

Agenda Date: April 30, 2003  
Item Number: A4

**Docket: UW-030419**

Company Names: Harbor Hills Water Company, LLC  
Harbor Hills Water System LLC

Staff: Danny P. Kermode, Regulatory Analyst

**Recommendations:**

Authorize the Sale and Transfer of Assets from Harbor Hills Water Company, LLC to Harbor Hills Water System, LLC effective May 1, 2003.

Discussion:

On March 28, 2003, Harbor Hills Water Company, LLC (Harbor Hills Water Company or Company) and Harbor Hills Water System, LLC (Harbor Hills Water System), filed a joint application for authorization of the sale and transfer of assets of water system property. Harbor Hills Water Company notified its customers of the sale and transfer in a mailing on March 20, 2003.

Harbor Hills Water Company is located on Whidbey Island and serves approximately 200 customers in Island County. The administrative offices of Harbor Hills Water Company are located in Kirkland, Washington. Harbor Hills Water Company received its last rate increase July 1, 2000, which included a surcharge to finance system improvements such as pressure valves to regulate system pressure, hydrants, and ozone treatment of the water for iron and manganese.

The companies state the benefits of this acquisition of water system assets include local ownership. The sale to Harbor Hills Water System will shift ownership to a local member of the community. In addition, the current staff of Harbor Hills Water Company will continue to operate and maintain the water system. The present owners of Harbor Hills Water Company no longer desire to own and operate the water system.

The joint application requests authorization for Harbor Hills Water Company to sell and transfer its assets including plant and all water rights to Harbor Hills Water System. Regulatory Services Staff (Staff) has calculated the rate base for the water system to be approximately \$167,000. It is proposed that Harbor Hills Water System will acquire the

water system assets of Harbor Hills Water Company for \$300,000 plus the assumption of approximately \$194,000 in debt. The proposed transaction would result in an acquisition adjustment of roughly \$326,000. Staff has advised Harbor Hills Water System that absent a showing of commensurate benefit(s), the Commission has not included acquisition adjustments in rate base nor in a company's recovered costs when setting rates. Harbor Hills Water System has acknowledged it understands the financial ramifications of Commission treatment of an acquisition adjustment.

The Commission has received three comments from customers. Though not directly opposed to the sale, two customers were concerned about low water quality and the surcharge that was approved in its last rate filing. In its last rate case the Company had proposed ozone treatment to improve the system's water quality. The surcharge was expected to fund only a portion of the proposed ozone treatment. However, along with the surcharge, more than half (53%) of the funding was expected to come from a facility charge on new connections. The Company conservatively estimated 16 connections per year. In the year following its 2000 rate filing, a court ruling affecting the community's sewer system resulted in new connections dropping from an average of thirty (30) connections per year to an average of four. The loss of facility charge funds caused a serious shortfall in the Company's ability to fund the proposed ozone treatment and, as a result, forced the Company to postpone the water treatment project.

In addition, one customer expressed concern about the "integrity" of the capital improvement fund that is funded by the surcharge. In compliance with the Commission's order approving the surcharge, the Company files quarterly reports. These reports are reviewed by Staff as they are filed, which includes a calculation of expected revenues compared to actual deposits. Staff also reviews disbursements in order to monitor Company's purchases and loan repayments. If the sale is authorized, the fund will be transferred along with the other assets of Harbor Hills Water Company to Harbor Hills Water System.

### Conclusion

Staff recommends that the Commission authorize the Sale and Transfer of Assets from Harbor Hills Water Company, LLC to Harbor Hills Water System, LLC in Docket UW-030419, effective May 1, 2003.