



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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February 22, 2007

Russell Tanner
Canterwood Water Company
4026 Canterwood Drive NW
Suite B
Gig Harbor, WA 98332

Subject: December 2006 Request for Release of Escrowed Funds

Dear Mr. Tanner:

The commission's staff received your request for the release of funds from the conservation escrow account created by the commission's Order No. 1 in Docket UW-040651. You state that Canterwood Water Company has started a project to install upgraded booster pumps for its water system. The company requests reimbursement of a portion of the costs of the upgrade based on signed construction bids.

Staff review of your request examined three issues.

- ✓ Is the booster pump upgrade consistent with commission order?
- ✓ Which of two proposed cost allocation methods are appropriate?
- ✓ When is reimbursement appropriate.

Is the booster pump upgrade consistent with commission order?

Staff believes the booster pump project is consistent with the requirement of the commission order requiring the use of the funds for capital improvements for water source or supply. Further, staff agrees that the signed bids are consistent with the terms of Order No. 1 that requires the company to spend the funds before December 31, 2006. Accrual accounting principals recognize costs were incurred when the signed bids were accepted by the company for the project.

Which of two proposed cost allocation methods are appropriate?

The letter dated December 14, 2006 proposes two methods for the allocation of the total cost of the booster pump project to existing customers. Staff reviewed the proposed methodologies and is of the opinion that the method based on booster pump station total capacity and peak hourly demand is most appropriate and is the method the company should use when submitting requests for reimbursement. The method supports a 78.35% allocation of costs to existing customers.

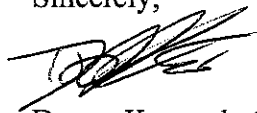


When is reimbursement appropriate.

Although staff agrees the company has incurred the cost of the project by accrual accounting principals, actual reimbursement of costs is not appropriate until the company provides evidence of actual disbursement of funds e.g., progress payments to contractor.

If you have any questions please call Danny Kermode at (360) 664-1253 or email him at dkermode@wutc.wa.gov.

Sincerely,



Danny Kermode CPA
Regulatory Analyst