⁶ RCW 80.04.110 (1) provides, in part, that the a "complaint may be made by the commission of its own motion..."

process that clearly requires prior Commission involvement in the determination whether to institute a complaint. Staff contends that the courts have also upheld agency due process determinations against due process challenges.¹⁷ Staff further asserts that these contacts, where both Staff counsel and members of Staff met with Commissioners,¹⁸ were not *ex parte* because they occurred prior to the initiation of the adjudication, at which point the *ex parte* wall went up.¹⁹

Discussion and decision. Cougar Ridge's arguments about the impropriety of meetings involving Commissioners, Staff counsel and members of Staff are unpersuasive. It is clear from a review of Mr. Eckhardt's deposition and the declarations of Staff counsel, Mr. Thompson, that the meetings in question occurred prior to the Commission's initiation of this complaint and were related to assisting the Commission to reach a determination about probable cause. The Administrative Procedures Act indicates that such meetings are permissible and that they do not bar Commissioners from ultimately deciding the complaint. Cougar Ridge has not provided any reason, other than the fact that the meetings took place, to bar the Commissioners from ultimately deciding the matter.

- Is it permissible to base the Commission's jurisdiction over Cougar Ridge on the company's connection fee?
- In its motion, Commission Staff argues that the fact that Cougar Ridge has raised its connection fee from \$600 to \$3,000 is sufficient to support exercise of Commission regulation in the public interest. Staff asserts that the increase may not be cost-based and may unjustly discriminate toward new customers.
- Cougar Ridge points out that WAC 480-110-255(4) prohibits inclusion of connection fees in calculation of the jurisdictional revenue threshold. Cougar

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¹⁷ Withrow v. Larkin, 421 U.S. 35, 47-48, 95 S. Ct. 1456, 43 L.Ed. 712 (1975).

¹⁸ Second declaration of Jonathan Thompson at ¶ 6.

¹⁹ RCW 34.05.455.

Ridge also observes that in their depositions, both Mr. Eckhardt and Mr. Ward admitted that connection charges were unrelated to the assertion of Commission jurisdiction.²⁰

Discussion and decision. Cougar Ridge's argument is misfocused. Staff does not appear to argue that the connection fee should be included in the calculation of the jurisdictional threshold amount. Rather, Staff is arguing that the public interest is implicated by the size of the increase in the connection fee, the fact that it may not be cost-based, and that it appears to be discriminatory to new customers. Because the public interest is affected, Staff contends the Commission may have the authority to exercise its jurisdiction over Cougar Ridge aside from the revenue threshold calculation.

Based on the earlier determination in this Order that Cougar Ridge has met the jurisdictional threshold making it subject to Commission regulation, it is not necessary to make any further finding or conclusion on the basis of Staff's public interest argument.

III. MOTION TO COMPEL DISCOVERY

Along with its response to the motion for summary determination, Cougar Ridge filed a motion to compel discovery. The motion was accompanied by a series of discovery requests numbered 1-11, dated June 17, 2004, and Staff responses to the requests dated June 18. After hearing oral argument on the motion, the Administrative Law Judge granted the motion in part and denied it in part. The transcript of hearing records the ruling and it is incorporated by reference here. This Order specifically addresses in more detail Cougar Ridge's discovery requests for a copy of the Attorney General's memorandum to the Commissioners regarding jurisdiction in this case, and for copies of any notes

²⁰ Cougar Ridge response to motion at ¶ 10.

generated by Mr. Eckhardt or Commissioner Showalter during the "probable cause" meeting²¹ concerning Cougar Ridge.

- Discovery at the Commission is governed by WAC 480-07-400 *et seq.*, of the Commission's procedural rules. These rules identify various methods for obtaining discovery, including submission of data requests to other parties, and the taking of depositions. They also apply to the filing of motions to compel answers to discovery requests. Generally, a discovery request may not seek information unless it is reasonably calculated to lead to the discovery of admissible evidence.²²
- Staff contends that the Attorney General's memorandum to the Commission²³ contains legal advice to the Commission from its legal counsel and is a privileged attorney client communication related to the Commission's determination that probable cause existed to initiate this proceeding.
- Cougar Ridge contends that the privilege was breached when Mr. Ward advised a customer of Cougar Ridge in January 2004 that, according to the Attorney General, Cougar Ridge was not subject to Commission jurisdiction.²⁴ Cougar Ridge asserts that upon breach, the privilege was waived and Staff must supply Cougar Ridge with a copy.
- Staff responds that neither Staff nor the Attorney General may waive the privilege. Only the Commission itself may do so.²⁵ In addition, Staff argues that

 23 Staff argues the notes generated at the probable cause meetings with Commissioners are privileged attorney client communications because the notes are based on discussion of the legal memorandum. Second declaration of Jonathan Thompson at \P 6.

²¹ See discussion *supra* at ¶¶ 26-28.

²² WAC 480-07-400(4).

 $^{^{24}}$ Cougar Ridge response to motion at $\P\P$ 1 and 9; second declaration of Jonathan Thompson at \P 5

²⁵ By letter dated July 21, Staff counsel supplied the Administrative Law Judge with a copy of the memorandum. Staff counsel sent a copy of the transmittal letter to Cougar Ridge. In the letter,

even if Mr. Ward were capable of waiving the privilege, what Mr. Ward actually disclosed was a legal conclusion, which, though inaccurate, did not contain any legal analysis.²⁶ Because Mr. Ward only stated a legal conclusion, his statement would not have waived the privilege as to the legal analysis contained in the memorandum.

Discussion and decision. The purpose of attorney-client privilege is to encourage free and forthright discussion between attorney and client, in this instance, between the Attorney General and the Commission. Mr. Ward, as a member of Commission Staff, is not capable of waiving this privilege, nor does his communication of a legal conclusion about jurisdiction to a customer constitute a breach and waiver of the privilege. If the statement of a legal conclusion by Staff constituted a waiver, the daily work of the Commission Staff would place in jeopardy the necessary consultations between the Commission and its legal counsel, because Staff must frequently communicate the end results of its attorney's legal analyses to the public in the course of every day operations. For these reasons, Cougar Ridge's motion to compel discovery of the Attorney General's memorandum and of notes generated by discussion of the memorandum is denied.

IV. SCHEDULE OF PROCEEDINGS

Based upon the agreement of the parties, the schedule of proceedings currently in place is vacated. Cougar Ridge will file its tariff on August 27, 2004. A status conference will be convened on September 24, 2004 to determine the necessity for further proceedings.

Staff restated its argument that the Commission alone can waive privilege with regard to the memorandum.

²⁶ Seattle Northwest Securities v. SDG Holding Company, Inc., 61 Wash. App. 725, 739-740 (1991).

V. ORDER AND NOTICE OF CONFERENCE

It is ordered that Commission Staff's motion for summary determination is granted; Cougar Ridge is directed to file a tariff with the Commission on or before August 27, 2004; Cougar Ridge's motion to compel discovery is granted in part and denied in part; the schedule of proceedings currently in place is vacated, and a status conference will be convened on **September 24, 2004 at 9:30 a.m.** at the Washington Utilities and Transportation Commission in Olympia, Washington.

DATED at Olympia, Washington and effective this 30th day of July, 2004

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

THEODORA M. MACE Administrative Law Judge

This is an interlocutory order under WAC 480-07-810. A copy of the rule is attached. Review of this order is available pursuant to the requirements set forth in the rule. Petitions for review must be filed and served on other parties within ten days after service of the order or issuance of the ruling for which review is requested.

- WAC 480-07-810 Interlocutory orders. (1) Defined. Orders entered during the course of an adjudicative proceeding are "interlocutory orders," as distinguished from initial orders that may be entered by an administrative law judge at the conclusion of a proceeding and final orders entered by the commission at the conclusion of a proceeding. Examples of interlocutory orders are orders concerning a party's participation in a proceeding, orders concerning discovery, and orders that relate to proposed evidence.
- (2) When review is available. Interlocutory review is discretionary with the commission. The commission may accept review of interim or interlocutory orders in adjudicative proceedings if it finds that:
- (a) The ruling terminates a party's participation in the proceeding and the party's inability to participate thereafter could cause it substantial and irreparable harm;
- (b) A review is necessary to prevent substantial prejudice to a party that would not be remediable by post-hearing review; or
- (c) A review could save the commission and the parties substantial effort or expense, or some other factor is present that outweighs the costs in time and delay of exercising review.
- (3) **Process for seeking review.** Any party may petition for review of an interlocutory order. Petitions for interlocutory review must be filed and served on other parties within ten days after service of the order or issuance of the ruling for which review is requested. The petition must state why the ruling is in error or should be changed and why interlocutory review is necessary, and must cite reasons that support the petition. Answers must be filed within ten days after the petition is filed. The commission may alter these filing deadlines when doing so is consistent with the public interest.

[Statutory Authority: RCW 80.01.040 and 80.04.160. 03-24-028 (General Order R-510, Docket No. A-010648), § 480-07-810, filed 11/24/03, effective 1/1/04.]