

Agenda Date: March 12, 2003
Item Number: A3

Docket: UW-020827

Company Name: Rainier View Water Company, Inc.

Staff: Danny P. Kermode, Regulatory Analyst

Recommendations:

Issue an Accounting Order consistent with the *Petition for Accounting Order*, as amended by Rainier View Water Company, Inc., and as modified by Staff, in Docket UW-020827.

Discussion:

On June 24, 2002, Rainier View Water Company, Inc., (Rainier View or Company) filed a petition asking the Commission to approve its proposed accounting for the assets acquired under an agreement with the City of Tacoma that provides Rainier View the right to purchase water on a wholesale basis for delivery to customers of Rainier View. On January 29, 2003, Rainier View filed a Supplement to its *Petition for Accounting Order* which amended its request to reflect the final form of the agreement with the City of Tacoma.

Rainier View provides water service to approximately 12,000 customers in Pierce County. Rainier View has either fully utilized, or committed to make use of, substantially all of its water rights. The greater part of the Company's operations are located in the Southwood/Sound Water System (Southwood System). The Department of Ecology is not issuing additional water rights for this area.

Rainier View projects, with moderate growth in the Southwood System, that it will need 4,200 Equivalent Residential Units (ERUs) over the next ten to fifteen years. To meet the demand, Rainier View negotiated an agreement with the City of Tacoma. The agreement will provide Rainier View with the right to purchase up to 4,200 ERUs of water capacity needed to meet the projected demand. As Rainier View experiences the projected growth, Tacoma will sell, on a wholesale basis, needed water on a continuing basis up to the 4,200 ERUs. The rate that Rainier View will pay for wholesale water, codified in the City of Tacoma Municipal Code, is periodically adjusted by the Tacoma Public Utility Board and adopted by the Tacoma City Council.

The cost of the contract rights is \$9,083,498 plus an additional \$2,747,758 of expected interest cost over the next ten years. In addition, Rainier View will incur costs related to connecting the Tacoma water system to the Southwood System, as well as the costs of required upgrades to the Tacoma water system. Any upgrades to the Tacoma water system paid for by Rainier View become the property of the City of Tacoma. The estimated cost of the intertie is \$477,000 while the required upgrade cost is estimated at \$295,000.

Rainier View proposes that the costs associated with the Tacoma agreement be funded solely through a future developer contingency charge, which is a type of facilities charge. It should be noted that even though the developer contingency charge is discussed in its petition, the developer contingency charge is not before the Commission in this petition. Rather the Company has filed individual contracts included in the No Action and Consent portion of today's agenda. In these contracts the Company has proposed a developer contingency charge based on debt service requirements, costs of the intertie and the costs of the Tacoma upgrades.

In its petition, as amended, the Company proposes accounting for the following three distinct groupings of assets created by the Tacoma Agreement: an intangible asset which is the contract right to purchase wholesale water from the City of Tacoma; plant and equipment which consists of the intertie to the Tacoma water system with the associated water plant and booster station; and lastly, the costs associated with system upgrades required by the City of Tacoma.

Intangible Asset: Rainier View acknowledges that the intangible asset created by the Tacoma agreement has an indefinite life and requests that it not be amortized, instead the Company proposes the asset be maintained on the books of the Company in perpetuity or until such time that a useful life can be determined. Funding of the intangible asset will occur through developer contingency charges, which will be accounted as Contributions in Aid of Construction (CIAC). When the intangible asset is fully funded, the Company proposes the full amount of the intangible and the associated CIAC amounts be written off at that time. Staff agrees, however, it is Staff's opinion that the Company should seek permission from the Commission prior to the write-off. It would be more appropriate to file such a request once the amount of the intangible and the related CIAC has become fixed and the Company is no longer collecting the developer contingency charge. Rainier also proposes that the intangible

asset be accounted for in a separate sub-account and not be commingled with other intangible assets. The Uniform System of Accounts adopted by this Commission frequently uses sub-accounts to account for costs that require special tracking. Other than requiring the company to seek Commission approval for any write-off, Staff agrees with the proposed method of accounting for the Intangible Asset.

Plant and Equipment: The Intertie & Booster Station are the plant and equipment needed to physically connect Rainier View's water system with the City of Tacoma. The Company proposes in its amended petition to depreciate these assets over the useful life of each asset following normal accounting procedures. However, to synchronize the depreciation of the asset and the amortization of the related CIAC, the Company proposes that the associated CIAC financing should be amortized over the remaining life of the Intertie and Booster Station. Staff concurs with the proposed method of accounting, as reflected in the company's supplement to its petition, for the plant and equipment related to the Tacoma agreement.

Tacoma upgrade costs: The upgrades are the property and equipment needed by the City of Tacoma to improve its water system in order to provide service to Rainier View. Staff and the Company agree that since the assets related to the upgrades become the property of the City of Tacoma, costs associated with upgrades to the City of Tacoma's water system should be expensed when incurred along with the amortization of the associated CIAC.

In its petition the Company proposes to record all CIAC received under this project into a separate CIAC sub-account. Sub-accounts will allow the Company to manage and track the CIAC related to the payment of interest and the related fixed assets. Also, sub-accounts will be integral to the Company's support of any developer contingency charge that it may present to the Commission for approval.

In addition, the Company's petition, as amended, proposes that future developer contingency charge be the sole rate mechanism used to acquire funds for servicing the long-term obligation to the City of Tacoma and building the intertie and required Tacoma upgrade costs, and, if it would become applicable in the future, provide a return for any equity investment associated with the Tacoma Agreement. In its petition, the Company states its concern that "existing customers not be unduly burdened by the costs of expansion and procuring additional water capacity to satisfy new demand." In

order to obtain this objective, the Company proposes the use of a ratemaking methodology in which the assets and financing of the right to purchase wholesale water, the intertie costs and required upgrades are separated from the other Company assets and financing in order to determine the appropriate developer contingency charge. Consistent with the Company's proposed approach, in any general rate case, all assets and financing applicable to the Tacoma Agreement would be removed from the Company's rate base and capital structure respectively and not considered in setting general rates. Staff regards this approach as reasonable and consistent with ratemaking theory.

In response to the concerns of some developers the Company has agreed to maintain the funds received from the developer contingency charge in a separate bank account to assure that the funds are spent on the intended purposes. The sole intent of the funds in this account would be to satisfy Rainier View's obligations under the Tacoma Agreement, including the payment of engineering , banking and legal fees incurred as a result of the development and implementation of the Tacoma Agreement.

Recommendation:

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