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BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

THE WASHINGTON UTILITIES)	
AND TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
vs.)	DOCKET NO. UW-000405
)	
AMERICAN WATER RESOURCES, INC.,)	VOLUME II
)	Pages 26 - 43
Respondent.)	
-----)	

A hearing in the above matter was held on
December 5, 2000, at 7:05 p.m., at 105 Seventh Street
Southwest, Puyallup, Washington, before Administrative
Law Judge LAWRENCE BERG.

The parties were present as follows:

THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION, by MARY M. TENNYSON, Assistant Attorney
General, 1400 South Evergreen Park Drive Southwest, Post
Office Box 40128, Olympia, Washington 98504.

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1 Joan E. Kinn, CCR, RPR
Court Reporter

2 P R O C E E D I N G S

3 JUDGE BERG: This is a public hearing in
4 Docket Number UW-000405 before the Washington Utilities
5 and Transportation Commission. The matter is captioned
6 the Washington Utilities and Transportation Commission,
7 Complainant, versus American Water Resources, Inc.,
8 Respondent. Today's date is December 5, 2000, and this
9 public hearing is taking place in Puyallup, Washington,
10 at the Puyallup High School.

11 It is now 7:05 p.m. The meeting was noticed
12 to begin at 6:30 p.m. Good and proper notice was served
13 on interested persons in both Docket Number UW-000405
14 and the closed case of Docket Number UW-000404 on
15 November 22nd, 2000.

16 My name is Larry Berg. I am an
17 Administrative Law Judge with the Washington Utilities
18 and Transportation Commission, and I will preside at
19 both the public hearings to be conducted tonight and
20 tomorrow night in Olympia, Washington, as well as the
21 evidentiary phase of the proceeding.

22 The evidentiary hearing will occur on January
23 3 and 4, 2001, at the Commission's headquarters in
24 Olympia. At that time, we will hear from various
25 witnesses from American Water Resources and Commission

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1 staff regarding the issues in this case.

2 The purpose of this case is to consider
3 American Water Resources' request to extend the
4 effective period of a previously approved surcharge to
5 recover the costs of making critical water system
6 upgrades identified by the Department of Health. The
7 surcharge was approved by the Commission on April 28,
8 1999, and it will expire May 1, 2004, or upon recovery
9 of the costs of improvements, whichever occurs first.

10 American Water Resources reports that it has
11 incurred cost overruns in the amount of approximately
12 \$126,000 and seeks to extend the expiration date of the
13 surcharge to September 1, 2005, in order to recover
14 those additional sums.

15 The Commission has already determined that
16 the purpose for the surcharge is reasonable and
17 consistent with the public interest. All AWR customers
18 presently pay an additional \$4.54 on their monthly water
19 bill due to the surcharge.

20 The issues in this case include whether AWR
21 prudently incurred costs for making those critical water
22 system upgrades identified by the Department of Health
23 and whether cost overruns have occurred. The
24 Commission's water section staff is participating as a
25 party in this case, and they are conducting discovery

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1 about relevant issues at this time. Monthly rates will
2 not go up as a result of this case, but the \$4.54
3 surcharge may extend for an additional 15 or 16 months
4 if approved.

5 At this point in time, I will just briefly
6 make introductions of the other persons who are present
7 on behalf of the Commission and with the Commission this
8 evening. To begin with, on my right is Mary Tennyson.
9 Ms. Tennyson is a Washington State Senior Attorney
10 General, and she is appearing tonight as counsel for
11 Commission staff, one of the parties in the case. She
12 is accompanied by Mr. Jim Ward, and Mr. Ward is a
13 revenue requirements specialist with the Commission, and
14 he will be a witness in the case as it proceeds. Also
15 with me this evening is Ms. Tammy Thurston.
16 Ms. Thurston is a consumer program specialist, and she
17 has an area of responsibility involving water systems,
18 in particular, American Water Resources.

19 At this point in time, I will let
20 Ms. Tennyson and Mr. Ward make any other statements
21 about what this case involves for your benefit, and then
22 I will give the persons in attendance an opportunity to
23 ask questions about this case, if they have any to ask.

24 MS. TENNYSON: Thank you. I don't really
25 have anything to add to what Judge Berg has indicated as

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1 the description of the case except to indicate that the
2 amount that each customer would pay in monthly
3 surcharges would not change if the Commission were to
4 grant the company's request. It would just be collected
5 for a longer period of time.

6 The original amount of the surcharge that the
7 Commission authorized was based on estimates, and the
8 company's position is that there were estimates and then
9 the actual cost did exceed that, and so they are asking
10 for the additional recovery. And as the judge
11 indicated, our job, Mr. Ward's job and mine as
12 representing staff, is to examine those amounts and the
13 work that was done to determine whether they were
14 prudently incurred expenses.

15 JUDGE BERG: Mr. Ward, was there anything you
16 wanted to add to that?

17 MR. WARD: Jim Ward, representing Utilities
18 staff, nothing further at this time. I think it's been
19 well covered.

20 JUDGE BERG: All right. There are two
21 members of the public in attendance this evening,
22 Mr. Ralph Grossman and Mr. Gordon Wells. I will also
23 indicate that Mr. Mitch Meyers, Operations Manager for
24 American Water Resources, Inc., is present this evening.

25 Mr. Grossman or Mr. Wells, do either of you

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1 gentlemen have any questions about the surcharge or this
2 case as it's been explained? And I will indicate for
3 the court reporter that Mr. Grossman is on the left, and
4 Mr. Wells is on the right.

5 Yes, sir, Mr. Grossman.

6 MR. GROSSMAN: This \$126,000 overrun, has all
7 the money, the capital improvements, has that already
8 been spent?

9 MS. TENNYSON: Yes, it has.

10 MR. GROSSMAN: No more capital improvements
11 to be made?

12 MS. TENNYSON: There are additional capital
13 improvements the company will need to make. They will
14 continue to need to make improvements to the various
15 systems. These are items that were on the critical
16 upgrade list or those items that were on the list of
17 projects that were to be completed with the surcharge
18 funds as the surcharge was defined in April of '99.

19 MR. GROSSMAN: Well, I understand \$4.54 per
20 month is the surcharge to take care of these capital
21 improvements. Now you say there's a \$126,000 overrun.

22 MS. TENNYSON: The overrun could be a
23 misnomer in that respect. As I indicated, the original
24 amount of the surcharge was calculated based on
25 engineering estimates. And then the company -- the

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1 Commission because of the fact that Mr. Fox, who owns
2 the company, does have an affiliated interest of
3 construction company that he did want to allow to do
4 some of the work, we required him to go to competitive
5 bids, to seek competitive bids from other contractors as
6 well as if Mr. Fox's construction company was going to
7 do the work. And so based on the bids that they
8 received back, contracts were awarded, and the work was
9 done, which ended up costing more than the amount that
10 was originally estimated.

11 MR. GROSSMAN: How much of the \$400,000 has
12 been spent?

13 MS. TENNYSON: I believe that it all has. I
14 don't know that. I mean we have invoices that total
15 more than -- Mr. Ward has reviewed invoices that
16 totalled the \$506,000.

17 MR. GROSSMAN: You've got invoices for
18 \$506,000?

19 MS. TENNYSON: Yes.

20 MR. GROSSMAN: And yet you say they still
21 want more?

22 MS. TENNYSON: Well, any water system always
23 has additional capital work that needs to be ongoing to
24 maintain the systems.

25 JUDGE BERG: Let's take a second, and Mr.

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1 Grossman and Mr. Wells, thank you for coming forward.
2 This will make it a little easier for everyone involved.

3 Mr. Grossman, I will just indicate that
4 according to some of the numbers that I have seen, the
5 original estimate of costs to be incurred were \$380,350
6 and that the actual costs incurred are \$506,266.80 plus
7 interest and taxes. Some of this money may be the
8 subject of bank loans or financing that American Water
9 Resources secured in order to make those critical system
10 upgrades at this time.

11 MR. GROSSMAN: Okay, then so are there any
12 other capital improvement projects that are going to be
13 coming up on this surcharge?

14 JUDGE BERG: Not with regards to this
15 surcharge. However, American Water Resources has an
16 extensive list of other projects that will need to be
17 performed over time on an ongoing basis, and they will
18 undoubtedly come to the Commission and ask for rate
19 adjustments when they deem it appropriate. However, at
20 this point in time, there are no other requests for rate
21 increases pending.

22 So it's something that can always happen.
23 American Water Resources has the legal right to come to
24 the Commission and request rate increases when they
25 think it's appropriate, the same that as other parties

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1 have the right to come to the Commission and oppose
2 those increases if they think that there's reason to do
3 so.

4 However, at this point in time, the only
5 matter being considered in this case is the surcharge as
6 it relates to those 12 or 13 critical system upgrades
7 which were mandated by the Department of Health. My
8 understanding is that these critical system upgrades
9 also relate to many of the ongoing consumer complaints
10 the Commission has received.

11 Mr. Grossman, anything?

12 MR. GROSSMAN: Well, I'm wondering why Terry
13 Lane is being charged this \$4.54 after we have had --
14 first off, when I moved there 25 years ago, we were
15 paying \$7 a month. It went to \$11.50, and now what's
16 the time period, it was three or four years ago, it went
17 to \$17 a month, and then it seemed like a year or two
18 ago, it went to \$34 a month. Now the only capital
19 improvements made at Terry Lane has been the new roof
20 that I know of and maybe a little pump work. From what
21 I hear, it's about \$12,500 that was spent. I understand
22 they spent a good -- paid a high price for the system.
23 That seemed like it should be covered in just all these
24 rate increases that we have had almost three fold.

25 JUDGE BERG: Mr. Grossman, before

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1 Ms. Tennyson responds, what I'm going to do at this
2 point just because some of your comments border on what
3 would be considered testimony, I'm going to ask you to
4 raise your right hand.

5 MR. GROSSMAN: (Complies.)

6 JUDGE BERG: And do you avow that any of the
7 comments that you make here this evening to the best of
8 your knowledge will be the truth?

9 MR. GROSSMAN: I do.

10 JUDGE BERG: All right. It's one of those
11 formalities that I want to do to protect you so that
12 your comments can be considered as part of the record in
13 this case.

14 Ms. Tennyson, did you want to respond to
15 Mr. Grossman?

16 MS. TENNYSON: Yes, I did. In part, the
17 Commission's theory of rate making is that when there is
18 a -- when a particular company owns a number of water
19 systems, we spread the costs out across all the systems.
20 When your particular system was added into American
21 Water Resources, they did need -- there was -- they did
22 increase the rates of their overall rates charged across
23 the systems. Same with the surcharge.

24 I mean if your -- if the customers on your
25 system had to bear the \$12,000 all on their own, it

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1 might well have resulted in a higher surcharge for each
2 of the customers versus spreading it out across all the
3 customers throughout all the systems. It's sort of a we
4 all pay a little bit so everybody can be better.

5 At this point, you did indicate a new roof.
6 Are you referring to a roof on the storage tank?

7 MR. GROSSMAN: Affirmative.

8 MS. TENNYSON: Pardon?

9 MR. GROSSMAN: Affirmative.

10 MS. TENNYSON: And any other -- that's on the
11 Terry Lane system, correct?

12 MR. GROSSMAN: Correct.

13 MS. TENNYSON: Is there only one well there,
14 or is there more?

15 MR. WELLS: Two wells.

16 MS. TENNYSON: One storage tank, two wells?

17 MR. WELLS: One is a real deep well, and one
18 isn't as deep.

19 MS. TENNYSON: So there's a storage tank to
20 ease out the --

21 MR. WELLS: The State man said that, when
22 they put the second well in, he said that that's one of
23 the best wells that -- I have been working for the State
24 in that job for years, and I was there when he commented
25 on this, he said, that's one of the best wells I have

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1 ever seen.

2 MS. TENNYSON: When was that well put in?

3 MR. WELLS: It's been maybe 30 years ago.

4 MS. TENNYSON: Okay, but part of the idea is
5 maybe that's the best well he's ever seen, and maybe
6 tomorrow that well will go dry.

7 MR. WELLS: That's true.

8 MS. TENNYSON: If that well goes dry and then
9 the customers in your system needed to pay to have a new
10 well drilled, that might be a huge expense just for
11 those customers to bear. The way that the Commission
12 does their rate making is that is spread out across all
13 the customers that American Water Resources serves, so
14 that's part of the rate making theory.

15 I understand we do get a lot of negative
16 comments to the Commission that that's not fair because
17 my system has been great for years and always has been.
18 It's an unfortunate truth that the water industry is an
19 increasing cost industry. It's not like
20 telecommunications where everything gets cheaper every
21 day it seems. Because this is a capital intensive
22 industry in many ways. There's lots of pieces that need
23 to go and have to be replaced periodically.

24 You had said, I thought you said two things
25 that had been done on the system, and I wasn't sure.

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1 MR. WELLS: Well, they did some work inside.

2 MS. TENNYSON: Okay.

3 MR. WELLS: In the --

4 MS. TENNYSON: Because part of the --

5 MR. WELLS: In that piping inside, then they

6 also added a, what am I trying to say, chlorine.

7 MS. TENNYSON: Right.

8 MR. WELLS: To purify the water, they added
9 in automatic. When the -- when the professor owned it,

10 I would see him come once a week with a whole bunch of

11 one gallon deals of Clorox or whatever he put in there,

12 and then we would have a -- you could wash clothes in

13 that water for a few days, and then it -- and anyway,

14 when they took over, now it's all nice and even.

15 MS. TENNYSON: You don't get your clothes

16 bleached now when you wash them?

17 MR. WELLS: Yeah.

18 JUDGE BERG: And, Mr. Wells, I'm going to get

19 you now to raise your right hand, please.

20 MR. WELLS: Sure, this is my right hand too.

21 JUDGE BERG: That looks very good. Do you

22 avow that the testimony you give here this evening will

23 be the truth?

24 MR. WELLS: I do.

25 JUDGE BERG: And Mr. Gordon Wells, is your

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1 address 1103 - 148th Court East?
2 MR. WELLS: Right.
3 JUDGE BERG: Tacoma 98445?
4 MR. WELLS: Right.
5 JUDGE BERG: And Mr. Ralph Grossman, is your
6 address 14801 - 11th Avenue Court East, Tacoma 98445?
7 MR. GROSSMAN: Affirmative.
8 JUDGE BERG: Thank you, gentlemen.
9 MS. TENNYSON: And I gather from your
10 comments that you're both on the Terry Lane water system
11 of American Water Resources?
12 MR. GROSSMAN: Yes.
13 MR. WELLS: My address used to be 14810. 20
14 years ago the Pierce County or somebody told me that our
15 address was 1103.
16 MS. TENNYSON: You moved a long way without
17 going anywhere.
18 MR. WELLS: The people across the street from
19 me is 148, the people behind me is 148, and I stand
20 there all by myself 1103.
21 JUDGE BERG: For as long as you have been
22 there, your address should be number one.
23 MS. TENNYSON: I gather from your comments,
24 the purpose of this is so that you can give sworn
25 testimony so the commissioners can consider it in

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1 determining whether or not the company's request should
2 be granted. Do you have any other further items or
3 relating to the surcharge you would like to express?

4 MR. WELLS: Well, what Ralph and I are
5 concerned about is that we have never had any problems
6 on Terry Lane. Crescent Park has had all the troubles
7 in the world. The professor owned both of these
8 companies. And we think it's kind of unfair that we
9 have to pay for everybody's discrimination or troubles.

10 MS. TENNYSON: Can you tell me where Crescent
11 Park is in relation to your system?

12 MR. WELLS: How far away?

13 MS. TENNYSON: Yes.

14 MR. GROSSMAN: Three miles, four miles.

15 MR. WELLS: I think about three miles away.
16 It's not hooked up to the same -- they have their wells,
17 and we have ours.

18 MS. TENNYSON: Right. And you referred to
19 the professor several times. Can you give me a name to
20 go with that?

21 MR. WELLS: I don't hardly hear.

22 MS. TENNYSON: Do you have a name of the
23 person you referred to as the professor who owned the
24 systems?

25 MR. WELLS: Well, yeah, he was a professor at

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1 Pacific Lutheran College, and he sold to this man here.
2 MR. GROSSMAN: He sold it to AWR, I don't
3 know if it was Johnson or Jacobson or something like
4 that; I don't know.

5 MR. WELLS: I called him once, and I can't
6 repeat the words that he said to me when I was able to
7 call him, that the well had sprung a leak and the wall
8 was -- water was leaking all over the highway. And I
9 got somebody who knew his phone number, and when I
10 called him, he let me know that that was a private
11 number.

12 JUDGE BERG: Mr. Grossman, anything else that
13 you would like to ask about this case or any other
14 statement you would like to make?

15 MR. GROSSMAN: Well, I just think I was
16 leading up to I think that, well, this is what I heard
17 and I can't say it's a fact or anything, but apparently
18 they paid a pretty high price for the system, which
19 probably is the reason for this rate increase, but it
20 was in good condition outside of this roof as far as I
21 can tell, well built system. Now it seemed like I
22 understand maybe bought a lot of little systems that
23 were poorly maintained, and that's where all of this
24 money is being poured into.

25 MR. WELLS: Yeah, well, like she said, the

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1 whole system is suffering.

2 MR. GROSSMAN: That was kind of what I was
3 leading up to. But it looks like everybody is in the
4 same boat, from what I can gather.

5 JUDGE BERG: Mr. Wells, anything else that
6 you wanted to add?

7 MR. WELLS: No, I just think that's an
8 exorbitant price to put that roof on. I mean I wish I
9 had the contract to do the same thing, you know.

10 MS. TENNYSON: Mr. Wells, did you actually
11 observe the construction while it was being done on the
12 roof and the other work around the pump house?

13 MR. WELLS: Pardon?

14 MS. TENNYSON: Did you observe the work that
15 was done?

16 MR. WELLS: Yeah, every day. I live right
17 across the street from it. I'm retired. I got nothing
18 to do but watch those people work.

19 MS. TENNYSON: So you're like my neighbor who
20 calls me when the mail comes?

21 MR. WELLS: Right.

22 JUDGE BERG: Well, to the extent that there
23 are no other members of the public present and
24 Mr. Grossman and Mr. Wells have concluded their
25 statements, at this time I'm going to find that the

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1 public hearing is adjourned, and we will reconvene
2 tomorrow evening, Wednesday, December 6th, 2000, at 6:30
3 p.m. in Olympia, Washington, at the Commission's main
4 hearing room.

5 (Hearing adjourned at 7:35 p.m.)

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