

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO DATA REQUEST

DATE PREPARED: August 7, 2012  
DOCKET: UW-110054  
REQUESTER: Bench

WITNESS: Jim Ward, Amy White  
RESPONDER: Jim Ward, Amy White  
TELEPHONE: (360) 664-1250; 664-1247

**BENCH REQUEST NO. 12 (To Rainier View and Staff):**

In response to Bench Request No. 1, Staff reiterated Rainier View's commitment to apply a "30 percent match" of the total infrastructure cost for projects involving use of the General Facilities Charge (GFC) monies. Yet, with regard to the Lakewood Pipeline Project, the Company does not appear to be investing any of its own equity.

**To Staff:**

- e. Explain how a ratepayer investment of 100 percent in the pipeline project is in the public interest?
- f. Does the use of 100 percent of contributed funds result in any reduction of overall risk for the Company?
- g. If so, will this be accounted for in the Company's future calculated return?

**RESPONSE NO. 12:**

- e. Building the pipeline is in the public interest for reasons previously detailed in the Settlement Narrative and in responses to bench requests. These include cost savings resulting from purchasing lower cost Lakewood Water District water instead of City of Tacoma water (see, for example, responses to Bench Request 3, and Bench Request 5, Attachment 5.c), and that the pipeline, once constructed, will provide additional and alternative capacity and source in the future, for both new customers and existing customers.

While it may be unusual to fund 100 percent of a project with contributed capital, Rainier View does not have funds available for equity investment, as stated in the Company's response to Bench Request 12.a. To obtain debt financing, the Company must demonstrate a dedicated funding source. The settlement proposes a monthly surcharge, paid by water customers, dedicated to service the debt assumed to construct the pipeline. WAC 480-110-455(2)(c) provides that: "Funds received by surcharge, including any interest earned on the funds while being held in reserve, are contributions in aid of construction."

The following are additional ways in which this settlement and the use of 100 percent ratepayer-contributed funds are in the public interest, as considered by Staff:

- 1. Contributed capital costs the customers less than equity. Equity (set at 12 percent by the Commission in Docket UW-010877) earns a higher return than debt. Plant purchased with contributed funds does not earn any return.

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2. Debt guaranteed by a funding stream (the surcharge and facilities charges) is likely to be less expensive than debt without dedicated funding, if available.
  3. Construction can begin sooner, based on availability of immediate funds from a loan to be serviced by dedicated surcharge revenue, thus taking advantage of the current economic climate in which lower construction costs appear to be the norm.
  4. Rainier View originally proposed to use 100 percent contribution in aid of construction to be collected via a facilities charge assessed to new customers, and to delay the start of construction until the Company had collected enough cash to fund the entire construction cost. This exposed the funds to the possibility of loss for many reasons, and Staff was opposed to the accumulation of this large pool of cash awaiting the eventual start of construction. In contrast, the settlement accelerates the start of construction, securing lower construction costs, and avoids the accumulation of a large cash pool.
- f. No. The Company will borrow funds for construction and thus incur a legal obligation for repayment of loan funds. Although the additional debt would normally increase the overall risk to the Company because monthly revenues may not generate enough funds to repay the loan obligation, that risk is offset by dedicating the surcharge revenue stream to service the debt. The guaranteed surcharge revenue stream assures repayment of the debt and thus negates the additional overall risk, returning the Company to the same level of overall risk experienced by Rainier View prior to obtaining loans and beginning construction.

NOTE: Funding with debt recovered in general rates would increase risk. Funding with equity would lower risk, but at a higher cost.

- g. Not applicable. There is no change in the level of overall risk as discussed in response f., above.

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**BENCH REQUEST NO. 15 (To Rainier View and Staff):** Given the importance of the City of Tacoma's negotiation stance to Rainier View's decision to pursue the Lakewood Pipeline Project, and thus its importance to the Commission's review of the Settlement Agreement, the Commission has drafted the attached correspondence. Should the Commission decide to send the attached correspondence, after first hearing from the parties, the parties would also have an opportunity to respond to any reply correspondence received from the City of Tacoma.

- a. Please state any objection you may have to this correspondence between the Commission and the City of Tacoma.
- b. Please provide the names of any additional City of Tacoma employees who may need to receive a copy of the attached correspondence.
- c. Please indicate whether either party intends to present evidence, either witness testimony or documentary evidence, from the City of Tacoma to support Rainier View's interpretation of the City's negotiating position.

**RESPONSE NO. 15:**

- a. Staff has no objection. However, Staff reserves its right to respond to any reply correspondence received from the City of Tacoma, as indicated by the bench request.
- b. Staff does not have the names of any additional City of Tacoma employees to receive the attached proposed correspondence.
- c. Not at this time.