



3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

September 5, 2012

Mr. David W Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
PO Box 47250
Olympia, WA 98504-7250

RECEIVED
RECORDS MANAGEMENT
2012 SEP 10 AM 9:01
STATE OF WASH.
UTIL. AND TRANS.
COMMISSION

RE: Water and Wheeling charges related to Tacoma Water – Rainier View Water Company contract; Commission Docket UW-110054

Dear Mr. Danner:

This letter is in response to your correspondence dated August 22, 2012, received in this office August 24, 2012. In the discussion below we provide specific responses to your questions, or areas of interest.

In general, the description contained in the first two paragraphs of your letter accurately captures the current contractual arrangement for wholesale supply and wheeling of Lakewood water between Tacoma Water, Rainier View Water Company and Lakewood Water District.

In the third paragraph, you describe testimony from Rainier View regarding Tacoma's ability to negotiate rates that I believe requires additional clarification. It is the case that the charges associated with service to Wholesale Customers are established in the Tacoma Municipal Code, and operating utilities (such as Tacoma Water) must conform to the Code and state law. The rate of \$0.189 per CCF included in our 2010 Water Wheeling Agreement with Rainier View was developed based on a cost of service evaluation. All the terms and conditions of this Wheeling Agreement were negotiable as part of the agreement development process, subject to consistency with the Tacoma Municipal Code, and approvals required under the City Charter.

As an initiative developed as part of our Strategic Plan, Tacoma Water is currently performing a comprehensive evaluation of our approach to wholesale water sales with all Wholesale customers. On January 13, 2012, we met with management at Rainier View to discuss their supply needs, and the issues we are exploring regarding the wholesale market. As we discussed with Rainier View, Tacoma Water ratepayers have made significant investments in source capacity, treatment, and infrastructure, and many of our Wholesale customers are substantially underutilizing the capacity

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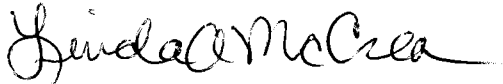
they have purchased. At the same time, many of those same customers are investing in new capacity development (new or rehabilitated wells, or new transmission infrastructure, etc.) We clearly recognize that they are doing so because by some calculation, it is more cost effective. Rainier View management was open to further discussing these concepts, but we have not had additional conversations since that time.

We will continue to discuss potential opportunities to meet both our own objectives, and optimally, those of our Wholesale Customers to determine where and how we might reach mutually beneficial solutions.

Any solution that involves changing rates or ratemaking methodology may require renegotiation of existing agreements, or supplemental agreements, and will require approval of the Tacoma Public Utility Board and the Tacoma City Council. We plan to bring this effort to conclusion over the next 18 months, subject to the review and approval of policymakers.

If you have additional follow-up questions, please feel free to contact Chris McMeen, Deputy Water Superintendent, at (253) 502-8210.

Sincerely,

A handwritten signature in black ink that reads "Linda A. McCrea". The signature is written in a cursive, flowing style.

Linda A. McCrea

Water Superintendent

cc: Bob Blackman, Rainier View Water Company
Randy Black, Lakewood Water District