

# Rainier View Water Company Inc.

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October 20, 2014

Mr. Steven V. King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
1300 South Evergreen Park Drive, SW  
Olympia, WA 98504-7250

Re: UW-143295 - Opportunity to File Written Comments

Dear Mr. King:

Thank you for the opportunity to submit written comments in this matter. These comments will address the questions raised in the Commission's Notice of Opportunity to File Written Comments.

Rainier View will address the first six questions contained in the Notice in order.

1. What are your primary sources of funding for addressing:
  - a. Regular system operation and maintenance?
  - b. Emergency repairs?
  - c. System equipment replacement, improvement or expansion?
  - d. System equipment investment to comply with state or federal water quality requirements?

RESPONSE: The Company's primary sources for funding are threefold. The first is the use of internally generated funds. The second is debt financing obtained from CoBank for particular projects. The third is the use of Developer Extension charges. This third item was a very good source of funds prior to the Commission reducing the charge considerably. As a result, Rainier View's Developer Extension charge is much lower than surrounding utilities, most of which are public entities or co-ops. This has put some stress on Rainier View's ability to fund equipment replacement, make improvements and move forward on other projects.

2. The Commission is interested in encouraging equity investment in water systems, in combination with obtaining loans or using customer monies (surcharges or facility charges) to finance plant repairs, replacements or improvements. What changes in Commission rules, policies or practices would encourage you to invest your own funds as equity, or encourage other investors to invest equity in your company? What are the current barriers to making investments in your system?

RESPONSE: The primary hurdle to making additional investment of equity in the water company is the long depreciation lives for plant and the low return that is actually realized on investment. While the theoretical return may be set at an acceptable level in ratemaking, the actual earned return is almost always significantly less than the theoretical return. This coupled with long depreciation lives for recovery of investment is a substantial deterrent to equity investment.

3. In setting the tariff rates of other regulated utilities, the Commission considers the ratio of equity (owner investment) to debt (loans) capital for funding the rate base on which the company can earn a return. For water companies, the Commission has required owner investment as a condition of approving tariff changes to pay for State Revolving Fund loans, with a goal of achieving 30 percent equity investment in the projects being financed. In some cases, the investment has been made immediately, in other cases following a long-term annual investment plan. The Commission would appreciate comments on that policy, and the impact of extending that policy to general rate cases.

RESPONSE: This goal of thirty percent equity investment is difficult to maintain. This is particularly the case with a company the size of Rainier View with as much investment that has to be made to keep plant operating safely and efficiently. While it is good to have a goal, it should not be used to impact a general rate increase in a negative way, which would in turn further reduce the opportunities to invest equity.

4. Commission regulations allow companies to build a reserve or surcharge account using customer contributions in aid of construction, customer surcharges or facility charges. The agency has found in some cases that the reserve accounts do not have sufficient safeguards to ensure the money is used for the intended purpose. What are your views on requiring reserve or surcharge funds to be placed in a trust account, escrow account, lock box or protected by surety bonds, to reduce opportunities for misuse or embezzlement?

RESPONSE: From Rainier View's perspective, no additional steps are necessary. Rainier View has a long experience in handling reserves and surcharge amounts in a proper manner. Any additional requirements such as a lock box or surety bonds only increases the cost and reduces the ability to deliver the full benefit of such funds for the customers. One or two problems should not trigger a reaction that imposes additional costs on everyone else and the customers that are served.

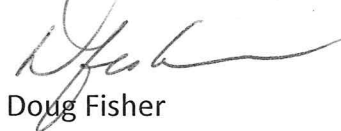
5. What changes in Commission rules, policies or practices would encourage your company to expand your customer base or acquire other water systems or water companies to take advantage of economies of scale? What changes would you recommend to facilitate recovery of costs in acquiring and rehabilitating water systems?

RESPONSE: The Commission should revisit its rules on acquisition adjustments. It is often very difficult to determine what the rate base is for an unregulated system and the idea that the system has to be brought in at "rate base" discourages consolidation. If a system is acquired for a reasonable amount reflecting market realities, then the amount paid for the system should be treated as the rate base, rather than conducting a further investigation to try to determine the original rate base. That is the primary way that the Commission can encourage consolidation.

6. Does your company currently operate or manage water systems for another company or water utility? If so, how many? If not, is your company operated or managed by another company or water utility?

RESPONSE: The response to both questions is no.

Sincerely,



Doug Fisher  
Rainier View Water Co.  
CFO