Unofficial transcript

UW-980082
WAC 480-110 - WATER
Rulemaking Workshop 4/21/99 - 9:30 a.m.

Attendees:

Bob Archey - Facilitator (BA)
Danny Kermode - Commission Staff (DK)
Gene Eckhardt - Commission Staff (GE)
Penny Hansen - Commission Staff (PH)
Tani Thurston - Commission Staff (TT)
Dennis Moss - ALJ (DM)
Bob Wallis - ALJ (BW)
Mary Tennyson - Assistant Attorney General (MT)
Fred Ottavelli - Commission Staff (FO)
Layne Demas - Commission Staff (LD)
Nick Adams - Meadows Water Company (NA)
Tom Fors - Attorney (TF)
Doug Fisher - Rainier View Water Co. (DF)
Rick Finnigan - Attorney (RF)
Pat Wiles - Harbor Water (PW)
Drew Noble - Oak Park Water (DN)
Steve Harrington - (SH)
Eileen Lemke-Melon - North Woodland Water System (ELM)

DK: You can look in your packet and see the proposed rulemaking schedule we will be following - today of course is the stakeholder meeting. There are two things we are trying to handle in this meeting - one is to review the latest draft of the rules and get comments and observations - the second part is to understand your concerns as to any kind of economic impact that these rules are going to put on companies. With that information, in May we'll be preparing the SBEIS study to be filed with the CR102. In the May 26th open meeting we'll get approval to file the CR102 that starts the process. June 2nd the CR102 will be actually filed - the cutoff for comments is 6/25 - then we're scheduling a rule adoption hearing 7/14 and we'll try to keep everything on line. You might notice that we had a 102 out there at one time - we decided to go ahead and withdraw that 102 so we can take a breather, absorb comments, rewrite & start again fresh that's why we have the 2nd round of 102s.

BA: My understanding of the need for today is to 1) get through the draft language of the rule - to get all of the discussion we can get, to hear positions relative to those rules so that commission staff can then use your input to go the next step. It is my understanding that this is the last session that will be this look at the rules in this process. The last scheduled session - there may be others as appropriate. We want to make sure we use our time well - because there is another session this p.m. on the economic impact of the proposed rules

RW

that we really want to spend some time with. What I thought we would do here is to go through and set ourselves some work plan. My proposal is that we walk down each of the rules and identify where the major issues are - and try to take those on the front end. For example the rate increase filing requirements is one we may want to get more in depth on than the others - so if you'll help me then we can come back and go through the others.

NA: This is my first time at a stakeholders meeting on these rules and I do have a lot of questions on some sections and I don't know if I have a real issue with them or not maybe it's just a matter of understanding so I don't want to really miss that opportunity if we tackle some of the contentious issues first.

BA: We will go through each of the sections no matter what - the idea was to spend some time up front on the ones that were real issues - is that fair enough?

BA: Is there any particular one that we want to put on the A list so to speak?

NA: Definition of control.
RF: Facililties charge.
DN: Jurisdiction - Part "1-c".
DF: Service connection & service area.
RF: Rate filing requirements.
PW: Refusal of service - 630.
RF: Service responsibilities.
DN: 540-4(h) and that's jurisdiction.
NA: Bottom of page 13 dealing w/ – Securities, Affiliated Interest, Transfer of Property Section is 570.

NA: Can we add something that's not in the rules but maybe we should discuss? The issue of how we would deal with the Y2K issues if we're in compliance with DOH requirements.

BA: Did we get everything? What the intent is - is to go to that section where we are at - shall we use these but take them in order they are in the rule? That would be the easiest.

DK: Definition of control is 520. Facilities charge is 740. Jurisdiction is 540. Service connection & service line is 730. Service area is 530. Rate Filing Requirements is 790. 630 refusal of service. 650 service responsibilities. The last one is 570.

TF: Please add application for service - 610.

BA: So we go to 520 on my list.

DK: In your packets, since there is so much mark-up in the original, I have put in your packet clean copies so if it makes it easier for you to read, it's there.

RF: I've got 2 issues on the definition of control: 1) by referencing 80.16.010 what you've done is set up a circular definition because affiliated interest as defined in that statute includes management. So if you say you're managing by reference to that definition - you're managing. So there's a problem I think with the circular definition. But more than that this definition varies from the statutory definition in 80.04.010 of a water company which says the Commission may define control but specifically excludes those that own satellite management agencies from that definition. I don't think once the legislature has established that definition you can broaden that to then try and pick up affiliated interest companies – affiliates, but not owners. I think you need to go back and look at the statutory definition. Which was by the way the prior definition that was in the rule and was consistent with the statutory definition.

MT: We added this language at your request– the idea of it — and if you can give us some language that meets your concerns and you think is in compliance I think Danny had requested that a while back. . . .

RF: I understand where you are on it, but I just point out that I think this construction has a statutory problem with it and I would be happy to try and come up with some language that walks the line.

DK: But the problem is mainly, other than the circular part, it's the affiliated interest - having SMA linked to affiliated interest?

RF: Yes, and again Mary's correct I made a comment and I recognize this is trying to address it – but when I went back and looked at it and I pulled the statute out I thought "here's a problem" that didn't get anticipated and I didn't anticipate it either.

MT: The most recent draft before this had said that the SMA is not an owner of the water company and I guess some other people among commission staff made comments that said they thought that was circular.

RF: Yes, I understand that too but I think it's an issue that needs to be worked at and I think this would put us in violation of the statute is the point that I'm making.

DK: Do you think from a quick look over – I know you know our intent – do you think there's wording there that would be able to cover that type of situation?

NA: Can I first ask what your intent is?

FO: Excuse me. It would be very helpful if you could identify yourself when you speak since we are trying to take notes.

NA: Could you explain what the commission's intent is there?

MT: When we first looked at this rule my reaction was "do we need to do this" and then I looked and the statute says we are supposed to do it so we have to have a definition.

RF: The statute says you may define it – I don't think it says you have to define it.

MT: I haven't looked at the statute recently. At the time I looked at it I thought it was something we couldn't skip – the idea is to look at the portion of the law that defines a water company when there's a person who owns it or a person who's in control of it. So we felt we needed a definition of control. The particular section we've been discussing is when there's a satellite management agency that is contracted with a system to run it, do the billing, they are not normally in control of the company and we wanted to make sure we weren't including in the definition those that are just working the system by contract but don't have the rights to sell the system, to make commitments to sell assets, purchase assets, and that sort of thing.

NA: My concern was this double negative. It almost seemed that if they were an affiliated interest you assumed that they were in control.

MT: That's correct.

NA: And an affiliated interest is anybody who just has a contract with a water company for management services.

MT: No.

RF: Actually that is the problem with the definition in the affiliated interest statute that's why I was talking about it being circular.

MT: OK I see. . . that was not our intent. The affiliated interest is when you have 2 companies or organizations that have a common ownership and are contracting with each other – that's the kind of thing that we are looking to capture in the affiliated interest concerns.

NA: When you mean common ownership - how much are you talking about because the statute talks about 5% or more.

MT: Well we're looking at, and perhaps Gene can jump in here - when we have affiliated interest filings by a company, we're concerned with when a company may be able to - may be inappropriately contracting with an organization or company that it is related to rather than just seeking bids from an outside firm, that kind of thing.

LD: If it's not an ? transaction - 5% ownership indicates that there is a preferential agreement then it's affiliated interest that we would look at to be sure the ratepayers are getting a fair – to make sure the contract is fair to the ratepayers.

NA: But I believe somewhere in the statute or in the other rules you have a right to look at what's reasonable or not as far as what the water company is doing so I thought you would control it through that means – that you would establish if it's reasonable or unreasonable - - you could look at what the market is and not try to get at it through this approach.

RF: I agree. An owner should be something more than an affiliate, I mean it would sound like you would need to have 50% or something like that to be classified as an owner as opposed to an affiliate relationship which is the 5% threshold . . . . .

DK: I would suggest maybe we're going a little circular - Rick why don't you go ahead and see what you can draft and we'll look at it.

BA: Anything more with definition of control - my understanding is Rick is going to draft a proposed text. Is that something today or - not today.

NA: Rick, what's your intent - what are you trying to accomplish in the redrafting?

RF: Just to be as close to the statute. There's two things to look at - one is that the statute exempts owners and the question is whether you just stop there or because if an entity is blessed by the DOH as a satellite management agency and they are in a management standpoint should that be exempted out from the control and you don't worry about it if they are performing their function as an SMA pursuant to DOH requirements. There might be good rationale to exempt anybody who is an SMA because that's the reason that whole program is set up is to provide management.

FO: I suspect that you can go back & look at the current rule . . . .

RF: Right, I agree.

NA: The other thing I had a concern about in reading this the way it was is that the DOH may be concerned that we would be treating differently SMAs who have some ownership versus those who don't and I assume that they were the ones primarily handling the

regulation of SMAs and the UTC would be kind of causing an issue to occur there that maybe shouldn't.

LD: We don't get involved with the regulation of SMAs. All we really look at is there's a cost to providing the service, you know overhead management let's say regulated water comapny - we're looking only for the common costs there - proper allocation - we don't look at all as to how that system is run or what they do or anything like that - that's a DOH issue. We're just looking at how the allocation of costs are so that the ratepayers are paying their fair share.

BW: I'm going to jump in here with a request for everybody. We are taping and it helps if folks announce your name before you say something but it also helps if the tape picks you up and because we're running off the PA system we need to use the microphones and if you can't hear yourself from the ceiling then we probably won't be able to hear you on the tape so if you could grab the microphone, pull it over right up close to your mouth and they really work good and you don't have to holler.

BA: Can we move on with this one? The next one on the list was definitions and it was particularly in service area.

NA: I raised that issue and I notice now that service area is limited to using current plant and under the coordination act I know we have to deal with future service areas and plan for those and everything like that not only using our current plant but using plant that will be installed later on. I was just concerned that we might be having a conflict here because the existing language says just an area a company has an obligation to serve which seems to cover what we have current and future service area.

MT: This definition is more limited because of comments we received from other water companies at the prior meetings. We had even had special working groups outside of general stakeholders on this particular definition because other companies were concerned that if we just - that using "area you have an obligation to serve" is somewhat ambiguous because where does that obligation come from. You know if you intend to build in an area do you have an obligation there and how does it work.

PW: This was something that the stakeholders previously had hashed over quite thoroughly because we do not want UTC service area to include our future service areas. The problem of financing; the problem of plant availability - all of those things have to be covered for the area that we are servicing. We do not want the UTC to be saying that what we call our future service area has to be served by plant that we are installing - that we cannot get financial help with it. That was the primary reason for pulling back to actual service areas.

NA: Then I have a question to Mary - if that definition is limited in that way does that accomplish what the stakeholders there were talking about doing in terms of limiting the commission's scope of regulation over future service areas or is there more needed?

MT: I think it does in terms of how we've used service area in these rules and at the moment I can't recall the particular areas where we apply this definition so I'm going to have to look at that - I wasn't directly involved in those meetings with the group but my understanding is that this - how we use the term service area in the other rules using this definition does meet the goals that they have.

RF: Maybe one way to help distinguish between the future service area that you do for DOH and the service area for commission purposes for your obligation to serve – is change it from intends to provide to the geographic area for which the company is capable of providing water service using current plant.

MT: That looks like it would be better - I'll have to look at the rest of the rules and check it out.

GE: Could you say that again Rick please?

RF: To get the intend out which has a connotation of future service - service area means the geographic area for which the company is capable of providing water service using current plant.

GE: That's exactly where we were quite a while ago and . .

PW: Why the change?

GE: The stakeholders didn't like it.

DK: I think again why this was drafted this way is that – one of the subtleties was that if you have a lot that's right next to a main, you do not have the current ability to serve that lot. So until you get a service line out there then you have the current ability. So this was basically trying to fine tune that where the lot that's right next to a main is in your service area. You intend to serve them, you have a main going by there – I think that's why we were there once before - a lot right next to a main you do not have the current ability to serve but you intend to serve.

NA: I guess I seem a little more comfortable with the language as it is - intends. To me it seems a little more subjective and more in control of the water company itself. If you talk about capabilities, someone else can take a look at that and decide we're capable where

it's not our intent to serve even though we are capable. For example if we do have a transmission line running by a lot, we may for some reason not intend to service it because it may be commercial and that requires extra involvement with fire flow but we still have the water there.

TF: I have a question about this definition as it links up with section 630 on refusal of service because it uses the same term there is one of the reasons upon which a company can refuse service and where a company has an existing service area in it's DOH water system plan that it cannot provide service to because of a lack of capacity and water rights. Can it redraw its service area for commission purposes under this new definition and thereby exclude customers by line drawing on its service area map? Is that how the commission intended this rule to be applied?

MT: No.

RF: Normally the company's commission service area is smaller than the DOH service area and you essentially expand your service area in your tariff in front of this commission as you then serve additional developments that come on line within your DOH service area. So it's different and normally it's smaller because once you've got a defined service area you have the statutory obligation to provide service within that area and the question is what sort of obligation – how do you define that obligation and what does that mean?

LD: In the past we had an issue or instance or two where somebody had a development that was building out - that was a vacant lot, scattered about - and for purposes of refusal of service or sites they said any lot that's not a service connection is not in our service area even though the main goes by there's a house on each side of the lot and they're saying well for our definition that would be your service area - that particular lot is not going to be able to get water from anywhere else we'll assume and you have the main going by and so that was to eliminate that issue by saying that where the infrastructure is in place that would be far as UTC is concerned a service area whether now refusal of service issues and DOH or anything else comes to play that would be another issue it still would be within your service area though and other rules would apply.

TF: I guess the confusion here is, especially with a change of definition is, how does a water company change its service area for commission purposes using this definition?

DK : We have a map portion of that - I'm sure you read that - you draft your service area to comply with your intent to provide service and again like Layne was saying if a gentleman comes into the commission and says the water company says that they won't hook us up even though my neighbors all have water and we go and say well can we see your map -

and the company obviously shows that they had intended to serve them then we can work with it. So I'm not sure if there's any process per se.

GE: The map rule is 780 and states: Each water company shall maintain a current map of each of its water systems showing the current service area.

BA: Where are we with this? Are we back to the current language - intends to provide or . . . ?

DK: I'd say the discussion is probably done.

MT: I think staff will want to look at it - Mr. Finnigan made a proposal to change the language and we need to consider what the impact of that would be on where we intended to be and where we need to be.

BA: Is everybody satisfied with the discussion? Next is 540 which is jurisdiction.

DK: Did you bring that up Drew?

DN: No, but I do have a comment on it. I still would like to get within C-6 - what is a reasonable 3rd party cost for these pass-throughs. So the first person in - that's considered reasonable and everything goes from there is a scam?

GE: No actually not. There was a lot of discussion on this and how to define it and the concensus on that discussion is that we could not define it. What I can tell you is what we have seen to date and that there are companies out there, I think Cascade Management is one, that does meter reading and billing for like 2 or 250 a customer - and we look at the billing costs that we see from the companies and look at the costs of providing that service and that appears reasonable -- but we don't have a standard, we don't have a dollar amount.

DN: So the 250 is what you would consider reasonable just for the reading and billing - not for - just tack that on the top of the water bill basically then.

GE: On top of what?

DN: O.k. you've got your basic water bill, they go out and read the meter and bill it. Then the 250 is just included in that as an acceptable pass-through amount.

GE: We are aware of companies who are doing that and that seems reasonable to us for meter reading and billing.

DN: OK.

RF: Once this rule passes Cascade Mobile Home Park can be deregulated.

GE: Cascade Mobile Home Park isn't regulated today as far as the commission is concerned.

?: It's not a mobile home park it's a management company.

RF: I'm sorry, I misspoke - it's the one in Spokane. Anyway all they do is charge the pass-through rate for the City of Spokane.

GE: It depends on what they're doing - if it's a mobile home park or an apartment building - if they want to really be a water company and charge for maintenance of the pipes and have facilities charges and things like that - fine, they can be a water company and we will regulate them but this is kind of half – an interim step. They are passing through the cost of water and they are dividing it among their tenants using some scheme and we haven't identified the scheme. We know companies are passing through costs based on units, based on bedrooms per unit, based on tenants . . . .

RF: This one they actually metered it and are just passing through the actual charges.

GE: And some have meters on every unit but some only have meters on every four or something.

RF: It is Cascade Mobile Home Park.

GE: There is a company called Cascade Management that provides meter reading and billing services to apartment complexes and I think some mobile home communities as a third party arrangement and that's part of what we look at in determining what's reasonable - whether it's a third party arrangement or what.

GE: I think everybody that's read this recognizes it's going to create a problem at some point but nobody has been able to figure out how to define it.

BA: The next one was within this section also and was 540-4h.

DN: The only question I have on this is . . . to ensure all customers are treated equitably the commission will impute the same tariff rates to any customers receiving free or reduced service to apply to other customers . . . now is this yes or no, and if no then - I mean can

you have a disabled or senior citizen break the same as you do as or not? I'm trying to read either way in this thing.

GE: I'm not sure I understand your question.

LD: What it says here is the company has the ability to charge a free & reduced rate and if so we will impute for ratemaking purposes revenue so to the extent that it looks to me like reading this again "oh, well they can if they want" which is a deviation from the tariff and we'll just impute it - revenue – or in fact are we going to allow that, yes or no.

GE: If the company has a low-income rate or maybe a rate for disabled we would then apply that on a consistent basis - what we're looking for is consistency. Primarily what we are concerned about here is the brother-in-law rates. We don't think those are appropriate rates for reduced service so we would impute a rate to the brother-in-law - does that help?

RF: If you're giving a free or reduced rate to a class that statute allows you to - you would not impute additional revenue - but somebody else you would.

GE: Right - but we'd impute that revenue consistently throughout the system and I think there may be classes eligible for reduced rates.

PW: That's a change in commission policy because we at one time tried to put a reduced rate in but it was refused.

GE: I'm aware of that - there's a bill in the legislature that would allow reduced rates for certain classes for utility service.

MT: As I look at this part of the rule I wonder if it's appropriately put in here at least the preface of to ensure all customers are treated equitably. The purpose of this section is to calculate for purposes of jurisdiction so I'm glad you put the spotlight on this section I want to look at it to make sure it's worded appropriately to get at what we're looking at. This is really just for calculating jurisdiction as opposed to trying to express any view on whether or not those rates are appropriate for other reduced rates for other purposes.

GE: That's right.

RF: By the way I do want to say that I think what staff has done on this particular rule is very laudible it's really helping to clarify when jurisdiction will attach and when it won't. It's a very nice job of trying to spell that out.

BA: Are we ready to move?

NA: I take it from our discussion on control earlier that we'll take care of changing 540-1a which deals with . . . I'm just kind of curious what the commission sees those things to be.

MT: My recollection of this is these are not charges that the commission would approve in a tariff but things that an unregulated water system may have or call in their current charges and we wanted to be able to clarify that's something that we wouldn't normally consider those people paid those kinds of fees as customers.

GE: That's correct.

NA: Can I ask this question as a follow-up - in that sub-section 2 they talk about water availability letter fees, standby charges and also ready-to-serve charges, other charges. . . It's 540, subsection 2 and then (a) which references water availability letter fees, standby charges and (d) ready-to-serve charges. Mary indicated that the commission doesn't recognize the other one the system readiness fees and I was just curious what the commission's policy is on recognizing the other fees - do they or do they not?

GE: We don't recognize those other fees for the purposes of asserting jurisdiction.

NA: But in terms of tariff purposes or tariff charges.

GE: In terms of - does the commission approve those fees for regulated water companies?

NA: Yes because I notice you do have a definition of standby charges and I think ready to serve. . .

GE: Right and there are some companies that have water availability letters in their tariffs.

NA: So you recognize for tariff purposes water availability in some cases and standby for some cases and ready-to-serve for some cases is that what I'm hearing?

RF: The question is I think whether it's required that they be tariffed to be charged or whether they can be charged through contract as opposed to tariff?

NA: I guess either way, whether a regulated water company can go ahead and do those charges either through the commission approval or I suppose otherwise like by contract.

MT: Definitely if they weren't in a contract or an approved tariff the commission would not allow them to be charged and they would not be appropriate for a regulated company.

NA: Given the definition now of service area and we have the DOH service area that 's outside of the tariffed service area if you're still a regulated water company can you charge these charges outside in your future service area which is outside your tariffed service area?

MT: I'm not sure I'm understanding you – I think the answer is no . . .

LD: It would be as if you just installed plant outside what was existing before.

GE: I think we are well beyond what we were talking about in jurisdiction and I'm not saying that it's not appropriate to talk about those issues as to what charges are appropriate to file in a tariff, but they are not set forth in the jurisdictional rules. I suggest we at least conclude the discussion for the jurisdictional rules and perhaps put that on the list for another topic to discuss but to be sure that we move forward and discuss the issues that we need to address today at this meeting. I'll be happy to talk about them with you individually or later or whatever but we are certainly not talking about jurisdictional issues now.

NA: I'd go along with putting it on the list to discuss later today if we're dealing with the section on tariffs I don't know why we couldn't bring those up at that point in the day.

DK: Let me throw this out - I would suggest that really the question you are asking is specific to your water company and specific to your concept on how you want to apply something that you have labeled a standby charge. I would suggest also that it's not relevant to these rules. I would say that what you need to do in asking if your company can charge something that you have labeled standby charge in an area outside what your service area is should be one-to-one with staff and set out your circumstances and see if it's applicable. But as a broad policy or broad rule type thing I don't think that it's applicable. Correct me if I'm wrong if other people think it's a policy.

NA: I think it is somewhat a jurisdictional issue and I guess that what I'm asking for clarification for - we've established with the discussion on service area that it's only for current plant area as intended by the water company. Of course we have a more broad service area because of the DOH rules. If in our future service area that . . I guess the question is does the UTC have jurisdiction over the charges that we make in our future service area?

GE: I believe the commission has jurisdiction over all charges that your water company assesses.

NA: Then I guess my question is – if I'm reading the rules here and I don't see any definitions for things - and we're dealing with a workshop dealing with rules on tariffs – I think it would be proper to discuss how it affects everybody in terms of future service areas because many water companies have future service areas.

DK: That's a DOH concept, not a commission concept.

NA: Well apparently the service area here is defined as the one that's intended to be served by your current plant, using your current plant and it was noted that that's often for your just existing service area. Of course many water companies that plan to expand have a future service area which can be different or is often different than the UTC's mapped service area.

GE: I don't quite get the point – and I'm searching for help . . .

SH: Is there a definition in these rules of future service area?

GE: No there's not.

SH: And I apologize for coming in late and asking that question . . . so UTC has jurisdiction over all water company charges?

GE: If the UTC regulates a water company we have jurisdiction over all charges the water company assesses.

SH: Do you have jurisdiction over future service area?

GE: We have jurisdiction over the water company and the services the water company provides. I don't know what you want to call it - with future service areas – but if it's an activity of the water company I think the commission has jurisdiction - yes.

SH: So I take that as you have jurisdiction over all charges a water company has so there's no such thing in your mind as an unregulated charge in a regulated company.

GE: Correct.

RF: I think there are some things that are unregulated because they are not water service charges. For example if you have a street lighting charge, a lake replenishment charge, road maintenance, there are a whole bunch of things that companies . . .

DK: Non-regulated activities . .

RF: So it's a little broad to say that anything that companies . . .

GE: Yes you're correct we're talking about water related.

SH: So the answer to the first question of do you define future service area, the answer is no. If future service area is not something that's not jurisdictional or regulated by the UTC then are future service area charges something that would be like a road maintenance charge or some other charge like that that's not "regulated"?

GE: No.

SH: So you say they are regulated?

GE: I don't know what the future service area is that you're talking about or what charges you're proposing to assess to those non-customers of a non-service area but . . . .

SH: O.K. - so we have 10 square blocks that we serve water to. Adjacent to that 10 square blocks is our "future service area". If we have a charge to the property owner that owns the adjacent 10 blocks to the area that we presently serve, known as our future service area, and we choose to charge him a fee would you think that charge is a regulated charge given the definitions and discussion that Rick Finnigan just brought up about things that are not currently regulated by the UTC?

GE: Yes I would consider that a regulated charge.

SH: Why?

GE: Because you as the water company are assessing that charge as a water company to a potential customer of the water company.

DK: I would say that if you expect that homeowner – if I have a lot and the water company comes over and says "we're 3 miles down the road but we're going to charge you $5 a month because we are your water company" and I refuse to pay it, I don't think you'll be able to get that money from me. But if you use your power as a regulated water company to get that $5 from me, all of a sudden now it's a regulated rate – I think that's the difference. If you as an individual non-regulated rate comes up and says he wants $5 from me I'd tell you to take a hike, but if you want the force of being a regulated water company with approved tariffs where you can come in and get that money from me obviously you're regulated. I'm not sure if that makes sense, but I think that's true.

PW: Jurisdictional for outside of our service area or future service area has always been, or generally been handled by a contract to serve. In other words, a line extension in order to serve that future service area and associated with it are charges that are not in our tariff, that are normally higher than our tariff because they include plant that we have to add and facilities that we have to add in order to serve that new area and I think in this text we have 2 different types of jurisdiction that we are talking about and I think that's where a good deal of the confusion is. Jurisdictional as defined in this particular text means when a water company does this and this and this . . . then they are under UTC regulation. It does not mean that only those things are to be regulated by the UTC and I think those are the 2 different types of jurisdiction that we are confusing and consequently across purposes.

GE: In response to your comments on your contract I think yes that is the method that a lot of companies use but the Commission also reviews those contracts and must approve them.

NA: So Dan when you were talking about working something out with the property owner without the force of the UTC presumably I could do that with a contract, but apparently I have to get permission from UTC for a contract don't I?

MT: You need to get approval yes . . .

DK: You're acting as a water company - it's like saying me coming up to you and saying the land that own you've got to send me $5 a month - would you do that? Of course not. You acting as the water company, demanding fees and tariffs gives you the power to get that money - then you're regulated, that's the differentiation there. So a contract, to negotiate a contract you're acting as the water company. That's the only way that you have the ability to collect money from people. Otherwise, you're just like me walking up to you asking a monthly fee.

LD: But I suppose that if you have that 10 blocks adjacent to where you are serving the guy says "hey keep my roads open" or something like that - and you charge them a fee to go in there and keep the weeds down and grade it a little bit, as a separate whole issue, then that probably would not be regulated that would be a side enterprise on your part . .

FO: Just a little bit of clarification - that's not to suggest that is a criteria for determination of jurisdiction. What Dan is saying simply is that that is a plus for you as a water company.

DK: Again I think that's the jurisdiction . . .

FO: But it's not a criteria for determination.

GE: Let me take this back to . . we're talking about jurisdiction here and that's why I was really concerned about talking about tariffs and what we're doing in other areas. What we're talking about is jurisdiction and a standby fee is a fee that I think is what unregulated companies refer to charges that they have assessed to potential customers that own property either on their systems or potential systems and the reason we don't want to consider those types of fees that those companies assess is because it skews the calculations. We have seen situations where companies have charged customers who receive water $75/month and customers who don't receive water $1/month. Well that's $76 - you know they've got 49 of each. $76 for the two and so you average those out and all of a sudden they're not jurisdictional, well that's not the intent. The customers who are receiving water are paying more than the revenue threshold so in defining how we look at companies from a jurisdictional basis is to sift through all these charges and try to ensure that we are looking at or focusing our attention on the issue which is the customers who are getting water. What do they pay for the water that they receive?

RF: I don't want to confuse the jurisdictional issue because the comment I'm about to make is not related to jurisdiction - but you said something earlier that I think needs clarification and that is that I think there are some contracts if they are not line extension contracts that you can have with potential customers or persons who are not defined as customers that are outside your service area - where the contract itself is not subject to prior commission review and approval but the revenues may in fact be determined as part of operating revenues for purposes of rate setting if you are looking at a particular test period. For example I don't want to bring in every water availability letter in here as a contract for approval. That's a clear example of something where we've got in essence a contract with someone that doesn't require commission approval in advance and we're charging them a fee for it, but it doesn't mean that . . you could have a reservation fee, or some other fee with these people who are outside your service area where the contract itself wouldn't necessarily need to come before the commission because it doesn't involve a current line extension. I just wanted to throw that out.

GE: Ccorrect me if I'm wrong, but aren't those fees in your tariffs?

RF: Not necessarily. They can or can't be - some of them would be tariffs and some wouldn't depending on the situation.

GE: I think the attorney's need some further discussion about these contracts or non-contracts and when they would apply and when they wouldn't apply and again, it's not that I'm not willing to have those discussions but I am concerned with the amount of work that we have to do today to work through these rules and the SBEIS. We really need to focus on the rules and what we've stated in jurisdiction and there will be times to talk

about when a contract isn't a contract and with whom. Hopefully there will be time later today. If not, we can set up a different time to talk about those isues. Is that agreeable?

BA: Can we then move on? Once again it's 5 minutes of 11 and we are 3 down on the list - the next one up is 570 which is page 13 - securities, affiliated interest and transfer of property.

NA: I brought that up. I guess it was more of a question - there's discussion now of an authorizing order from the commission and I guess I just needed to hear from a spokesperson of the commission as to what the intent is here and how it would work and how they would see it working under the new rules. How that might be different from the existing rules. Specifically the section where it says: "before selling, leasing or assigning any property or facilities or before acquiring property or facilities in another public utility a water company must obtain an authorizing order from the commission in accordance with chapter . . . ".

FO: I think the easy answer to the question is no change from the existing rules - the transfer of property rules have also been redone and the only change there from existing is to require pre-notification to the commission on the determination of necessary or useful and then only as to property of a certain size but other than that it's identical.

PW: Nick, you may not have seen it but there is a new rule separate from this one that has been adopted by the commission - and you can go ahead an look at this – this is just simply a re-iteration of this new rule and the rule has been in effect for quite some time.

NA: Well perhaps someone from the commission can explain what the current policy is at this point so more for just clarification I mean in terms of the type of review and again . . .

BA: Can we put this to come back to?

FO: Essentially the commission makes a determination that the transfer is in the public interest. Here the commission is looking at depending on the kind of the transfer . . that it's being properly recorded upon the books of the selling or acquiring utility and that there's no adverse impact on the customers as a result of the transfer.

GE: The question refers back to the statute and the underlying statute states that "any sale or transfer without commission approval shall be void" This is stating in the rules what is required by the statute.

SH: Let's say you have a 10,000 truck and you want to sell that - is that within the perview of this rule?

GE: I believe for your company it probably would be. What were the exceptions?

RF: .01% of your assets or $2,000 and I don't know if that's whichever is less or whichever is more.

DN: One point that I read in there - if you sold your truck for $10,000 then turned around and bought another one to replace that truck then that part would be - it would be a trade-off basically wouldn't it? It wouldn't be actually jurisdictional where you'd have to come in to the UTC . . . . .

FO: We're going to get buried in this if we're not careful . . the critical thing is the determination of necessary or useful. The statute says that any public service company that sells any property necessary or useful must first get the approval of the commission - so as a company you look at the truck and you say "I don't think this truck is necessary or useful" and you make that determination and then the question is if it falls under the threshold that we've established in terms of size then you just go ahead and get rid of it and go buy your new truck. If it's over the threshold then you send a letter to the commission stating that you've made this determination and you're selling it, and unless the commission takes exception to that determination you just go ahead and do it.

DK: I would suggest that is a different rulemaking and that we could move on.

RF: I know it just references it but I did make this comment in the transfer of property rulemaking and it fell on deaf ears but I could give it a try again and that is that .01% as it relates to small companies is a very small number and maybe you want to consider as part of this rulemaking increasing that threshold to something that makes more sense so I throw that out. . .

GE: We will consider that.

MT: The final comment on this rule, one reason it was re-written is the statute was changed with regard to the commission's approval and pre-approval of affiliated interest transactions and things like that so we changed the references and the language to conform with the change in the law. It is not intended to change a policy in the way we review them or anything except as the law requires that.

NA: On this rule - when was the rule adopted that was referenced on the transfer of properties?

FO: It's been adopted, but it's not effective.

NA: Then a question - is there some kind of grandfather clause that if you've done something up to this point or up to the point of the adoption of the rule that you're o.k.? I mean some of us weren't aware of how exacting or involved the commission was getting into the transfer of property here.

FO: Again the only change is in establishing the threshold. The statute is very clear you need authority to sell. But to answer your question directly, until the effective date of the rule I would suspect that the current rule would prevail.

MT: If it does not have a minimum.

BA: Next is - 610 - application for service.

TF: I brought that up because I have a question about how this will apply to a water company that is adding capacity but still will not have enough capacity for all of the potential customers in its service area . . . if we don't resolve the service area issue through a map amendment or some other means we're liking to get applications – this is a hypothetical situation here – if we get applications that exceed the amount of capacity that we have available and need to go through some type of priority process . . how do we go about getting relief from this provision in 610-2-c that we've got to inform applicants within ten days that they will either be given service or denied service.

MT: There's a general section on that asking for a waiver of a rule - a company can in particular circumstances ask for a waiver of a rule.

TF: Does that require commission approval?

MT: Yes. You would ask the commission that we don't have to comply with this rule for these reasons. But beyond that if the reason - you could inform the applicant of your intention to deny service because you don't have capacity, would be your response within the ten days. If you don't have capacity to serve them then you say you accept the application and then you tell them within 10 days, "sorry we can't serve because we don't have capacity."

TF: O.K I think that answers my question.

BA: Can we move on - next was refusal of service 630.

GE: Anyone want to claim ownership on this one?

SH: In 2 you say if a water company cannot permanently provide service to that customer because of prior obligations – wouldn't temporarily be a better word?

TT: In the past and for other utilities, prior obligation is basically an account that is separated from a current account and where the company then can take collection actions against the customer we are not involved in that so that the commission is only involved in the current account. It's been a matter of course where then the company cannot deny due to prior obligation accounts.

PW: Does this mean that you can't - if a person has a past due bill that they have been disconnected for - that you cannot because they have refused to pay the bill with no application to the commission for justification for the bill - in other words the bill is not actually in dispute - it's just not being paid — that we cannot permanently disconnect that person? That's what the rule is reading right at the moment.

MT: It means you can't refuse to provide service to the customer for that reason. You could require a deposit under the prior rules so that you have the security that you are going to get the money and they are going to be served. But you can't use that prior unpaid bill as a reason for refusing to connect the customer.

GE: I keyed in on you - you used the word disconnect - this is not the disconnect rule. I think that's a totally different rule is it not?

TT: You can refuse service if after requiring a deposit and I'm a little lax in water rules and I'm pretty sure there's deposit requirements. You can require a deposit be paid and I'm sure that there's an installment plan here and if the customer does not pay that, probably half up front, then you are not required to provide that service. But the prior account where the customer is refusing to pay for whatever reason then goes into a prior obligation.

RF: Is this rule meant to apply when a customer moves out of one residence leaving a bill behind, maybe move out of the area for a year, comes back in and wants service but is not meant to apply when they are at that same residence and they don't pay their bill and you just disconnect them - they can't come in and rely on this rule saying "you have to reconnect me now". Is that . . . .?

GE: I think that's correct.

RF: And I think that's a concern that's it's just a little ambiguous that a customer can come back in after they've been disconnected for non-payment, two months later and say "reconnect me" - this rule says you have to. I think that's the concern.

PW: Is that what the rule says?

MT: I think Rick is right - it's ambiguous. That's what I think it says but given the question that you've raised we need to consider that.

TF: I have a question on this section as well. With respect to connection charges and facilities charges to be charged to new customers - is that considered - is there a limitation in this section with respect to requiring deposits for those charges in advance with an application for service? Does this rule limit your ability to require a deposit for facilities charges and connection fees? Or does it even apply to that?

LD: It probably wouldn't apply to a one time charge - it's more so, the deposit is for ongoing billing service where you're paying a small bill every month or every other month. A facility charge, either they pay it or you're not going to hook them up basically and there's certain obligations a customer has to pay up front like when a service is provided to them initially.

GE: In regards to this rule on refusal of service - there's a separate rule on disconnects and discontinuance of service which is 640 - and item 5 on that rule talks about reconnecting water service after disconnection. I think that's getting to the issue that you had raised. Unfortunately Diana is not here and she knows these rules upside down and backwards.

RF: I think the point is it just might be helpful if in subsection 2 there is some clarification or cross-reference like it does not apply or something like that.

GE: OK, thanks.

RF: I do have another question on subsection 3 and this relates to an increase in service to a customer. If a customer comes in and wants to increase their level of service say from residential to commercial for example – which would impose a higher fire flow requirement and potentially to do that the company has to incur costs – as I read this rule we couldn't refuse that increase in service, the only one that comes close is a "the service will adversely affect service being provided to other customers" but if we can increase service by paying $10,000 through company investment, the service to other customers isn't adversely affected. So I'm a little concerned that where the upgrade in service would require company investment and the company couldn't argue it doesn't have the money to do it, it's not a priority to do it . . . how do we address that situation where a customer by changing their grade of service forces the company to make investments it wasn't planning on and didn't intend to make?

FO: Why don't we put this in abeyance - I notice that the old rule had economic feasibility in there as a criteria and why don't we get with Diana and . . .

MT: I was thinking it was addressed in a different rule.

RF: Yes because it has in it increases in service - it's not just initial service it's also increases in service.

FO: I'm not sure why we pulled that from the rule.

DN: It says here that the customers got to pay for it.

MT: There's another rule that talks about the customer having to pay for that and maybe there's a cross-reference.

GE: I believe that's 650 service responsibilities. But we will take a look at that and cross reference it.

BA: Are we set with 630?

DN: I didn't get a chance to get this one in - it's actually 640 - which is the next one anyway - it's service may not be disconnected while a customer is pursuing remedy or appeal provided by UTC. I still have a problem with this particular one because what do you do with customers that know how to work the system that come in and file an appeal with UTC you have to continue to give them service because they know in two months they are not going to have the money for their rent or their cable t.v. or anything else and boom they are out of there – and this guys been renting here and now his girlfriend takes over and rents the house down the block - but yet you don't have any legal proof that this is going on and you know it's going on because you can see it and you talk to people around town. So what it is is a good way here for people to move around areas and just run up bills without any help. And you say go to collection agencies well when one parties on welfare and the other one is working under the table and really making a pretty good living, but there's not attachable income you can get. All this does is provide a shield for people that don't want to pay bills and once they learn the system . . . . .

GE: Thank you.

TT: I guess my only response is - and I'm not a legal person here, but I'm thinking that the reason for this is to allow us to give the customer due process for us to review the complaints and try to resolve it for the company and the customer so it's a matter of allowing the time to do that.

DK: I believe that they have to continue to pay their normal bill every month – if one thing is in dispute that doesn't mean next month they don't pay their bill or whatever. It's that one charge and if they refuse to pay the next charge well that's a whole different subject.

TT: I agree with that - they are to pay all their non-disputed charges and they are do designate which charges they are disputing and why and it's only that is in question and they are to pay all their non-disputed charges on an on-going basis and in arrears as well – anything that they haven't paid that they are not disputing and in arrears they need to pay. If they do not pay the non-disputed then a disconnect can be issued. Does that help a little?

GE: I think – Drew do you require deposits?

DN: Yes I require deposits but then you run into the problem where a person next door's house is vacant and the guy runs the house over because he's the water shut off. I caught a house with 20 illegals doing that and it came up when I came around to read the meter and the guy used 7,000 cubic feet and the house was vacant and the house next door was locked off . . . .

BA: Did someone come on the bridge? No>we go to 650 - service responsibility.

RF: I raised this – I'm not sure there's a whole lot that can be done about this issue. The reason I want to heighten people's attention to these rules is there's a Court of Appeals case that came out in February involving PSE service to the Boeing Co. during the inaugural day storm and the allegation is that they failed to provide backup power to serve the Boeing Co. An allegation is that they had facilities available that they chose not to use. The company relied on its provision in its tariff dealing with continuity of service and the court said that based upon the rules that the commission had adopted which were statements like this under 2a "install and maintain all equipment at appropriate locations" and under 8a "make all reasonable efforts to avoid outage of service" – that tariff provision was essentially to be interpreted to allow the company to bring it's claim to trial and would not preclude a suit as the company thought the tariff provision did.

DK: Boeing or what company?

RF: Actually what happened was Boeing made a claim against its insurance company who paid Boeing several million dollars and through a subrogation action it sued Puget Sound Energy. And so what they did was go into the statutory language in Chapter 80.28 and 80.04 which apply to water companies as well and then the commission's rules having general statements related to duties to provide safe and adequate facilities and that sort of

thing and it said that summary judgment based upon the company's tariff is not appropriate and the matter had to be set for trial on the facts. The company still may prevail but that forces the costs of litigation and that sort of thing to be incurred. So I just want to call that to people's attention that when broad statements of duties are apparently going to be interpreted by the court to narrow company's limitations that they put into their tariff. I'm not real sure that a lot can be done except perhaps on 8a and the real source of problem is going to be all of the DOH rules that the water companies have to deal with and I can see real potential for mischief based upon that case.

NA: I would also like to add that I had brought up the Y2K issue and perhaps this is a place to discuss that if we are in compliance with DOH recommendations or proposals and how to address that if there could be some language placed here that would release us from some liability or would certainly make it clear that if we comply with DOH rules we will be satisfying the requirements here for reasonable efforts under Y2K.

MT: I'm at a loss to understand what you're talking about in terms of Y2K issues with regard to this rule.

NA: Well in terms of service responsibilities if it's saying that water companies must take all reasonable efforts to avoid outage of service and so forth - if we're doing what we have to ensure - we've checked with the power company and we've done all the other things that were required by or recommended by DOH – can we get some kind of a release?

GE: The commission has a memorandum of understanding from the DOH that the DOH will take the lead in dealing with the Y2K issue with all water companies in the state simply because they regulate all water companies in the state and the commission regulates only a small fraction of the water companies. So we have an agreement that DOH will take the lead on that - I don't think the commission or any other agency can provide immunity to any company with regard to providing service or failures attributed to Y2K.

PH: I just passed him a note saying that the congress passed the Y2K readiness disclosure protection act out there and I would throw it back at your companies to check with your legal departments to see what your rights are as a company. There's various different things out there as protection but really doesn't pertain to what the UTC does in regulation of the companies at this point.

NA: I"m just following up on the comments that RF brought up concerning how the UTC rules that we're looking at right now can be used against the company.

MT: The state's not in the business of indemnifying companies for problems that may occur or not. We aren't in a position to give a release and say you are not liable for anything.

NA: I'm not asking for a release – but if the state is imposing a duty that's unreasonable because you are in compliance with some other agency rules it would be nice if the state would recognize that compliance with DOH rules would satisfy your rules.

MT: I believe that 's what Mr. Eckhardt had just said earlier. There's references in terms of protection of water supply operation and maintenance. These rules specifically say go look at DOH they enforce those. We aren't enforcing those or imposing additional requirements. For the Y2K issues we have a memorandum of understanding with DOH that they will apply and enforce those rules.

GE: You've already received your information from DOH that went out quite some time ago and as I recall that information advised companies that for those who may not be aware there are potential problems w/Y2K they can take number of different forms . The information referred companies to various sources of information – asked companies to affirm that they have reviewed their operations and taken some type of action and that's about it. But DOH has not waived any requirements in their rules and they have not waived any requirements in commission rules.

RF: I've got a suggestion for some language that may help that. For example, if in 2a if it was written install and maintain all equipment at appropriate locations necessary to operate the system in accordance with DOH rules. And if 3, the "and" at the top of page 23 was changed to "to" so it doesn't imply that it's in addition to the DOH, but is to meet its obligations. Subsection 3 where it says that each water company must maintain its plant and system in a condition that ables it to furnish adequate service and . . . If you changed that to "to" and then drop 8a because presumably if you're meeting 2, 3, 4, 5 & 6 you will have taken reasonable efforts to avoid outages of service and then this wouldn't imply that there is another duty above that so those might help focus it a little bit.

BW: We were looking at the concern that you raised earlier Rick about emergency situations and the court case and we're going to propose some tinkering with 8a and with 9. Starting with 9 it might be clearer if that said "notice of scheduled interruptions in service" and in 8a it might be possible to break that into 2 sentences and say "Water companies must make all reasonable efforts to avoid outage of service" and then say "but are not insurers of service in the event of every emergency, act of God, or other similar event" and then say "when outages do occur water companies must make reasonable efforts to re-establish service with a minimum of delay." Would that meet your concern? Is that o.k. with staff?

DK: We'll provide a copy of what he just said.

MT: I've got it.

SH: One last point - I have the document that DOH sent out it says "please use this form to affirm to the Washington State Department of Health that you are acting to identify, repair and/or correct problems in computer hardware and software and in equipment that might have an embedded chip. I acknowledge that I have developed a plan to address potential Year 2000 equipment reliability issues. I have corrected or will correct the problems identified to the extent possible and will development contingency plans for equipment problems that are not correctable or that were not identified so that the public's health is not threatened or jeopardized. There is no need for the licensee to provide documentation other than this form. This form is to be returned not later than April 30, 1999. . blah, blah, blah. " We're doing that and it costs money. So you get into this issue known and measurable and those kinds of things and if we apply for a general tariff rate change we just don't want to get slapped up side the head because we're making this change in 1999 as a result of this and our test period is 1998 and it's going to be termed "not known and measurable". So we want to make sure we're covered.

GE: Don't know - but a rate case will address those issues in a rate case.

SH: I'm just getting it on the record now so you understand. There are things that come up that are outside the norm and I think clearly this is outside the norm. I like the changes that Mr. Wallis suggested - I think they're good.

GE: We certainly think we agreed w/the proposed language changes that Mr. Wallis made as to the other suggestions that Rick made we need to have some additional discussion on that.

SH: I thought Mr. Wallis incorporated his changes as well in his comment.

GE: Well I guess then we're going to have to say we don't know that we agree with any of them so we need to have some additional discussion on all of them.

RF: Just on the Y2K issue - companies should check with their own attorneys – but in responding to DOH's letter and responding to anybody's request for information on Y2K stuff you should preface by saying "this information is provided pursuant to the Y2K readiness disclosure act" so you can envoke the liability protections that that act provides and that includes correspondence to customers and anyone else asking for information but also in that form if you choose to respond through that form.

BA: Can we move on? Next one is 730 on my list - service connection and service lines.

DF: I think we've got a little area here where it's causing problems, where it states that a company can assess a service connection charge for a&b of this subsection and not for c & d – a & b understandable service means installed at its own expense during construction (that's a). But c states that it is previously installed during system construction. I think we've got a direct problem and I think c needs to be dropped entirely and bring up 4 which says that we can't charge if a company did not incur any costs. There's a real conflict between c and a and I think the intention of this when we originally talked about it was that we would not charge a service connection if the company did not incur a cost. Just some clarifications here, I think it's o.k. except c doesn't make any sense.

MT: You're talking about 3c and you referenced a - 3a or 4a?

DK: He referred to 3a and then 3c - that they were contradictory that one said new construction you can charge a connection fee but then c comes around and says you can't if the service connection has been previously installed. Well a says that if you've previously installed you can charge it.

DF: I think that under 4 it says "a service connection charge must not be charged if the company did not incur any costs", maybe incorporate that into c.

DK: I think what we were looking at, and we might expand the meter drop in, the key was that the companies were literally going out with their meter and putting it in and saying I need a service connection. I believe it didn't have anything to do with whether it was paid for or not paid for that was the mechanism that was driving the service connection fee.

LD: That's true. In instances where the service connection had already been installed and paid for by someone else or previously paid for and then maybe a water system changes hands and somebody comes out to hook-up . . . we wanted to clarify the issue . . and in the meter drop in it doesn't pin down exactly as much as 4a does where we're referencing really where the system had been installed but also been paid for - to where the service connection shouldn't be charged again.

SH: If it had never been collected . . . .

LD: Then it would be an authorized charge.

SH: :Let me give an example so I"m real clear on this. If we build out a water system, we buy the water system for a subdivision. At the time we're installing everything we put in a service line to the lot and a meter box, maybe even a meter setter. We don't collect the

service connection fee at that time. That water system gets sold to a regulated company. A customer builds a house on the lot and they want water service. The meter "gets dropped in". Are you saying then that under the proposed rule that the water company should not collect a service connection fee?

LD: Are you saying this was an investment by the water company initially?

DK: The way you said it you said "we". And I'm not sure if it's we the developer or we the water company.

SH: I'll be specific. A developer tears down this building and puts in a water system. Our company (the water company) buys from the developer the water system. They've (the developer) has been charging $50 a month for the water. The water company comes along and offers to buy the water system from the developer. Their current rate is $28.50 a month. There are 7 lots on in this subdivision that the developer hasn't built any homes on at the point the water system is sold to the water company. People then move into the 7 homes and they want water service, what is in place already is a service line, a meter box and a meter setter. The customer wants water service from the water company and we go out and put a meter in and we charge them a service connection fee. The way I read this rule is that's just a meter drop and you're not allowed to charge a service connection fee.

DK: The water company has invested, had bought a water system. They have invested money in a water system. They are recovering the cost of that service line through depreciation and normal rates. It's on their books as assets - your service line - you're depreciating it - you're recovering it. That's your investment.

RF: But a portion of your recovery is through the contribution in aid of construction that comes through the hook-up charge. That's what that is – is a contribution in aid of construction so where you've made that investment to purchase the system, why can't you charge the connection fee and then it's booked as CIAC and . . .

DK: Because I think it gets real grey at that time. I think when a water company installs it then a connection fee is applicable. When the water company installs the service line with the meter box then we have a connection fee. If the company goes out and buys a system - I would say that then they bought a broad asset and they're merely dropping in a meter. They did not put in . . . .

PW: They would have to spread that purchase price over the assets so that you know where it's applied to and if you charge a hook-up fee that comes off whatever you have put into the service.

DK: It goes in as a contribution in aid of construction to offset the recovery. Now here's where it gets sticky. Let's say you've bought this system and you've had it for 5 years and you've been depreciating that asset. Let's zero in on the service main. You depreciate 5 years of that service main. Now the contribution in aid of construction comes in - that is greater than the amount that you now have net plant in the contribution - there's a mis-match and I think that's what makes it sloppy.

DF: That's sloppy at any time. We put in services today, I install the service today - I might not have a hook-up on it for 10 years.

DK: But you're recovering it through rates and . . .

DF: But you've just said the same thing. I've put this service in today – Rainier View installed the hook-up – under this rule you're stating that I can still get the connection fee but in 10 yrs from now I"m not going to get the connection fee or until 10 yrs. Same thing. Basically we're paying for that installation, the service lines, whether we are purchasing the plant in whichever way we do it, or however we install services, every water utility installs services in one particular way. Either they do it themselves or they pay somebody to do it. Now if I buy a water utility or am just given a water utility where all the service is there already this might apply. This rule that you're talking about where I have not incurred a cost. But in all other areas whether buying a utility or paying for the services no matter when the service connection occurs, as long as we've paid for that connection or service we should be allowed a service connection fee. That's what needs to be cleaned up in this rule.

LD: There's several types of service connections. A system's put in and all the meter setters and all that's put in while the trench is open and they could be considered the entire cost of the system. Through the tariff when you read the system there or it's actually service connections, it's the labor basically, it implies in the tariff to go back in and the labor to tap the main, install the meter, etc. dig the hole and all that stuff, fill it in – the service connection is supposed to be a direct cost for reimbursement and recovery there and if you end up having to incur that and it's probably averaged over the amount of connections you may have that go across the road or the same side of the road – and come up with a reasonable amount to reimburse you for that type of connection. If the thing was put in all one system when the trench was open you've got some costs of labor, some costs of materials that may not be exactly the same as a retro-fit cost. If you bought the system, and the labor, it was already installed and it was part of the cost of the system, which the only thing that has not been done is the meter hasn't been dropped in, then what is your real cost? If the cost of the system is $x and includes all of the plant including all of the meter setters and that and your depreciating this , then it would be - you're recovering the investment in rates plus depreciation. Then to charge the homeowner a one time charge to

reimburse you for what it costs, whatever the tariff rate was, which generally has a retrofit component in there. You may be affecting your rate base negatively by having too much contributed plant, but then we're looking at was it a direct cost recovery. We're trying to pin down all these aspects, all these incremental parts of what a service connection is. Whether it existed before or whether it's put in a retro-fit or not. We can look at these more here and see if there's any way of clarifying some of those issues.

DK: What I want to make sure as I step back – the key as I understand - is that service connections is a unique beast in that the company has invested money in a service connection– the company should be allowed a rapid recovery of the service connection cost. I don't care one way or the other but I think that it is my understanding of it. Versus like mains where you have a recovery over the life of the main, it seems the service line, the concept I'm getting is that a service line as long as the company paid for it they should be allowed to recover the cost of that in one swoop as soon as that first homeowner comes.

RF: Yes. If a company spends $10,000 to construct a system that has 10 homes on it, including the meter boxes and setters, or pays a developer $10,000 who has constructed that, it's the same company investment and so what we're saying is that the hook-up charge should be treated the same in both instances. There's no reason to distinguish between the two.

MT: I think the first question asked – the way the rule is written it would prohibit a service connection charge in that instance – so we need to look at that effect and I think he may have a good suggestion about the switching and rearranging of those sections so we will look at that.

GE: Mary did you commit that staff would consider the argument or did you commit to staff changing the rule?

MT: That we would consider how this all works and how it all fits together.

GE: Yes and I think we have a good understanding of what your concerns are and we will consider those.

DN: I've got a question or comment on service connections also. It goes to 1 and also to 6 I don't know if this is a problem in other places or not but I know it sure is where I am that technically speaking I guess every retrofit meter that we put in at Oak Park should have been a line extension. Because the county is forbidding people in Mason County - in fact they want your mains in your easement, in your utility easement that you have from the lot

owners, not in the county right of way. So therefore this should be extended a little bit longer into the utility easements.

DK: Is an easement a type of public right-of-way?

DN: No. An easement is an agreement between the property owner - and it can be a blanket agreement with the utility or any utilities within a development. But it's not a right-of-way. When you go in there and utilize these you have to return it to it's original state as much as possible while still allowing access. Which means you may have to move somebody's fence and they can't put it back because they don't want to give you access through their yard to read the meter.

LD: If you had an instance where these retrofits are far in excess of normal - it may fall into a main line extension type issue. Are you going to charge for - to reimburse your costs which is what a line extension does. You charge for it and it's contributed plant thing. Obviously you're talking about a more expensive operation here.

DN: Basically what it is for instance if you retrofit a meter if you go into especially a place that has underground utilities already in. You start digging down you've got the transformer sitting here and a water valve here and a property line is right here and you're already in the easement to start with with those because of the way they were put in to start with. You're out of the county right of way so in order to really make this work then you've got to dig down and extend those out to the other side and maybe go another 4 feet beyond so you're still outside the county right-of-way, but you're on the legal easement that you have the right to do this on. Now is that 4 feet every time you do that a line extension?

DK: No we'll go ahead and adjust that. That's a good observation.

DN: Otherwise I can see with a lot of companies taking over these smaller systems that were put in years ago, they're going to find out right now that the services right now in existence are already on the people's property. They're not on a right-of-way because these things were never put in on right-of-ways because nobody really knew where the center line was.

DK: You said 6 also.

DN: Yes. It refers to it in 6. A company may install the service connection. . . . so something like that should be with an easement . . . Basically you've got to deal with - my thought was getting the easement in there otherwise we're going to open up a can of

worms. Like with Oak Park, if I had realized that I should have put in for about 150 line extensions of 4 feet each to follow the rules and this is going to come up again.

SH: Just to clarify on that – actually it's the first sentence "the company may install the service connection to the property line, the property corner, or to a location on the property mutually agreed upon. The "or to a location on the property mutually agreed upon" is the only part that has to be mutually agreed upon. It's either at the property line, at the property corner by the water company's design or at another location mutually agreed upon with the customer. Is that the way that is intended to read?

DK: The company can put it on the property line, property corner - is it all inclusive or not?

GE: I think I understand Steve's question to say if the customer wants the service connection installed on the south property corner and the company wants to put it on the north property corner - is that ok?

SH: Yep.

GE: So does wherever it goes – does that need to be mutually agreed upon or does the company have unilateral decision as long as they put it on the property line someplace?

SH: And the way I read it was 1 or 2 is the water company's decision and 3 is mutually agreed upon to be the location on the property mutually agreed upon.

MT: I think that was our intent, yes. It's the water company's choice at the property line or which property corner.

DK: And I think we did actually have those discussions - I remember drawing on the board - where somebody would want a center meter right in the center and the company is pairing meters and the company has to have the ability to say no we're going to this corner here and not be forced into doing one over here.

SH: Especially like on large lots . . . .

GE: The thought occurs to me that if the customer is willing to pay additional money to put the meter where he wants it . . .

MT: But that's a line extension.

GE: But how does the customer know about it.

SH: You talk to them.

GE: So the company tells the water customer where you're going to put their meter before you actually do it.

SH: I'll just give you an example – let's say it is 2 acre parcels and there's 50 of them . . . . and for some reason the customer where there's already a meter box installed at the corner which is paired with another meter and there's no water connections going down the road beyond that and they decide that they want their Puget Power connection, their gas connection and their water connection at the south end of the property as opposed to the north end – If the service connection is there already, it's there. If they want to pay to move it that's fine and we go through all the proper procedures with the commission. But some people think it's their God-given right to say "I want it 500 feet down the road - you pay for it".

GE: I understand that – how does the property owner know?

SH: They call and ask for a service connection and they say "by the way I don't want it up by my neighbors I want it at the other end."

GE: That's what I said - the company tells - the customer knows where the meter installation will go in before it goes in.

SH: Absolutely.

DN: That's not a line extension, he just hooks a service line right to that and runs it down .

BA: Next one is 740 water company funding mechanisms.

FO: I would suggest breaking at this point or say we're going to plow into the noon hour.

(Discussion about breaking or not)

BREAK FOR LUNCH 11:58

RESUME AT 1:00

BA: We're going to begin since we said we would – we want to make a major assumption on this - the discussion on whether it should be in the WAC or not in the WAC has been discussed over and over so we are going to make the assumption that it's in the WAC and

we need to make it so it works. We're talking about 740 - water company funding mechanisms. O.K. are there some really basic issues that we want to take on with this?

RF: The requirement that the facilities charge be only pursuant to a DOH order required by DOE or a comprehensive plan. There are some companies that don't fit under any of these categories who have had facilities charges for a long time and t hey've worked very well so we'd like to see the language rewritten to have more flexibility on that issue.

DN: Also my question on it is why does it have to be to an order, why not just have it basically best management practices or best available technology for something. That you know you need to accomplish something and that what I was going to talk to Layne about, we've got this salmon thing coming up and they're going to want draw down tests on the wells and everything else. There's a real good system out for accomplishing that automatically and it's the best available technology thing. Now you don't have a direct order . . of course I imagine if you wanted to you could get a letter telling you that you've got to do it. Why not include something like that in there . . . because it looks like right here the only way you can do it is if you've got an order to do the thing rather why restrict it to an order? Why not . . .

LD: We've done it without orders. We've had one small company - well I think Harbor did their generator surcharge without an order and we don't wait for DOH orders necessarily that only . . . If you do get an order then we're not going to question the feasibility or intent that you have to do it and we're going to help you fund it. You come in with your own idea or something we'll look at it, sure. It doesn't require a DOH order in order to get any surcharge. But if you do get an order it's one of the ways of saying . . . this is one of the funding mechanisms to help you handle this unforeseen expense or cost.

GE: I think we're talking about 2 different things here – paragraph 2 talks about surcharges and I think that's what Drew's question was about. Paragraph 3 talks about facilities charges and I think that's what Rick's comment was about. So let's talk about facilities charges and surcharges separately. I think in regard to Rick's comment on the faciities charges, paragraph 3 – I understand your concern that some companies do not have approved water system plans - would it help if we revised the language to state that if there was a plan . . . . then we need to consider other factors - but I think what we would like to avoid and I think DOH would like to avoid is having a plan in place and then the company going off and doing something that's totally different than what the plan says.

DF: Can you switch approved with approved or proposed comprehensive plans? We've all submitted plans, just not an approved plan.

DN: The reason for that is, one of the reasons I've run into is that if your county is not up to date on the GMA for instance then it won't approve your plan. The plan as far as they are concerned is 100% approved and it may be hanging because of either growth management act problems or water right problems which have no bearing really on whether or not you need to do these other things. But just because it isn't approved because of these technicalities that they've written into it – why should that be to the detriment of the company and the customers?

DK: I think when we discussed it one of the problems that we have as an agency putting into rule that you can do a comprehensive - that you can do facilities charges based upon a comprehensive water system plan that may not be approved or proposed is that we felt that we might be defeating the intent of the legislation that enacted comprehensive water plans. I think we also mentioned, and you can tell me how workful it is, in the circumstances that you described that you could actually, I assume file for a waiver saying this is what we're doing, the comprehensive water system plan is hinging on x,y and that's why we don't have an approved plan. I think that's what we discussed as far as making it workable.

RF: I've got a problem coming in and asking for a waiver on a continuous basis. There are a lot of plans out there that aren't approved for one reason or another and nobody is trying to defeat the purpose of the plan. Bluntly in some cases DOH has changed the purpose of the legislation and instead of being a planning document it is becoming an operations document where you have to not only show what you're planning but prove how it's actually working. So there's a real problem with that. Just use the example of Rainier View, it may have been the first one to have a facilities charge program in place that has worked well for years to fund source and storage and you know there hasn't been any major problems. The concept that they would then have to come in and start asking for waivers for every project would put a financial burden on running that program. What I'm really asking for is to try to get some flexibility in here so that where a program can be set up and everyone is comfortable that it will work well it's appropriate to include.

GE: Assuming the company needed to apply for a waiver - it wouldn't apply on a project by project basis, it would apply for establishing a facilities charge without having the approved plan in place.

RF: How about grandfathering existing plan programs - because they've all in fact been approved in one form or another by the commission so why can't we grandfather in existing plans?

GE: Existing plans or existing facilities charges?

RF: Facilities charge programs.

DN: I don't know whether or not it's allowed in UTC or not, but you also have a small system water management program that you also have to throw in there which is basically just a document that is the same as a water system plan that applies to service systems under 1,000 with other requirements on it but those plans do not have to be signed by an engineer, etc. They don't have to go through the same review process, they are just a document that is made up and kept at the water system and the water system sends a letter to DOH saying I've got the document and then when they come out and do sanitary survey is when they go over it. So that should also be put in here either that or you're going to require all investor-owned systems to have water system plans. Is that the way you are going - all investor-owned systems will have it where the system next to them doesn't need it?

GE: That was the intent - yes.

DN: So all investor owned systems - regardless of size - will have water system plans.

GE: Will have a water system plan.

DN: Will have a water system plan.

GE: Whatever DOH thinks is appropriate for a water system plan.

DN; But not a small water system management program?

GE: If DOH tells us that's what they are considering to comply with a water system plan - that's DOH's call.

FO: As I recall your facility charges are all done by contract which requires a filing for each contract so it seems to me that using a waiver as an out – you would have to ask for a waiver in every instance.

RF: I suppose although now they're all approved on the no-action agenda and . . .

FO: I understand . . .

RF: What happened was when the level of charges was first set and ran through the staff in advance and came to an agreement as to an appropriate level of the charge and then incorporated that into the contract. When it was recently increased again when it went to

staff brought in the work papers and showed the basis for the new level of the charge and that was fine. So they've been being approved at the new level without a problem.

FO: Right I just wanted to make sure that we're clear on procedure if the rule goes in place as drafted just so we all understand. It would seem to me that the waiver request would have to be included in each of your filings procedurally. I'm not sure that's what we want to do or not, I just want to make sure we all understand.

GE: I'm pretty sure we don't want to issue an order on every contract that comes in even though word processing makes that fairly mechanical.

FO: That's what I thought.

GE: But we'll have to try to figure that out, perhaps in the waiver process. The waiver would be to establish the level of the charge which then you apply on a contract basis . Maybe that's an approach to. We'll have to reconsider that whole application and the comments that you've given to us today.

GE: Are there any other comments on the facilities charge portion, that's number 3?

SH: On section #3 - the wording in the future water utilities plan under 2ai and then under 3ai - it refers to the project must be in accordance with an approved comprehensive water system plan . . . In other places we have wording like long range planning and facilities plans and wouldn't it make sense that the same language be included in these sections?

MT: Is that what we just discussed before Mr. Harrington returned?

SH: I didn't hear that specifically.

FO: That's the statutory language - oh, he's on the facilities charge.

RF: That was the premise for the whole discussion and staff I think has indicated that they want to go back and look and try to find a way to get more flexibility.

SH: And I was just suggesting . . . .

GE: We will consider that - however if there is an approved comprehensive water system plan - that's it. That is the plan.

SH: Right - again all I'm saying is that when you have an approved water system plan and you changes are made as a result of the work that's done under your water system plan,

and it exposes other things that you need to get done. So you have to adjust your plan and it's not exactly what was written in the plan the first time it was drafted. It's revised during the planning process.

GE: Sure, the plan is revised and we have a new plan.

SH: Not necessarily because we have to do a new plan every six years.

GE: But there are provisions for updates, revisions, etc. DOH tells us this is part of the approved plan and it's part of the approved plan.

SH: All I'm telling you is that those letters don't become a part of the "approved plan". There's kind of an understanding about changes that you have. I'll give you an example, Let's say *(can't hear him on the tape . . .)*

GE: I guess if that was part of DOH's requirements then they would provide us with that appropriate documentation. It states in the rules right now it would be a Washington DOH order and we might give more flexibility on that to include letters.

SH: It doesn't say letters? It needs to say letters because those do happen.

BA: Others in 740? We've got probably 5 minutes. . . .

DF: On #4 accounting and reporting requirements - actually 4bi,ii,iii – and then you go into c which is reporting the same info again. I don't know if you realize the amount of invoices involved in doing any major project, especially on a surcharge basis. I'll take an example. Our current completed surcharge that we put in place for corrosion control, we put in 13 pump houses. Many, many pieces, parts & vendors. I wouldn't even want to take the project on if I had to come here every day to get approval for a disbursement for $10.00 to a vendor and this is what it's telling me. I don't mind reporting to you on the quarterly basis and giving you that detailed information but do you really want to bring that in front of somebody? Each invoice at each point in time? Is that what I'm reading here? It looks like it to me. I believe b is fine and then go straight to c that I have to report to you in a detailed basis on a quarterly as to the amount of money that we spent and the amount of funds that we received. But to provide the sufficient detail to give you guys the determination of a disbursement first of all – timely paying of vendors is going to be a problem. I'm still a small utility in the whole realm, but we each month had 30-40 vendors we had to take care of in this project and it ended up being over a million dollars in a short period of time. Based on budget constraints in the utility commission I think you've bitten up too much here.

LD: I suppose maybe we could always put a requirement in there or something that says at the commission's discretion we could look at all the invoices and verify that this was a cost you know almost like a ratemaking audit verifying account and you guys just kind of more or less have the certain class recorded and record and filed like you would any other project. That's something that we can look at too. We didn't want to have every $10 invoice subject to approval. I think it was more along the lines of the broad project like the whole pump house.

PW: We report quarterly anyway how the funds are spent - and the purpose for the surcharge has been approved to begin with and it seems to me that's really and truly all the tracking that you need to have. Doug's instance of the plant - treatment plants - our's of the generators - those are big projects and those have termination dates. How about the surcharge that South Sound has for safe drinking water which is ongoing and 3 or 4 pages at least in her reporting every quarter. To have to come in with those and have those approved prior to her being able to use the surcharge money for that expenditure means more work for the commission and you're tying to cut down on the amount of time and money that you're spending on us. It doesn't make sense.

LD: Most reporting requirements that we've had in the past have been pretty much how much you collected and how much you paid. If we wanted to have any more I suppose you say - then that's all you really have to file. You didn't have to show us any of the expenses that you had for generators or installation costs or anything. I suppose we could entertain looking at since you guys have these expenses and you've got them recorded and filed. If the commission so chose - if they wanted to audit this surcharge - it would be us going out and looking at it like in a rate case issue and we would say they would be available at our discretion and that way you wouldn't have to give us any information on a quarterly basis but it would be available for our perusal.

PW: We don't mind giving you information on a quarterly basis - after the fact - it's just coming in for each payment out of the surcharge that we're objecting to.

LD: I agree.

DK: I think your points are well taken and we've actually had some discussions around that too. Obviously our concerns revolve around companies that might not be as fine-tuned as the people represented here. So I think those are very valid, and of course our resources like you pointed out Pat, we have limited resources. So we'll go ahead and look at that and see what we come up with.

RF: I might suggest that in 4b you drop the words "by order", "approved by the commission by order". Some of these are in tariffs. They are approved as a tariff filing and

there is not an order. Some of them are in contract - again there's not orders and I don't know if approve may be the right word. Maybe it's authorized or allowed or something along those lines.

BA: Other things . . . .

FO: Is the intent that each disbursement would be approved either by commission order or by commission letter?

DN: Prior to . . .

RF: What I heard was that's what the language says now but staff is going to take a serious look at changing that.

FO: O.K.

BA: These are not the official notes – I'm just trying to keep some stuff up in front of you where you're at. Are there other comments on 740 - can we move to 790? Rate increase filing requirements - let's start.

GE: I think it's a darn fine rule.

RF: Remember what I said when I made my comments about the jurisdictional rule - I don't have the same ones here. I'm the one who asked that this be on the list and my concern on this is that it's asking for a lot of information up front when the filing is made that is difficult for the company to provide. There may be times when it can be provided, there may be times when things can't be provided and might best be looked at first at the company's offices to see what the records are like to see what staff needs in addition to what's filed and as the companies get smaller it's harder and harder to comply with this rule by and large. The copy of the expanded check book - sometimes depreciation schedules do or don't exist - and the items under d for the proposed adjustments, some of that is very difficult to put together as part of an initial submission.

LD: As more and more companies have computerized records it becomes easier to get some kind of printout. Granted some may be less sophisticated as others, but where actually in another industry, we've actually sort of used this rule - it was where we had a company totally capable of providing information without great hardship but was probably due to laziness - said "we don't want to." It was causing more work for us. We more or less envoked this rule - without meeting this rule your filing will be rejected. So obviously we're reasonable in the fact that some companies are going to be harder to comply with every single issue here - and like the best attempts - that's why say the expanded check

book, well almost every water company has some kind of check book and we can take what we can get - but when a company is perfectly capable of supplying decent information we would expect them to supply that in a rate case and this rule gives guidelines as to what we would like to see or expect to see depending on the company.

RF: If it would be drafted in terms of guidelines instead of just saying – when we don't like get we'll reject it . . . . that's the problem.

LD: It's not optional for some companies that have that capability.

RF: You wouldn't require Puget Power to provide a general ledger with it's filing – that's a truck load of paper that you would bring in and on a relative scale you're asking the same burden on a smaller company.

LD: In speaking of the larger utilities usually we do get a general ledger summary data by account that is traceable back to the general ledger upon visits by staff. At least that is in it's summary format an account data - because of the size of the general ledger - we take that as a substitute, at least having all of the dollar amounts available there whereupon we can go ahead and pursue it further. Granted there's always that reasonableness and feasibility of supplying a general ledger of several hundred pages thick versus somebody's whose might only be twenty pages. So we take it on a case-by-case and we're pretty familiar with most of the companies and what their capabilities are and over a period of time more companies will become more capable. Just having quickbooks has allowed a lot of companies, if they record their data correctly and manage the company well, can produce at a mouse click a total general ledger and financial statement without too much burden. We then can look at that and determine the accuracy and reasonableness of the data that we've got so that's what we're looking at too. Even the relatively simple canned programs that allow a lot more financial data at the fingertips of a small company. If they have that software we would expect that they are going to supply some kind of printout of that as substantiation for their rate case filing.

GE: These requirements were not intended to be guidelines and they are not intended to be used as "well if we don't like a particular company then apply them but if we do we won't". These are intended to be a rule and a requirement and it is intended to require the company to put on it's rate case instead of the staff developing the rate case for the company. So if there are different types of information that we need here - I heard Layne refer to some companies filing a summary general ledger instead of a detailed general ledger - and if that's o.k. for some companies, why not for others? I don't know maybe there is discussion on that. I think those are the types of things that we can talk about. But we need to have a rate case filed with us, not a tariff with an invitation to come on out and put it together for us.

RF: I'm not suggesting that all of these requirements not be here. I'm not saying that you don't ask for or that the company not provide the balance sheet and statement of revenue and expenses and calculation of the revenue impact of proposed rates, that sort of thing. But for many companies, for example providing usage statistics, verifying test year revenues to proposed revenues, that can be real difficult to do - and to do it up front as part of the initial filing seems to be a little onerous.

GE: How would a company file a rate case without having the usage data.

RF: It's enough information to verify - you can get a degree of reasonableness as to where you are and file based upon that, but to provide exact usage statistics verifying every portion of it is a little tough.

GE: So you're reading that to say that you would need usage statistics to verify the test year revenues and proposed revenues because that's down to the penny in cubic foot?

RF: That's what I normally understand a verification to mean.

PW: It seems to me the way in which Layne described it was with a great degree of reasonableness and understanding - sometimes yes and sometimes with modifications on it - somehow that's got to be in here because you're not going to be here all the time.

LD: What I said was if a company is physically incapable of providing a certain piece of information to us we're not going to reject the rate case by it under a reasonable attempt or a reasonable assessment. If the company has that information available we expect them to give it to us.

PW: But that's not what you say in here.

DK: I've looked at this - about 3 times - just sitting here - except for the usage statistics, I can't see anything there that a company shouldn't have prior to when they decide to file a rate case. I think that the information that is being asked for is the precise information that the company needs to estimate what type of rate increase it needs. What's being implied is that a rate case be filed prior to the company being able to put together the basic elementary information of the financial position of that company. Just a real quick look at it - a calculation of revenue impact of proposed rates - I think that the company should have a fairly good handle on what's going to happen when they asked for increased rates before coming in through the door. Balance sheet, statement of revenues and expenses - they should understand if they are losing money or making money prior to coming through the door. Depreciation schedule - that's their assets. They better have a handle of that. The adjustments, it does say if adjustments are proposed so I'm recognizing there that if

they're not a sophisticated company, it doesn't say any type of mandatory adjustments, pro formas - I'm saying if they are sophisticated enough they should be able to provide pro forma information and how they calculated it. Of course the i.d. number is known and if they are running multiple businesses through the company they also should have a handle on what is being provided from the non-regulated and regulated prior to walking through the door. So I can't see any problem with any of those. I don't think an argument could be made that they shouldn't have any of that available prior to rate case. Usage statistics - I agree with Rick - those are a bear sometimes - but I think that if a company sits down and tries to calculate average usages approach it in an analytical way and gets within a realm of reasonableness - we do that in transportation on can counts. I haven't seen a can count yet hit on the nose. I would say the same thing about a bill count or whatever you are using to calculate your usage.

LD: We've seen - we've got lots of information on these little pc operated billing packages that any small company could use relatively inexpensively. In today's computer world a lot of these - at least usage statistics are available - and it's so much easier to get. So I guess part of our assumption is as time goes on, more and more companies become more computer literate and do have the pc's and some of this billing software available. It's just going to be a matter of course that this information will be available. It won't even be an issue and we'll just expect it to be supplied.

RF: That may be true in the future but this rule will be taking effect. I think the two things that are most problematic are the general ledger and the usage statistics and if we don't get some flexibility such as a summary account and some sort of reasonable estimate or something under e to get some flexibility in those two, I think you're addressing difficulty.

GE: I didn't hear the second part of your comment.

RF: Under "e" some language like "reasonable estimate of usage statistics" or something to show some flexibility in what would be accepted.

DK: I guess that's why directly relating 3 on the general ledger, my experience has shown that if they do not have a formal general ledger - they're writing out of the checkbook. That's what they're doing and then they give the famous shoebox to the accountant at the end of the year and the accountant compiles everything and is out the door. That's why I went ahead and said copy of expanded checkbook. Now I might get clearer on that where expanded checkbook is where the company has taken their checkbook, put it onto a spreadsheet, ran the checks down the side and expanded those costs to different cost columns. It might be . . .

LD: Even the economic check register which is the fold-out one that gives you the chance to manually. . .

DK: Right, the one write system and that type of thing. If we came clearer on the checkbook portion, would that be better? What I'm thinking as far as the general ledger is if they have one it's probably good. It's probably quickbooks or peachtree or something like that. I don't think that's too much of a question. They are probably not running a complex manual system like they used to in the old days. They are probably running a computer to produce the general ledger. I think the headache is the shoebox company and what sophistication do they have to be able to prepare an income statement, or general financials. Now it's circular. If they can't put together their checkbook then they can't produce a balance sheet and income statement. I'm not sure even if we were flexible on the checkbook part I don't think it would help the problem.

RF: There's two different things going on in 3. One is for the larger companies the extent of paper you are asking them to file. So I'm just saying maybe what you can do in that case is put at the summary level. Because if you've got all the other information, if you want more information you can simply ask for it. For the smaller companies it would seem to me if you want a copy of the checkbook, obviously I agree with you they're going to have to have that information put together - a statement of revenues and expenses. But what you're asking for is essentially the work papers that you need to go in and verify that information and if a copy of the checkbook is something they want to provide then fine. To make them go to the work of doing the expanded checkbook now that you've defined it, that might be a little burdensome for the 100-200 connection companies. So on the one hand it's a burden issue on both ends 1) if it's a whole bunch of paper you're asking for maybe they can provide a summary general ledger and on the other hand if it's a small one have them give you the checkbook.

DK: What's happening is the 30 day clock hits and I've got my auditor hat on and the first thing I think is let me see the financials and I've got to go through the general ledger. First thought – because I want to flip account by account to see consistency, what's there and who's being paid. So under the scenario saying no don't file general ledger all we're doing is delaying by a few days what I'm going to ask for anyway. I think the idea was to get the stuff up front. What's crossed my mind is that if they can produce an income statement and balance sheet and they don't have a general ledger - maybe a checkbook isn't really what I'm looking for. What I want is how did they put the income statement and balance sheet together and be able to trace through that. That's something I'm going to have to think through. But I have no problem. . even the transportation companies file using these general ledgers that they file and I don't think that a water company – even if it's that thick we can still work with it. Let me think about that I think that's a valid thing for me to think about. What I'm thinking is somehow linking it to not a general ledger checkbook, but I'm

not sure how to do it. To connect it to - if you've got a balance sheet and income statement how were those derived? That's going to be my leading question. That's where I'm going to go to.

RF: In the first case wouldn't the answer be according to the Uniform System of Accounts?

DK: Well that's a methodology that we've used together not held. If you're following the Uniform System of Account you've got a general ledger then.

RF: For the larger companies if – it's not reasonable to expect that as part of a filing. There is at some point where staff does need to leave the office and go see the books and records.

DK: And as far as what you're saying there I agree. I don't want down in records center a foot and a half general ledger put into the records. What I'm thinking is the smaller companies that filed an income statement, balance sheet - what I'm trying to do is be able to use this 30 days - I want to bring this process in front versus after the fact where a company comes in and they file for rates and they don't know what the rates are going to produce and they don't even have an income statement and balance sheet and they don't even know if they are losing money and that's a reality.

LD: Like Harbor - they'll run one and they'll run the end of test period being one shot that shows the detail of their checking account for the year - one entry. It doesn't take any time at all. That would be fine if it does show the details of the year without every single month but we get the transactions, at least a monthly summary through the year and then we can go pursue those. That would be acceptable and that's what we usually get that way. It's the year end general ledger rather than 12 full months worth. Then we can get expense read-outs.

BA: You said you're going to revisit the needs here based on what you need for information and how to use that period effectively . . . .

DK: I think what we've been talking about is #3.

BA: Yes - #3.

GE: The other comment I heard from Rick was under 4e is usage statistics and we'll reconsider that. Are there other comments on other items in that list?

DN: What are you referring to as to usage? It's just the water used right - meter readings?

GE: Well Drew, staff didn't seem to think it was that hard either.

NA: I have a question, I guess that your intent is for this filing to be effective in August – and say we're willing to go beyond – anyway and just a transitional issue, I mean are we grandfathered under the existing rules?

MT: The existing rules are the only ones in effect.

NA: Assume we are still in process when the new rules go into effect.

RF: If you've already made the filing, you can't . .

MT: Actually the law does allow an agency to apply the rules that are in effect at the time a final decision is issued to a pending proceeding.

RF: But if there is a set of rules as to what you must file . . .

MT: Right, at the time of the filing. I think he's looking at a little broader issue - other things that are coming in.

GE: No if you file your tariff and rate case today and we accept it and the rules go into effect later with a different set of criteria, we can't reject your tariff filing. Is that your question?

NA: Yes.

SH: You can't reject it, but you can apply the new rules?

MT: The new rules could be applied, but what the issue is - for example if a filing comes in in June and goes through a hearing process we couldn't be in a position where we would approve a filing that was out of compliance with the new rules if the rules were in effect at the time - say in January - when the order came out if there was something that was a clear non-complying thing.

RF: To give you an example if the rules set a substantive standard such as "you will not have a charge for water availability letters" they could apply that standard to the filing even though you had filed it with a charge for water availability standards. But if the rule set a purely procedural requirement such as what you must file with initially and you had already past that date, they couldn't say start over again because you don't have everything that the new rule requires you to procedurally get the thing started.

MT: That's exactly it - thank you.

NA: I'm looking back at the savings clause in 510 where apparently the commission has the authority to on a case-by-case make their own rules, in terms of your procedure if somebody's filing under the current rules and you have the hearing just after the new rules take effect can we expect the commission to follow the rules that every one's been working with and they certainly have the authority under 510 to make the rules that they want even if they are slightly in conflict with the new rules adopted it would appear.

MT: I'm not following what you're asking.

RF: I think I understand the intent of 510 but maybe Mary needs to confirm this. If in the middle of a case they find that they have reason to think that there is some additional reporting requirement they want that is not spelled out in the rules, that's to give them the flexibility to impose an additional reporting requirement that other companies may not have to comply with.

MT: Right.

NA: I'm not sure what 510 means.

MT Rick has appropriately described it . . . . it is meant to preserve the commission's right even under statute . . the rules in general say comply w/DOH stuff . . . this allows us to upon appropriate factual showing after a case to impose those requirements.

NA: Are you talking procedural or informational requirements?

MT: What we're really looking at is additional requirements. It would have to be a waiver of the rule situation if we're imposing different requirements. The commission may on its own decide in the course of a case that we're going to waive the rule in this instance. Or if you take out the language in the facilities charge rule that's in this draft that says there is a prior approval in some case the commission may decide we want to require this company to obtain prior approval of the commission before it spends that money.

NA: So basically if I understand correctly - the commission can do whatever it wants regardless of the rules as long as it statutorily has the authority to do that?

MT: As long as it's statutorily allowed to do that and I think under general law and due process requirements as long as there's a reasonable basis for it.

NA: And we primarily look at the statutory authority of the commission for that.

MT: Statutory authority is broad - it doesn't say everything the commission can do.

NA: That's kind of what I thought it meant in the first place.

MT: That's your opinion.

BA: We're complete on the ones we had on the list.

DN: In the way I understood the Y2K thing was anyway was only having to do with health and safety - as far as DOH was concerned.

GE: That's true.

NA: In terms of the hypothetical - say we're not able to bill on a timely basis and we do have some requirements in here as far as performance - would we be held responsible or do you see anything in your proposed tariff that would hold us liable if we're not getting bills out in a timely manner?

MT: I'm not sure what you mean by hold you liable – if a customer came in and complained . . . it would be a matter for consumer affairs to resolve it – we're probably going to say - pay your bill.

GE: Certainly we can all generate various scenarios – I think you made a comment or perhaps I misunderstood your comment – about a problem with a supplier created a problem for the water company –

NA: Well yes, for example let's say there's a glitch with another regulated company and you lose power –

DN: That's not Y2K.

NA: But I think most people accept that as an act of God but from what I hear from the legal community it's kind of a new avenue of potential profit so I hope something like that is not somehow converted to something different just because it's called Y2K next year.

DN: If you look at the new DOH regs - it says you will have a generator – or you will go to your customers and they will be willing to live w/out water for a certain amount of time. UTC doesn't really get into that – UTC are the last people you're going to have to worry about.

NA: If I believe that I need to go out and get some generators – is this something I can get a surcharge on even though it's not necessarily known and measurable?

PW: Yes we've done it.

GE: Yes you can request the commission to approve any kind of rate that you want – and if the majority of the customers vote to pay additional charges for generators then that's placed into effect.

RF: You'd want to take a look at the new DOH regs – that may be a system by system determination .

GE: Right and we have companies that have applied that on a system by system basis.

BA: There are a whole bunch of sections that we haven't gone through today . . we need to move to the 2nd item on the agenda and I'm going to suggest that we do that . . .

DK: This is on the SBEIS that we are required to do on the rules – the statute recommends or suggests that we have a workshop or some kind of stakeholder representation on this – and I thought this would be ideal for this workshop and I think I talked to some of you about as you read the rules, think about the economic impact - and differentiate between a rule that has a cost associated with it, but it's not a new cost it's simply the same cost that came over from the old rule. What I'm looking for is costs that are being created by these new rules . . obviously the industry's insight into areas that I might not see.

SH: Is there a draft SBEIS available?

DK: That's what I'm working on now . . . there is not a draft.

BA: Is this the first brainstorm on this so to speak - things that you want to make sure that he takes into consideration – that you want to be included in this study - those kind of ideas - it's more of an information generating session today - guidance to the commission on what should be put in there.

DK: The law requires that once we have an understanding of the impact - the 2nd step is how do we mitigate that impact? For example the reporting that we were talking about . . . that's going to be expensive - so that's precisely the type of thing that I need a handle on. If you could even give a gut feeling of what the cost would be - by hours, dollars and what type of costs - professional services, additional staffing, equipment.

FO: Just a quick question - these are on the margin are they not, in addition to what's currently there from the existing rule?

DK: Right, a marginal cost - the actual increase in costs caused by these rules, not costs that are currently in place or being brought over.

NA: How do we value the time involved in the meeting today - studying, preparing, staff. .

DK: There's an accounting theory that basically says that if there's been no increase in cost - then it's not a relevant cost – if you and your staff are coming to work anyway there's been no increase in cost . . .but if you hired part-time staff to help with this, then that's marginal costs.

RF: Except the SBEIS provisions don't deal in marginal costs – what they deal with is the cost imposed by the rule, including training costs.

DK: I'll have to re-read it because I didn't read it that way.

NA: Just for the record - I've had to reschedule 2 meetings - and I'll have to make up the time after hours to cover the fact that I'm here. The fact that somebody comes to work each day – that means something gets lost - in my mind this certainly is a cost in terms of time and opportunity costs for doing other things.

GE: In responding I'd ask you also to give consideration to whether these are one time costs or recurring costs. The time that we spent in here today is spent and we're not going to all be here next year . . I think that characterizes the difference.

SH: I have a little familiarity with constructing rules that are being sent out for review and it seems to me that there were quite a few errors in the draft that was sent out – because it was improperly constructed – I just wanted to get that on the record.

DK: See me afterward.

SH: You bet - it was very erroneous and difficult to follow.

GE: Perhaps this would be a good time to talk about the procedure – we'll take a look at the comments – staff will prepare a draft CR 102 - at that point all stakeholders will have an opportunity to comment on those rules – that is the official record- then the commission will consider those comments and issue a final 102 . . .

DK: The hearing will approve the filing of a 102, then it will be filed. Then there will be an adoption hearing - then the order will be made - it goes to the code reviser and I believe it's a 30 day period in which it then becomes effective.

SH, DK , then NA: discussion re accuracy of draft rule that was sent out . . .

BA: The discussion up to this point has been on the cost of making the rule itself - can we move onto the cost of implementing the rule?

NA: I guess I would like clarification again – we've heard two theories. One is it's incremental and the other is it's the cost of the rule.

DK: What I would say Nick is just tell me what you think the cost will be. Forget the marginal, forget the absolute - give me your concept of what you think it's going to cost to run it and I think that's what is being asked for anyway - I want to know what you think as a company owner it's going to cost.

BA: We can just run through one at a time and just say – none, small, don't know or let's have a discussion.

TF: I can say that meeting the minimum filing requirements is going to have substantial costs. That will be an ongoing impact . . .

DN: How about 650 - particularly 3,4,5,6.

SH: 730 meter drop in, 690 meter accuracy, 660 new bill form, 680 refund based on water quality, 620(6) interest on deposits.

BA: Others? And by not putting them on the list doesn't mean they're not getting looked at – o.k. we can take them in numeric or this order. Rate increase filing requirements - what are some thoughts?

DF: My guess would be talking with a few of the people – I think they're going to have to put together a rate team instead of doing it themselves – a minimum of $5k just for starting a team like that and probably considerably more the first time around.

DK: Where did you get the $5k?

DF: Just knowing what attorneys and accountants cost - it doesn't take much. An operation such as Rainier View who has pretty much been submitting this way - doesn't quite have the same impact.

DK: One of the views I had of this was – most of these costs are costs that would have been incurred anyway but the rule is requiring that these costs be brought up front. That recognizes that staff currently puts together some of the cases. Do you see that at all - is there false logic in that?

RF: I think this goes back to the statement that staff doesn't want to be in the position anymore for a small water company putting the rate case together for them. I think you have shifted the burden onto small companies and that has a cost.

SH: I can tell you that to properly follow the accounting records and rules - it does cost the company to have a professional available so that either we don't make a mistake and find out later it was a costly mistake . . . . and to rectify that, we have a professional accountant on staff to handle things like that - so we can directly tell you that it does have an impact.

RF: Quickly doing the math - if you take a $5k rate cost amortized over 3 years over 250 customers that's .55 cents a month to the customer.

DK: This is kind of a hard question and I think we kind of discussed it - how would we mitigate that and still achieve what we want?

RF: It's that second half - there are ways to mitigate it but that means getting less info up front.

BA: What was the answer?

DK: Increase in staff time and the decrease in regulatory requirements.

RF: Even on this rule for the larger companies, there's going to be an increase in cost just in the advice letter. . . so there's going to have to be more work and more up front review . . . that may only be a few hundred dollars a filing but it's still going to be there.

GE: Are we still on 790?

DK: What's an advice letter?

DN: Cover letter.

GE: You're comment was that the cover letter in 790(1) that would be a couple hundred dollars for the companies to do?

RF: I think so.

DK: Another thing I'd like to add on this one is the usage statistics – is that information being captured now - or would there be costs involved?

PW: It depends on how - if you're billing on usage then you have that - if you're billing on flat rate or some other form - then you would not have it . . .

RF: It also may be difficult if you've got multiple blocks to go back and reconstruct at the year end what usage fell into what blocks – if you want the usage by block that's sometimes difficult to reconstruct.

BA: Next one is funding mechanisms.

DN: Service responsibilities should be first - the question I have is under the CCR's – the state will give you a waiver for certain things - then you get in trouble for it - so in order to be safe some systems are sampling on a regular schedule. I mean they don't go for an SOC waiver. Especially with the upcoming CCRs where you admit legally that you are not in compliance . . . but there's going to be a lot of increased costs in it - systems who don't have source meters will have to have them.

DK: That's related to the CCR's though, right?

DN: No CCR is one thing, source meters can be another.

FO: Can I do a perception check here - these are costs that exist because the rules say you have to comply with DOH?

DN: Right these are all the new DOH rules. I don't know how we can come up with a firm way of figuring these things out until we have a look at what the regs are.

GE: Drew are you suggesting that if our regs didn't say that you needed to comply with DOH rules that you wouldn't incur these costs?

DN: What I'm saying is – these are up and coming costs to start with that we do have to be ready to do.

DK: How does that zero in on this?

GE: We're trying to determine as far as these rules - what impact will these rules have on water companies.

DN: OK - I stand corrected.

DF: To get back to my comment - when you state you're going to have to put some specialized equipment in to do a particular task and there are some pretty spendy pieces of equipment - what I 'd be referring to is "install additional equipment as required by the commission in connection with performing a special investigation". There is a cost to that and it's more of a smaller utility . . . I believe this is in addition to the old rule.

DK: So the install additional equipment is not in the old rule?

GE: We're checking on that.

SH: I'll give you an example – in 690 where it says . . .

GE: Can we stay on this rule please?

SH: In 690 it talks about meter accuracy . . . so by putting that rule in there you've really broadened the customer "right".

DN: Maybe the thing that could be done here instead of the commission requiring this sort of thing – DOH working with them I think you can find a lot more economic resolution – they're reasonable about it and they don't expect you to go out and spend money . . . they know what the problem is and it's usually a problem with the customer more times than it is a company problem.

DK: Real quick I found that in prior rule - basically the same wording. If economically feasible got dropped – so obviously that's a good catch and I think that's something we've really got to look at there.

SH: But I'll remind you again that like in 690 . . . . . . is the kind of impact that we need to really take a look at - regardless of whether the DOH is going to work with you - and I really think you need to go out and investigate the costs of the equipment . . .

GE: I understood that as far as complaints to the commission that is the standard practice to require companies to install those continuous pressure . . . .

TT: This is very new to me so I don't know.

GE: Does anybody know what the cost of those recorders are?

DN: I will give you a rough guess of $1k to $1500. A computer operated one which is about $2k gives you a continuous read-out and that doesn't include whatever the

transmitter is. Obviously you're going to have to put this in a very secure place . . are you actually going to need two. . . ?

LD: It said that the commission may require the recording gauge – which means there's alternatives to that – that may be required, but it will be taken . . there's a lot of options.

BA: There's a question that I've been thinking about relative to what Danny would like to look at. Maybe a generic statement that where this kind of thing is required - when I have to do a special thing - that the commission understands what the cost of doing that is.

DK: For clarification purposes for me – we have dropped to 690 - are we through with the 650?

BA: They are kind of related . . .I was trying to say is there a generic question here around economic analysis . . . and the cost of that special requirement is understood especially as it relates to small business. Is that fair?

GE: Also I know that the local health jurisdictions routinely do these types of tests and we'll be sure to follow up with them to get the costs of their equipment and installation.

DK: In 690 we're looking at #4, and #1 - right?

SH: #1,3 4

GE: #1 is already an existing rule.

PH: #1 and 2 are already existing rules.

GE: The one week is new and . . .

SH: #3 was my main concern - I'm not sure if 4 is new or not.

BA: That was 3 - the specific requirement.

GE: We'll certainly check it.

DN: If the commission did require you to check . . . could you apply for a surcharge immediately on your rates?

GE: I think you can include that in your rate case filing.

RF: Going back to 690-1 it was actually a change to say that the customer can be charged for additional meter or pressure tests and the word pressure got eliminated which seems to say that those have to be free and so that is a cost by that change.

BA: The point was that the old rule said that the customer could be charged and this one says they can't?

RF: If the customer requested additional tests - they would be charged and now they've dropped the "pressure" tests so apparently now we have to do 2nd and 3rd pressure tests for free which is a cost.

GE: How many pressure tests did you do in the last year?

DN: I just went out and handled customer complaints – it's their service and . . . what it is is the constriction and if you start following this logic – over and over again at the company's expense just to show they need to fix their service line.

GE: Any other companies have an idea how many?

SH: Just to give you an example . . .

GE: Do you have an idea how many . . . ?

SH: Probably a couple dozen.

DK: Now when I talked to Diana about the dropping of the 2nd one charge for pressure tests – I put the scenario of somebody that has a wild hair somewhere – she said that her feeling was that if you could contact this and tell us that it is frivolous and that the commission would go ahead and acknowledge this and not demand re-tests.

SH: My comment would be that if it is already being handled through consumer affairs adequately - why change the rule?

GE: I think it is a consumer fairs suggestion to change the rule.

SH: Well it's costly.

PW: The number of pressure tests in a year is hard to say . . . I know that we have a guy that does nothing but take readings on the different systems with recorders.

TT: In order to confer w/Diana when she returns - I'm missing what you're saying – is that the issue that you're having a problem with - the additional pressure tests?

RF: The existing language does say meter or pressure tests.

TT: So we're just talking about the pressure tests and if that could be returned – did you say Diana had a problem with the pressure test as well?

DK: She was saying that the company might come out on weekday and run a pressure test and everything is peachy - and then on the weekend when everybody is there the pressure goes down. Now they get charged for the 2nd trip - that's why she was saying that the 2nd trip shouldn't be charged.

TT: So if we're talking about pressure tests – if the company find that the pressure is o.k. - then the customer should be charged for those additional tests. But if the company finds that maybe there really is something on their side that is a problem then they should assume those charges. Is there an issue with that?

DN: I see no problem with that – if you have to go out on a weekend to deal with somebody's pressure problem and it's their fault they should pay for it.

TT: Does it matter weekend versus weekday?

DN: The 2nd time yes.

TT: To me the 2nd time is the 2nd time – now in that instance what were you thinking Diana was saying? Are we at a point where we need to confer with her on that?

DK: Yes - it's a valid cost question because it's a cost that will be created if this rule passes as currently written.

DN: Adequate pressure refers to what it says in 246 290 too right? DOH regulations.

SH: 700 deals w/meters and in 700-a-4 there's new wording "at its expense" so that's definitely . . it says "meters (1) company rights and responsibilities (a) the company must: . . . (4) repair or replace a malfunctioning meter at its expense unless the customer causes the malfunction." So without the words "at its expense" which I assume are new - it might be debatable whose responsibility it is to put the meter in and who pays the cost.

GE: That cost is there today.

SH: I think it's been generally accepted that the companies pay the cost of putting in the new meters but this certainly makes it clear where it may not have been clear before. If you read the old rules verbatim it just says it will repair or replace - it's silent on who has the responsibility of paying for it although I think it's been clear that the company is supposed to pay for it.

RF: I need to depart and I'd like to make a comment on the water company funding mechanism 740. It seems to me that there is potentially a great deal of cost that would be imposed by that rule particularly in the pre-approval requirements. But if it's changed as it was taken under advisement that it might change - that could be significantly reduced - I think that section does impose very substantial costs as it's written.

DF: On 740 to reiterate what Rick said - if we lost the facilities charge - these have probably been more of a 60/40 situation where they covered 60% of the fundings for some of the major improvements . . . I would hate to see what our rates would be in the last 5 or 6 years if I funded that 100%.

DK: You're concerned of losing it?

DF: The way it's written now . . based on us having to prove all operational requirements . . . that's a DOH problem and we'll just fight our way through it if we can - but in talking of these types of funding mechanisms I can tell you it's been a tremendous benefit and we're probably one of the bigger success stories using them. To us yes, it's a very important phase and that's why we keep bringing this back and it's very important to a lot of utilities - my major concern is it tying to not only the comprehensive plan . . .

DK: Do you know if Cathy Thorne would have the same argument?

PW: No, they have an approved plan.

DF: I think that's one of 3 or 4 maybe.

PW: We're still sitting out there without any.

GE: I think we have about 1/3 of the approved plans.

FO: 20-40% what's that?

DF: Current rate base to total assets.

FO: So you have contributed plant of 80%?

DF: Of total plant we have contributed 40%.

GE: 60% is the . . .

DF: Total plant we are now at 40% - I think our magic number is 30% and you saw our original plan which was about 5 years ago – we've always been inside without an approved comp plan.

BA: This is a very sensitive one . . .

DF: Very spendy for us.

BA: The rewrite could make it have less of an impact . . . but what I'm hearing is that's one you really need to look at and evaluate relative to economic impact.

DK: But what you're saying is that if you would have had to fund this in some way - the recovery through depreciation would have skyrocketed the rates.

DF: Right - that's not the company's cost it's the customers.

BA: Can we move now to service connection and service lines or one of the others?

SH: That was the meter drop in issue for us - I just want to reiterate that could be a significant economic impact to us. If the ability to charge a service connection fee is eliminated.

GE: Are you talking about 3c?

SH: Correct.

DK: Because of that circular logic?

SH: Yes it's critical - especially for companies that don't have facilities charges and other things like that.

BA: There's a lot of discussion that went on in that one and this is the same general area right?

SH: Just making sure that when the impact is analyzed . . .

GE: Do you have any idea on what the billed out is right now - how many of those you've got in the ground?

SH: I probably do - I couldn't give it to you off the top of my head though.

DK: Here's a question - where would the economic impact be? You're taking out money to put in the service connections. If you're not allowed to recover that cost in service connections, you'd be allowed to recover it through depreciation.

SH: Without getting through the whole discussion we had earlier . . the inability to charge for connecting a customer for connection for water service – regardless of the means of acquisition . . is an economic impact for certain.

DK: Could I phrase it this was . . it's using financing resources that could be better used elsewhere?

SH: Well prohibiting the collection of resources that could be needed for plant that needs to be replaced that's in place already.

DK: So it's the financing portion that's being constricted.

SH: Yes.

DN: It sort of comes down to cash flow situation - you can depreciate from here to Christmas - if suddenly you take this away . . then the next thing you know then you get a real expense in a real rate case because DOH is on your back because you didn't get it done.

BA: Was that the major one here - we can go to form of bills - 660?

DK: You'll notice that in reviewing the rules that the 15 day delinquency had been inadvertently dropped and I wanted to show that will be a change that got put in . . that's from the old rule, there's no change.

PW: I just wondered

TT: That was from the disconnect of service rule part of it – so they transferred that language over to this rule.

BA: OK the additional costs here?

SH: In 660 form of bills - I read the subsection (f) a couple of times and now I see that this new sheet adds a little bit of information . . . . . . but there's language at the end of (f) now that goes on to say "good cause may include but is not limited to adjustment of a billing cycle to parallel receipt of income. The preferred payment date must be prior to the next invoice date." Some of our companies have 2 month billing cycles and I could see where they need until the 59th day until the bill goes out for the next cycle . . . .

DK: I think what this is designed for is the person who is on social security – I've seen this in public comment - they say "well all my money is gone when the water bill comes". I don't think that a 2 month delay - that would be an awfully hard sell - because we're trying to match up income streams - again Social Security you get it once a month and you should have the ability to pay it.

SH: Have there been instances when companies haven't worked with a customer?

TT: My experience with the water is very minimal . . . in other utilities there have been those instances . . . there must be some on the water side for this to be an issue . . . so I'm not exactly sure all the reasons that have caused this to be included in. Penny asked for this to be in and she's not here right now.

SH: I guess all I'm saying is that common sense goes a long way . . . you can make an immediate decision to help - maybe they don't want to explain - I just want to make that comment – so the next section (g), (i), (h) is out of order - I want to start out with the section that reads "taxes as used here represent . . . " there's other types of taxes for example, the state public utility tax.

DK: That's not a pass through – a pass through and cost of operation are two different things.

SH: So a utility bill that shows the state public utility tax is being shown as a break-out of the bill, not as a charge in addition to?

DK: If they've done that - when they did a rate case that tax is not included in the cost of operation when designing rates. All the cases I've worked we embed the tax in the rate that way we can do a pro forma on what the projected tax will be.

SH: I'm talking about the state public utility tax, not the regulatory fee – I'm talking about the 5.2% state public utility tax. When we fill out the tax return to the state - it's on the flip side and it's a 5.2% or thereabouts tax . . . and so I wanted to be clear about this language not trying to eliminate the ability to segregate out that tax.

DK: We have an excise tax . . .

SH: Is it modified by municipal - is municipal including state in this definition?

LD: This particular sentence here refers specifically to municipal as in all government entities. I don't know where that came from exactly.

SH: I don't know either but I want to be sure . . .

LD: This is where you may have - like a Gig Harbor tax where some of the customers are charged and some are not depending on . . . well state excise is going to be everybody. That line item on the bill will show why there's a difference.

DN: 911 type thing

SH: It's ambiguous.

LD: If it actually showed uniformly to everybody it wouldn't be as big an issue.

SH: Everybody should pay the state public utility tax.

LD: Right. That would be a cost of doing business that shows as a line item on an expense report but we say o.k. the people within the Gig Harbor tax will pay that, the other people don't.

DK: But I think you're thrust is that it says municipality and actually we're talking about pass through taxes - governmental imposed taxes. I think in the rule we should have some elbow room.

DN: We're going to get some more of those pass throughs from the state having to do with the salmon or water right or whatever.

BA: I'm confused - this deals with what you put on the bill right?

SH: We don't want to be limited to not showing the tax that the state . . .

DK: This is more of a rule question than a cost question.

SH: Another one of those circular deals . . .

BA: Are we done with form of bills -- are you getting what you need Danny?

PW: Water quality refund - when we've reviewed that in one of the other stakeholders meetings or 2 or 3, we finally came up with the idea that after digesting it thoroughly and you guys rewriting it - it only applies when there is a UTC order. It has to go through hearing before we have a water quality refund. And so that kind of a cost is not one of those that you need for your report.

SH: I disagree. If the door is allowed to be opened - the whole idea of having to go to hearing and having the expense of going to hearing - the 2nd thing about this particular rule is are the sections 1 (a, b, c) being read cumulative - or is it any one of them that gets you into a hearing?

FO: Let me answer your1st question - it's by statute that we go to hearing.

SH: Which statute?

FO: RCW 80.28.030

SH: Thanks - is it long?

FO: I'm sorry that's the wrong one –

SH: The 2nd part of the question - are sections (a, b, c) cumulative, in other words you have to trip all three or any one of the three?

DK: Trip all three.

BA: Other things on water quality refunds?

GE: You had mentioned interest on deposits.

SH: Yes that's 620 subsection 6.

PW: Is that a change?

GE: No.

SH: The point I want to bring out is I want the staff to tell me where I can invest the money so that I can pay the rate that's required in the annual notice that goes out from the commission. And if you can do that I'll throw all the money there.

GE: The requirement to pay the money isn't conditioned upon staff finding the company a place to put the deposit to earn the interest. That would be a cost of the company doing business. The same cost today as we are proposing for it to be in the future.

DK: I would say also a one year treasury bill is one of lowest rates you can get.

DN: But it's not fluid enough.

SH: How would we buy a one year treasury bill?

DK: That's not being suggested and you know that.

SH: There's the dilemma that a company is faced with and Gene's just answered the question. It's a cost of doing business. It's more of a bookkeeping nightmare than anything else.

DK: I need to look at that because what you're saying is there's a short fall between what has to be paid and what is being collected in a conservative investment.

SH: Right - it costs us money.

GE: I think we all recognize that's true - but that's not a change.

SH: I understand it's not a change but this is a hearing on small business economic impact and I just want to make sure it's on the record that it's a cost that we have.

GE: I believe the SBEIS is in regards to what changes the rules are implementing that impose costs on a business. There's no change.

SH: Why change will to must then?

GE: That's a code reviser requirement and you're welcome to make comments . . .

SH: I understand your point and I hope you understand mine.

DK: I would say you're making a general comment of the rule itself

BA: That takes us to the ones we've put over on the list. Did you get what you needed?

DISCUSSION RE: PROCEDURES/ CR-102 FILING - THEN BREAK TO CONFIRM DETAILS

DK: OK what we did was went out and discussed the timeline – what we're going to do is incorporate the changes that we've agreed to or discussed here - that will be filed with the CR102 that way issues or nonissues if we change certain things will go away and you won't have to do written comments on things that we've basically discussed. That will leave room for anything you have exception to, to write on the record and truly get the commissioners' attention. It will be the same time schedule though.

DN: So before May 26th

DK: Around May 26th - I assume it will be earlier because there will be a period while it's at the code reviser we'll be able to produce something earlier than that.

GE: Any changes that we make we can send to people who attended this meeting so you can see what we are proposing. The changes will go to the code reviser and on May 26th when we ask the commission to issue these rules, the changes that we propose will be included in those rules.

FO: You will receive the changes at the same time as the code reviser so you will have an opportunity to comment - those who participated in this stakeholder meeting will be copied at the same time.

GE: We appreciate the time it takes to come down and talk to us about this process.