[Service Date July 12, 2002]

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION	)	DOCKET NO. UW-010877
	)	
Complainant,	)	SIXTH SUPPLEMENTAL
	)	ORDER
v.	)	
	)	FINAL ORDER REJECTING
RAINIER VIEW WATER	)	TARIFF FILING; ORDERING
COMPANY, INC.	)	REFILING
	)	
Respondent.	)	
. . . .	)	

1 ***Synopsis:*** *This order affirms in part, reverses in part, and corrects an initial order regarding Rainier View Water Company. This order rejects the Company's proposed 13.6 percent rate increase, but authorizes an overall rate increase of $285,688, or 9.45 per cent. The Company serves over 11,000 homes and businesses, serving largely residential customers, through 31 water systems located primarily in Pierce County.*

2 **Nature of the Proceeding:** Rainier View Water Company, Inc., on June 15, 2001, filed with the Commission revisions to its currently effective tariffs that would increase its annual revenues by $453,157 or 13.6 percent. The Commission suspended the proposed increase and set the matter for hearing.

3 **Procedural history:** The matter was heard upon due and proper notice to all interested parties before Administrative Law Judge Marjorie Schaer on February 13 and 14, 2002, in Olympia, Washington.

4 **Initial Order**: The presiding Administrative Law Judge entered an initial order on May 6, 2002, which proposed that the Commission reject the tariffs filed by the Company and required the Company to file new tariffs consistent with a reduced revenue requirement.

5 **Petitions for Administrative review and answers:** Commission Staff petitioned the Commission for administrative review of the order on May 24, 2002. Rainier View answered the petition on May 30, 2002, and cross-petitioned for relief. Commission

Staff answered the cross-petition on May 31, 2002. The matter is now ready for Commission decision.

6 **Appearances:** The parties appeared as follows: Respondent, Rainier View Water Company ("Rainier View" or "Company"), by Richard A. Finnigan, attorney, Olympia; Commission Staff, by Mary M. Tennyson, Senior Assistant Attorney General, Olympia.

I. PROCEDURAL HISTORY

7 Rainier View Water Company, Inc., is a public service company subject to the jurisdiction of the Washington Utilities and Transportation Commission (Commission). Rainier View received its most recent prior general rate increase in June 1996. On June 15, 2001, Rainier View filed with the Commission revisions to its currently effective Tariff WN U-2. These tariff revisions would increase the Company's annual revenues by $453,157 (13.6 percent). The Company also proposes to lower the rates charged to customers on its Indian Springs system in order to bring those rates to parity with the customers on its other systems. Following its investigation of the rate increase request, the regulatory staff of the Commission (Staff) recommended that the Company's rates be decreased by $199,820.

8 The Commission convened hearings on the issues in this matter on February 13 and 14, 2002. The parties presented proposed findings and conclusions and briefs to the Administrative Law Judge, who entered an order on May 6, 2002, recommending rejection of the Company's requested 13.6% rate increase, but proposing that the Commission authorize a 9.2% increase. Commission Staff petitioned for administrative review; the Company answered the petition and raised additional issues. Commission Staff answered matters raised by the Company, and the matter is now ready for Commission decision.

9 **Format of this Order:** We will follow the format of the initial order, adding text where needed to reflect post-hearing process and adopting as our own the text of the initial order where it is appropriate to do so.

II. DISCUSSION AND DECISION

A. Principles of Utility Rate Setting

10 The ultimate determination to be made by the Commission in this matter is whether the rates and charges proposed in the revised tariffs are fair, just, reasonable, and sufficient, pursuant to RCW 80.28.020. These questions are resolved by determining the Company's adjusted results of operations during the test year, establishing the fair value of the Company's property-in-service (rate base), determining the proper rate of return permitted the Company on that property, and then ascertaining the appropriate spread of rates charged various customers to recover that return.

11 In order to accomplish this task, the parties developed evidence from which the Commission may determine the following:

1. The appropriate test period, which is defined here as the most recent 12-month period for which income statements and balance sheets were available at the time the proceeding began. The test period is used for investigation of the Company's operations for the purposes of this proceeding;

2. The Company's results of operations for the appropriate test period, adjusted for unusual events during the test period, and for known and measurable prospective changes;

3. The appropriate rate base, which is derived from the balance sheets of the test period. The rate base represents the net book value of assets provided by investors' funds, which are used and useful in providing utility service to the public for the test period;

4. The appropriate rate of return on rate base the Company is authorized to earn;

5. Any existing revenue excess or deficiency; and

6. The allocation of the rate increase or decrease, if any, fairly and equitably among the Company's ratepayers.

B. Test Year

12 The parties have used the 12 months ending December 31, 2000, as the test period for investigation of the Company's operations for purposes of this proceeding. The use of the 12 months ending December 31, 2000, as the test year is appropriate and is adopted for this Order.

C. Treatment of Federal Income Tax

1. Imputation of Income Tax

13 The parties presented opposing positions regarding the issue of Federal income taxes. Because the issue affects many other adjustments to the Company's actual results of operation, we begin with this issue.

14 The Company is a Subchapter S corporation and under current law, unlike a "regular" or Subchapter C corporation, it has no primary federal income tax liability.[1] Instead, company earnings are considered taxable earnings of its shareholders. The Company pays federal income taxes on behalf of its owners either by distributing an amount to the owners to pay the tax liability or by paying the IRS on behalf of the owners.

15 The Commission must allow Rainier View the opportunity to earn a fair rate of return on its invested capital. The Company proposes that the amount of pro forma net operating income authorized in this case be calculated after "imputing" Federal income taxes for ratemaking purposes, that is, to calculate Rainier View's revenue requirement as though its income were directly taxable, comparable with regulatory treatment of a C corporation. The Commission is obligated by statute and by principles of Constitutional law to allow a regulated company the opportunity to earn a fair return. For a regulated C corporation, the Commission calculates the company's revenue requirement to allow an after-tax return. Rainier View argues that its income should be treated in the same manner. Commission Staff opposed the proposal, arguing that while the effect of federal income taxes were considered in prior rate proceedings that were not contested, the Commission had not specifically considered the question in a contested proceeding.

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[1] The S Corporation is defined in 26 USC § 1361 (a)(1). The C Corporation is defined in 26 USC § 1361 (a)(2).

16 The initial order accepted the Company's view, recommending that the Commission impute the payment of taxes at the rate of 34%. Previously the Commission approved general rate increases for Rainier View that included the recovery of income tax expense in 1992, 1993, 1994 and 1996, the Company's four most recent cases.

17 The initial order noted that although the Commission had not considered the issue for this company, it had approved the imputation of federal income taxes in *WUTC v. Rosario Utilities, LLC*, Docket No. UW-951483, Fourth Supplemental Order (November 1996), a strongly litigated case involving a limited liability company that is taxed similarly to an S corporation. In addition, the order noted that courts in various jurisdictions have held that a utility is entitled to recover income taxes through the proper adjustment of the utility's rates, citing *Vernah S. Moyston, d/b/a Hobbs Gas Company v. New Mexico Public Service Commission,* 76 N.M. 146, 412 P.2d 840, 850 (1966) where the court stated,

> It is clear that . . . rates which fail entirely to take such federal income taxes into account as operating expenses are unfair, unjust, unreasonable and discriminatory.

18 In *Suburban Utility Corporation v. Public Utility Commission of Texas*, 652 S.W.2d 358 (Texas 1983), the Supreme Court of Texas held at page 364 that a water company designated as a Subchapter S corporation was entitled to recover income taxes paid by its shareholders. The court stated:

> We therefore hold that Suburban is entitled to a reasonable cost of service allowance for federal income taxes actually paid by its shareholders on Suburban's taxable income or for taxes it would be required to pay as a conventional corporation, whichever is less.

19 The initial order acknowledged the existence of contrary authority, but found from the authority cited above that the Commission had adopted this approach, that the courts of other jurisdictions had adopted the approach, and that the approach will result in rates that are fair, just, and reasonable and will avoid concerns related to the Constitutionally-mandated opportunity to earn a fair return and concerns about different treatment of fundamentally similar entities.

20 The initial order recommended calculating the effect of taxes at 34%, noting that the corporate and personal income tax rate schedules for earnings at the Company's level of earnings would require an equivalent percentage and that the Company suggested application of the lower of the two schedules.

21 **Commission Staff request.** Commission Staff does not challenge the initial order's ruling. Commission Staff merely notes that the initial order did not specify the standard for application in the future. Staff asks, on a going-forward basis, what tax schedule it should apply in future proceedings. The Company responds that it does not challenge the result of the order and that it is neutral on the issue of future application.

22 **The Commission.** The initial order is correct that federal income taxes are a cost of doing business and are proper expenses to include in the calculation of rates. However, the imputation of taxes should recognize that the owner has a choice of corporate structure, that the owner may get a substantial economic benefit from the election, and that the imputation should not work to the detriment of ratepayers. Consequently, the Commission agrees with the Company that, absent a reason for doing otherwise, the tax liability should be imputed at the lower of the personal or corporate tax schedules.

2. Flow-Through v. Normalized Tax Methodology

23 The initial order proposed to treat Rainier View as a C corporation for purposes of calculating federal income taxes. As a corollary, it adopted the view that tax-timing differences between book and tax depreciation must be normalized, consistent with the Economic Recovery Tax Act of 1986 ("ERTA"), with Section 168 of the Internal Revenue Code, and with the Commission's approach in matters involving C corporations.

24 Although the Company asserts that a normalized tax calculation would be relatively simple to make, it did not provide the calculation for the record. The initial order observed that as a result the Company's rate base could be overstated, and considered that observation in determining to propose rejection of the Company's suggested working capital adjustment. The initial order would require the Company to send its study to Staff before the next rate case, and thereafter maintain an "off-book" or side-

record calculation of imputed accumulated deferred income taxes that is well documented and available for audit.

25 Commission Staff does not contest the adjustment. However, it asks that the normalization schedule be first prepared within 90 days after the entry of the Commission's final order in this docket. Rainier View opposes the Commission Staff request.

26 **Commission decision.** The Commission approves the Commission Staff request that the normalization schedule be first prepared within 90 days following the entry of this order, and that it be maintained thereafter. The result is not likely to be burdensome to the Company, and will ensure that the information is available when needed.

D. Net-To-Gross Conversion Factor

27 The Net-To-Gross Conversion Factor is used to calculate the gross operating revenue excess or deficiency by dividing the net operating income excess or deficiency by the conversion factor. This calculation gives effect to all revenue-sensitive expenses and taxes that change with a change in gross operating revenues.

28 The initial order calculated a Net-To-Gross Conversion Factor of 0.6211986, which no party objected to. That factor is accepted in this Order.

E. Results of Operations and Rate Base

1. Results of Operations

29 The Company's results of its regulated operations during the test year form the basis for the analysis on which the Commission determines whether the Company needs additional revenues. This determination is made after all appropriate adjustments are made to the test period results of operations. These adjustments are for unusual events or conditions during the test period that are inappropriate to consider in ongoing rates (restating adjustments), and for known and measurable events that will occur prospectively (pro forma adjustments), to best estimate the relationship between the Company's costs and revenues and thus establish rates that are fair, just, and reasonable and allow the Company the opportunity to earn a fair rate of return. Both parties recommend statements present restating and pro forma adjustments to the actual results of operations

2. Rate Base

30 The appropriate rate base is derived from the balance sheets of the test period. This rate base is adjusted to reflect new additions and reductions to the Company's invested capital, including regulatory assets, which occurred during the test period. The rate base represents the net book value of assets provided by investors' funds that are used and useful in providing utility service to the public for the test period.

a. Uncontested Adjustments

31 The parties agreed to the actual results of operations for the test year and the dollar impacts of the uncontested adjustments to net operating income and rate base. Table 1 shows uncontested adjustments that were accepted by the initial order, were not the subject of contest by any party, and are accepted as reasonable for purposes of this proceeding.

**TABLE 1: RAINIER VIEW WATER CO., INC.
ACTUAL RESULTS OF OPERATIONS & UNCONTESTED ADJUSTMENTS
FOR THE 12 MONTHS ENDED DECEMBER 31, 2000**

		Per Staff		Per Company	
Ln #	**Description**	**Total Net Operating Income**	**Total Rate Base ***	**Total Net Operating Income**	**Total Rate Base ***
	(A)	(B)	(C)	(D)	(E)
1	Actual Results of Operations[2]	$597,971	$5,064,468	$597,971	$5,069,911
2	Rate of Return – Per Books %		11.81%		11.79%
	Uncontested Adjustments				
3	Restate Surcharge Revenues	(119,220)	0	(119,220)	0
4	Building Rent	0	0	0	0
5	CIAC Adjustment	0	0	0	0
6	Medical & Dental Increases	(32,867)	0	(32,867)	0
7	Generator O&M (Mat.& Sup.)	(15,786)	0	(15,786)	0
8	Power Increases	(30,588)	0	(30,588)	0
9	Meter Jeeps/Billing Software	(6,098)	42,506	(6,098)	42,506
10	Total Uncontested Adjusts.	($204,558)	$42,506	($204,558)	$42,506

[2] The amount of rate base in Table 1, line 1, columns (c) and (e) differs by a small amount. Because Staff indicated that it agreed with the Company, the Initial Order adopted the amount of $5,069,911 as the amount of per-books rate base. Some of the above adjustments of Staff or the Company have been divided into contested and uncontested parts. Only the uncontested amounts are reflected in the table.

b. Contested Net Operating Income Adjustments

32 Table 2 shows the contested ratemaking adjustments to Net Operating Income.

TABLE 2: CONTESTED NET OPERATING INCOME ADJUSTMENTS

Ln#	Contested Net Income Adjustments	Staff	Company	Difference
1	Bad Debt Expense	($12,005)	($33,674)	$21,669
2	Depreciation Expense Adjustment	76,076	49,982	26,093
3	Ready-To-Serve Revenues	98,095	0	98,095
4	CoBank Refund	4,427	0	4,427
5	Salaries & Wages (Owner)	21,166	(4,336)	25,502
6	Legal Adjustment	1,028	0	1,028
7	Regulatory Expense	(606)	0	(606)
8	Interest Income Adjustment	24,512	0	24,512
9	Income Tax Adjustment	0	0	0
10	Salaries & Wages – Employees	(94,051)	(99,460)	5,409
11	Reduce Indian Springs Rates	0	(28,478)	28,478
12	Rate Case Expense	(4,180)	(14,894)	10,714
13	Insurance Adjustments	(32,160)	(31,784)	(376)
14	Developer Lawsuit	0	(4,186)	4,186
15	Interest Expense Adjustment	(46,444)	0	(46,444)
16	Depreciation Adj. Owner's Vehicle	3,458	0	3,458
17	Vehicle Insurance	376		376
18	Total Contested Adjustments – NOI	$39,692	(166,829)	$206,521

3. Bad Debt Expense

33 The Company and Commission Staff disagreed on the level of bad debt expense that would be appropriate for ratemaking purposes. The initial order accepted the Staff-proposed calculation of bad debt allowance. No party objected to that proposal, and the Commission accepts the result as appropriate for this proceeding.

4. Depreciation Expense Adjustment

34 This adjustment relates to a depreciation "catch-up" entry booked by the Company during the test period. Depreciation lives and rates are necessarily estimates, and must be trued up when actual experience becomes available. The investors deserve to receive full capital recovery for their investment in assets providing service to the

public plus a fair return on any unrecovered amount. The Company proposed a "catch-up" entry but the record contains no detail of the entry, rendering impossible an asset-specific adjustment. Staff proposed to capitalize and amortize the amount over the average life of all plant in service because of the lack of detail and because the Company's prospective composite depreciation rate is declining. The initial order proposed acceptance of the Staff's adjustment, and made additional adjustments to historical rate base and deferred taxes to fully account for the proposal.

35 No party took exception to the initial order's proposal; it is accepted for purposes of this proceeding.

5. Ready-To-Serve Revenues

36 Commission Staff proposes to include $154,066 in operating revenues related to receipts during the test period of so-called "Ready-To-Serve Fees." Staff's adjustment S-RA-11 reflects additional business and occupation taxes that would be paid if the fees at issue were taxed as ordinary operating revenues.

37 The Company argued that these fees should not be included in the Company's regulated books. As Mr. Fisher testified on rebuttal:

> The ready to serve charge was calculated so that, on balance, using a five year amortization at a standard purchase price of $600 per connection and an interest rate of 6%, payments by the developer to Rainier View and the payments by Rainier View to the developer would be equal.

38 It is thus clear that the Ready-To-Serve Fees were designed and intended to be a direct offset to the cost of the plant purchased by the Company.

39 The initial order determined that revenues from the Ready to Serve Charges are not operating revenues. The order noted that they are not revenue received by an authorized tariff rate, but instead reduce rate base. The order determined that because the Ready-To-Serve Fees offset the cost of the Company's investment in service connection plant, they should be recognized as a reduction to plant in service and treated in a similar manner to contributions in aid of construction, or CIAC. The order observed that the Company's balance sheet shows that the service connections themselves are included in the Company's rate base, and reasoned that it is therefore appropriate to deduct the Ready-To-Serve Fee revenues from rate base.

40 The initial order proposed that the average amount of the test year Ready-To-Serve Fee revenues of $154,066, or $77,033, be included in CIAC. The order reflected this as an adjustment to rate base, stating the principle that the Company may not recover capital costs from developers through the fees, and then recover the same costs again from ratepayers through depreciation.

41 Both Commission Staff and the Company ask changes from the initial order. Commission Staff asks that the equity component of the capital structure be adjusted to reflect an average of the test year's adjusted CIAC contributions. Commission Staff notes that the difference is small (it would change the capital structure from 38.24% equity to 37.45% equity).

42 The Company opposes the order's proposed reclassification of the revenues from non-operating revenues to contributions in aid of construction. It argues that it would be unfair to penalize the Company for working closely with Staff to develop mechanisms to increase rate base. It asks, in the alternative, that the change be prospective only.

43 Commission Staff responds that the Company's proposed result is inconsistent with a stipulation that the Company entered into with Staff during the rate case. Staff also acknowledges that the Company's argument represents the Company's intention as to the purpose of the fees, but disputes that Commission Staff ever agreed to the Company's approach.

44 The Commission rejects the Company's exception and accepts the result of the initial order. The initial order's result is well-reasoned and appropriate, and the Company's proposal is not consistent with sound ratemaking theory.

45 The Commission rejects the Commission Staff proposal to recalculate capital structure. The resulting change would be small, and it would be premature to take this partial step out of the context of a more complete analysis that will be possible in a future proceeding. The Commission in this order makes decisions that when fully implemented have the potential to change the relationships among several of the financial elements of the Company. The current calculation of the capital structure

fairly represents the capital structure during the test year. The Staff proposal should be rejected for purposes of the present proceeding.

6. CoBank Refund

46 During the test year, the Company received a patronage refund of $6,708 from its bank as a portion of the interest paid on business loans. Commission Staff proposed at the hearing that the funds should be treated as operating revenues. The Company responded that it had already applied the amount as an offset to the calculation of interest expense and that Staff's proposal would double the effect of the refund.

47 The initial order rejected both parties' proposals and treated the rebate as a reduction in the effective interest rate paid by the Company. The order considered the effect of the rebate as part of the cost of capital calculation that reduced the net embedded cost of debt. In its calculation of the Cost of Capital, the initial order reduced the Company's interest rate, to 6.75%. The adjustment also considered the effect on federal income taxes.

48 No party disagreed with the initial order's proposal, which is accepted for purposes of this proceeding.

7. Salaries & Wages (Owner)

49 Mr. Neil H. Richardson and Mrs. Paula M. Richardson are the owners of Rainier View. Mr. Richardson works for the Company as its President. Staff proposed adjustment S-RA-4, to reduce Mr. Richardson's salary from the test period amount of $92,780 to $49,071, calculated by increasing the salary level shown in the Company's 1993 proceeding by 25.4% to reflect the increase in the Consumer Price Index since then. The Company opposed the Staff's adjustment.

50 The initial order proposes to reject the Commission Staff adjustment. It relied on the Company's evidence, including an analysis of growth in the size of the Company, the complexity of the industry, a comparison of salaries paid to executives in the Pacific Northwest, a Millman and Robertson survey of Northwest companies, Census Bureau data, a Wall Street Journal survey, and a Northshore survey. The information provides a basis for comparison of Mr. Richardson's salary to managers of companies of similar size and complexity.

51 The initial order noted the importance of maintaining a ratemaking standard for determining a fair compensation for an owner/executive. The Commission's prior ratemaking treatment in establishing an appropriate compensation level has been to authorize an owner/executive a salary that is comparable to a competitive or prevailing compensation for the type or types of services the owner-operator performs. Ratepayers should not have to pay a higher level of salary simply because Mr. Richardson is also the owner, nor should the owner be required to accept a lower salary because she or he is an owner. The owner is compensated for his investment and risk in the business through the authorized fair rate of return, and the services actually performed for the company should similarly be fairly determined and objectively set.

52 The initial order found Mr. Richardson's salary for the test period reasonable and adopted the Company's proposed adjustment to increase his salary by $6,818. In doing so, the initial order placed some weight on the representations by the Company that Mr. Richardson had never received a salary increase greater than that given to the rank and file employees of Rainier View and that Mr. Richardson's compensation "is on the low end, if not the absolute lowest, of compensation as a percentage of revenue and percentage of rate base allowed owners of other water companies." *Company Brief, pages 22 and 24* All parties agreed that the Company is efficiently run and the level of customer complaints is very low.

53 No party challenged the initial order's proposal. The Commission finds the result appropriate and adopts it for purposes of this proceeding.

8. Legal Adjustment

54 This adjustment relates to rate case expense. An analysis of this adjustment is included in the discussion of Rate Case Expense, below.

9. Regulatory Expense

55 The initial order recommended adoption of the Staff's proposed adjustment to true-up regulatory expense to the level of restated revenues (a negative $606). The Company acknowledged the propriety of this type of "flow-through" adjustment. No party challenged the proposal, which is accepted for purposes of the proceeding.

10. Interest Income Adjustment

56 Staff proposed removing $72,094 of non-operating interest income from the Company's results of operations, which affects the imputed operating Federal Income Tax. The initial order accepted the proposal, to which no party took exception. The adjustment is appropriate and is accepted for purposes of this proceeding.

11. Salaries & Wages – Employees

57 Commission Staff and the Company both proposed pro forma adjustments to give effect to employee wage and salary increases. The only differences between Staff and Company related to the amount of the adjustment that should be capitalized, and to whether the capitalized amounts should be added to rate base. The Company's proposed capitalization factor did not appear in the record. The initial order recommended the adoption of Staff's adjustment. No party opposed this result, and the Commission adopts it for purposes of this proceeding.

12. Parity for Indian Springs Rates

58 The record indicates that the rates for the Indian Springs water system are higher than Rainier View's overall system rates. Rainier View proposed an adjustment to reflect reduction of the Indian Springs rates into parity with rates of the other systems it operates.

59 Commission Staff opposed the adjustment, contending that the adjustment understated the Company's operating revenue and should be included as part of the effect of proposed rates rather than as a ratemaking adjustment.

60 The initial order ruled that an adjustment to reflect this effect in the revenue requirement calculation would be appropriate. The initial order recommended approval of the Company's proposal to reduce the Indian Spring's rates to achieve rate parity and – "with some reservation" -- the initial order proposed the adoption of the Company's adjustment.

61 Commission Staff took exception to the proposal. Its concerns continue to be the accuracy of pro forma test year revenues as a result of the rate reduction and its

implementation. The Company responded that it recognized the Commission Staff concerns, and it offered to work with the Staff to design rates that will satisfy the Staff concern. Commission Staff did not indicate dissatisfaction with the Company proposal.

62 The Commission accepts the adjustments and the result of the order – approval for parity of the Indian Springs system rates – and directs the parties to design rates that satisfy the issues of parity and accuracy that are identified in the parties' presentations.

13. Rate Case Expense

a. Recovery of the Company's Costs in This Proceeding

63 In direct testimony, Commission Staff proposed that the Commission allow Rainier View to recover $29,500 in rate case costs, to be amortized over three years at $9,833 per year. The Company argues in rebuttal and its post-hearing brief that its actual costs at that point exceeded its prior estimate, and it sought recovery of $67,700 in rate case costs, amortized over a period of three years, for an annual $22,567 in net operating income requirement. The initial order noted that Staff did not argue the matter on brief, and concluded that Staff had appeared to abandon its challenge to the Company's costs.

64 The initial order observed that the proceeding included many contested issues, and that it was burdened by difficulties in determining accurate accounting numbers and positions. It found that Rainier View's requested rate case costs at the time of its brief appeared to be reasonable, given the scope of the work that the Company has had to perform, and the order recommended that the Commission accept the Company's $67,700.

65 In a related matter, Staff at the hearing proposed that $3,500 in costs associated with mailings related to a prior rate case be removed from recorded expenses for the test period.

66 The initial order recommended that the Commission accept the Company's proposed adjustment to current rate case costs and that it should also accept the Staff proposal to remove the $3,500 in mailing costs. It found the net result of approving the

Company's $22,567 in amortized rate case cost, less the $3,500 in mailing costs, to be $19,067, for a net operating income effect (NOI) of $12,584.

67 Both parties challenged this decision in their post-hearing pleadings.

68 Commission Staff challenged the initial order's conclusion that Staff had abandoned its position merely because it did not reiterate the position in its post-hearing brief. In prior orders, the Commission has concluded that failure to raise a matter on brief indicated a party's abandonment of the position previously stated. Especially in a complex matter, a brief is a party's opportunity to state its positions on all of the issues. The Commission may properly conclude that failure to argue a point, consistent with WAC 480-09-770, means that the party no longer asks the Commission to accept a view stated at the hearing. Otherwise, the Commission must comb the record and the testimony of the witnesses for every view advanced, and respond to each. We urge parties to address in briefs all of the matters that they want to have the Commission adopt, to avoid any inference that they no longer care to argue an unmentioned items.

69 Here, the Staff does not persuade us that its estimate reflects the actual effort or the reasonable costs required. As the initial order notes, considering the number and complexity of the issues and the difficulties in presentations, the Company's estimate seems reasonable.

70 The Company seeks in its answer and petition for administrative review to update its rate case expense again, to $93,074.[3] Adjusted to the NOI level, the proposal would increase costs by slightly more than $8,000. We have reviewed the detail, which continues to appear reasonable in light of the complexity and presentation of the proceeding. Accepting the proposal is consistent with the initial order's acceptance of the earlier update. The proposal will be accepted.

71 Finally, the Company takes two exceptions to the elimination of the $3,500 in prior mailing costs. First, it states that it included the reduction in its own presentation of rate case costs, which the initial order approved. Second, it points out that the initial order subtracted the entire sum from each year of the three-year amortization, rather than amortizing it by including one-third for each of three years. The net effect of

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[3] The Company submitted a declaration and detail dated May 30 in which it presented the update of its actual expenses through April, 2002. Commission Staff made no procedural objection to its receipt.

both actions was to subtract the costs four times rather than once. The Company is correct and the unnecessary adjustment is removed. The total rate case expense, at the net operating income level, is therefore $20,547**.**

b. Recovery of Other 1999 Rate Case Costs

72 At the hearing, the Commission Staff also proposed to remove portions of prior rate case expenses. The Company opposed the proposal. The initial order concluded that rate case costs from the 1999 filing should be excluded from consideration in this proceeding. The initial order stated that the purpose of including an amortized portion of rate case costs in rates is to allow recovery of a reasonable recurring level of rate case expenses. The order concluded that the amount that it recommended adequately accomplished that purpose.

73 No party challenged the initial order on this matter. We accept the result for purposes of this proceeding.

14. Insurance Adjustments

74 The Company and the Commission Staff both proposed adjustments to the Company's actual insurance expense. The initial order found that the difference between the two proposals was small and immaterial, and it proposed the adoption of the Company's adjustment. No party challenged the order on this point, and the Commission accepts the result of the initial order for purposes of this proceeding.

15. Developer Lawsuit

75 The Company sought to recover the legal costs it incurred in defending itself against a claim brought by developers in a formal complaint to the Commission in Docket No. UW-010683, filed on May 4, 2001.

76 The initial order noted that there was no indication of the Company's normal level of legal expenses, to determine whether the proposed recovery was appropriate or not. It refused to accept the adjustment for ratemaking purposes. No party objected to this result, which is accepted for purposes of the proceeding.

16. Interest Expense Adjustment

77 Staff proposed an interest synchronization adjustment, in other Commission cases frequently called a Pro Forma Debt adjustment The adjustment synchronizes Federal income taxes to relate to the final cost of capital determination in a rate case. The initial order recalculated the adjustment to conform with its cost of capital recommendation. No party challenged the adjustment, which is approved for purposes of this order.

17. Depreciation Adjustment – Owner's Vehicle

78 The Company has in this docket for the first time included in its assets (and thus rate base and depreciation expense) the depreciated value of a used Lincoln Navigator vehicle used by Mr. Richardson and others for Company business and by Mr. Richardson for personal use. Staff has proposed adjustments to remove the cost of this vehicle from rate base, depreciation expense, and vehicle insurance expense, replacing those costs with the costs of the new Chevrolet C-35 truck listed in the Company's depreciation schedule. Staff chose the truck as a proxy because it is the most expensive vehicle on the Company's books, except for the Lincoln. Staff considered the truck's cost to be a reasonable substitute for a vehicle that could be purchased and used to perform the Company-related functions currently performed by the Lincoln. Staff did not propose purchase of another truck for those functions.

79 Rainier View argues that the Lincoln is used more as a company vehicle than as a personal vehicle, that it is used to transport Company staff to meetings on a regular basis, and that it is also used regularly by other Rainier View employees on official company business. The Company also argues that Commission Staff's surrogate vehicle is a flatbed pickup truck that could hardly be used for the same purposes that Mr. Richardson's vehicle is used.

80 The initial order found the used, partially-depreciated Navigator equivalent in cost to the Company of a comparable new but less expensive alternate vehicle. The initial order found it reasonable or prudent for use as company-owned vehicle and recommended rejection of the Staff adjustment. Commission Staff asked review of the decision, pointing out that the annual depreciation of the Lincoln would exceed the depreciation of the surrogate new vehicle.

81 The Commission accepts the result of the initial order. While the annual depreciation of the Lincoln is higher than the proxy, the term of the depreciation of the used vehicle is shorter. We expect that in any future proceeding, the proportion of company and personal use will be presented in some verifiable manner, such as a trip mileage log. We agree with Commission Staff that ratepayers are entitled to a company that uses reliable, reasonable resources to accomplish its purposes and that on a sufficient record we would closely review whether costs of a new luxury vehicle should be replaced with costs of a new comparable standard vehicle.

18. Vehicle Insurance

82 Staff recommended a vehicle insurance adjustment to remove excessive insurance costs, based on costs of insuring the Lincoln Navigator. The adjustment would increase net operating income by a small amount. Consistent with the decision on depreciation of the Lincoln, the Commission rejects the Commission Staff adjustment.

TABLE: NET OPERATING INCOME

83 Table 3 reflects the Commission-determined adjustments to Net Operating Income for the contested ratemaking adjustments to Net Operating Income.

TABLE 3: CONTESTED NET OPERATING INCOME ADJUSTMENTS

Ln#	Contested Net Income Adjustments	Staff	Company	Decision
1	Bad Debts Expense	($12,005)	($33,674)	($12,005)
2	Depreciation E xpense Adjustment	76,067	49,982	76,076
3	Ready-To-Serve Revenues	98,095	0	0
4	CoBank Refund	4,427	0	0
5	Salaries & Wages (Owner)	21,166	(4,336)	(4,318)
6	Legal Adjustment	1,028	0	1,028
7	Regulatory Expense	(606)	0	(606)
8	Interest Income Adjustment	24,512	0	24,512
9	Income Tax Adjustment	0	0	0
10	Salaries & Wages – Employees	(94,051)	(99,460)	(94,051)
11	Reduce Indian Springs Rates	0	(28,478)	(28,478)
12	Rate Case Expense	(4,180)	(14,894)	(20,547)

13	Insurance Adjustments	(32,160)	(31,784)	(31,784)
14	Developer Lawsuit	0	(4,186)	0
15	Interest Expense Adjustment	(46,444)	0	(46,948)
16	Depreciation Adj. Owner's Vehicle	3,458	0	0
17	Vehicle Insurance	376	0	0
18	Total Contested Adjustments – NOI	$39,692	($166,829)	($137,157)

F. Contested Rate Base Adjustments

84 Several ratemaking adjustments to Average Rate Base were contested at hearing. These included an adjustment from end-of-period to Average Rate Base. Working Capital Allowance, and Depreciation Adjustment to Owner's Vehicle.

1. Adjustments to Average Rate Base

85 The Company and Commission Staff agree on the utility plant in service, accumulated depreciation and net CIAC numbers.

2. Working Capital Allowance

86 Commission Staff initially proposed a working capital allowance of $231,387, which the Company adopted. On brief, Staff changed its proposed adjustment to $240,945.

87 The initial order reviewed a beginning-end-of-year average balance sheet approach, citing prior cases in which it had been adopted. It noted that Rainier View also used a beginning-end-of-year average in the present case, and that Staff accepted the approach. The review indicated that the Company did not have investor-supplied working capital during the test year.

88 The initial order also noted that, if Rainier View had been keeping its books in a manner consistent with a C corporation, it would be maintaining a balance of Accumulated Deferred Income Taxes (ADIT) that would be used to reduce rate base. ADIT is calculated to account for the tax-timing differences between book depreciation and tax depreciation.

89 The initial order concluded that the record in this case does not demonstrate the existence of any investor-supplied working capital during the test period, and it recommended rejecting both the Staff and the Company working capital adjustments.

90 Neither party excepted to the result of the initial order, although Commission Staff offered clarification on the calculations that the order used and the Company asks that the issue be resolved in its next general rate case.

91 The Commission accepts the result of the initial order. If the parties wish to argue the working capital issue in a future rate case, they are welcome to do so. The commission expects that the accumulated deferred income tax balance will be calculated and presented in future proceedings.

3. Rate Base Adjustments Related to Net Operating Income

92 Three rate base adjustments must be made in order to reflect adjustments approved in the net operating income section.

93 **Owner's Vehicle.** Consistent with the Commission's decision regarding the Company's Lincoln and with the result of the initial order, we reject both the Commission Staff and the Company adjustments to depreciation of the owner's vehicle.

94 **Depreciation Expense.** A second is an addition to rate base of $18,243 as a result of the initial order's decision, uncontested on review, on the Depreciation Expense Adjustment related to the Company's depreciation "catch-up" adjustment. *See paragraph 37 of this order.*

95 **Ready-To-Serve fees.** The third is a reduction in rate base of $77,073 as a result of the decision on Ready-to-Serve Fees. This adjustment is decided above.

96 **Table** 4 reflects the Commission's determination of Average Rate Base

TABLE 4: RATE BASE				
Ln#	Contested Adjustments To Rate Base	Staff	Company	Decision
1	Depreciation Expense Adjustment	0	0	$18,423
2	Ready To Serve Fees	0	0	($77,033)
3	Adjust to Average Rate Base	($99,882)	($102,603)	($102,603)
4	Working Capital Allowance	240,945	231,387	0
5	Depreciation Adj. Owner's Vehicle	(25,409)	24,499	0
6	Total Contested Adjs. – Rate Base	$115,654	$153,283	($161,213)

G. Rate of Return

97 The shareholders deserve a fair rate of return on capital they have invested in the Company that is used to provide service to ratepayers. The overall rate of return is the weighted average cost of the utility's various sources of capital, and is the cost to obtain the capital it uses to provide regulated products.

98 A utility has the right under the United States Constitution to the opportunity to earn a rate of return sufficient to maintain its financial integrity, attract capital on reasonable terms, and receive a return comparable to other enterprises of corresponding risk. *Duquesne Light Company v. Borsch, 488 U.S. 299, 310, 312, 109 Sect. 609, 102 l. Ed. 2d 646, 98 P.U.R. 4th 253 (1989); Federal Power Commission v. Hope Natural Gas Co. I, 320 U.S. 591 (1944); Bluefield Water Works Improvement Co. v. PSC of West Virginia, 262 U.S. 679 (1923)*

1. Cost of Equity

99 The cost of common equity capital, stated as the rate of return on common equity, measures the rate of return reasonably required by investors to invest funds into ownership of the utility.

100 Rainier View proposes to continue using the rate of return -- 12% -- that it has historically been allowed as a return on equity.

101 The Commission Staff performed a Discounted Cash Flow ("DCF") analysis of Rainier View's cost of equity. A DCF study examines the current earnings and investors' expectations about future growth in earnings and stock value. The future expectations are discounted to their current percentage value, and added to current earnings. The result is the investor's required rate of return. Commission Staff

prepared a DCF study that compared Rainier View's return with the return earned by a group of companies that Staff contended are of comparable risk to Rainier View's regulated utility operations. However, Commission Staff chose not to rely on its DCF study, stating that the indicated return would not provide sufficient interest coverage for the Company's debt instruments.

102 Staff also prepared a study using an interest coverage ratio approach based on covenants that Rainier View must meet under its loan with CoBank. Staff's equity rate of return recommendation is based on its interest coverage ratio approach. Its use supports the Commission Staff's overall recommended rate of return of 8.62%. Staff opposed use of the Company's proposed 12% return, arguing that the return was not the result of contested litigation and that economic conditions are not the same now as they were in the past when the proposed return was used in calculating the Company's rates.

103 The initial order recommended a return on equity of 12 per cent, as proposed by the Company. The initial order noted that by adopting the Company's proposed cost rates of debt and equity and using the latest available capital structure at September 30, 2001, the resulting overall recommended fair rate of return of 8.76%, was only slightly above the Commission Staff recommendation.

104 On review, the Commission Staff supported use of the Staff's DCF approach. The Company opposed that recommendation and supported the initial order.

105 The Commission accepts the result of the initial order. Staff acknowledged that its DCF analysis would not provide sufficient interest coverage and that we are consequently reluctant to adopt it. Staff's proposed interest coverage approach would be unnecessary if an appropriate rate of return can be determined, and could lead to an unnecessarily slim margin on which the Company must meet contingencies in its operations. Staff acknowledges that it has used a 12% return historically in recommending rates for this company. We observe that while economic conditions today differ from those of recent historical times, the proposed 12% return, for a company of Rainier View's size and risk, is not out of proportion with the return the Commission has accepted in recent orders.[4]

[4] WUTC v. Avista, Docket No. UE-011595, *Fifth Supplemental Order* (June 18, 2002); WUTC v. PSE, Docket No. UE-011570/UG-011571, *Twelfth Supplemental Order (*June 20, 2002)

106 The Commission accepts the Company's proposed 12% rate of return on equity for purposes of this proceeding. In making this decision, we consider the record in this docket; the acceptance of the proposed rate of return in prior proceedings and contexts; and the narrow differences between Commission Staff and the Company on overall cost of capital.

2. Cost of Debt

107 Rainier View proposed use of the average interest rate charged by CoBank during 2001 as the Company's cost of debt, noting that CoBank charges it variable interest rates on much of Rainier View's debt. Rainier View. It sought a cost of debt of 6.93%. Staff, in its direct testimony, proposed use of the interest rate charged by CoBank in November, 2001, as the cost of debt, arguing that it is the most recent cost of debt available, and thus the best predictor of what debt rates will be during the rate year. That rate was 5.55 percent.

108 The initial order ruled that the cost of debt, particularly variable debt, should be based on an average of rates over a period of time. It noted that a one-time, so called "snap-shot" rate is not as reliable a predictor of the range of rates that may be expected during the rate year. It ruled that the 6.93% figure sought by Rainier View is the appropriate starting point for setting the cost of debt. It also ruled that a refund by CoBank of a portion of interest paid to it should be applied to reduce the Company's cost of debt to the net debt cost during the test period. The order found the embedded cost of debt to be 6.75%.

109 Commission Staff petitions for review, asking clarification about the proper calculation of the average of interest rates. It notes that using an average in a time of rising interest rates might create a right to a pro forma adjustment to the higher rate, and that if rates are falling the Company could enjoy a windfall. The Company supported the initial order, stating that a point in time is not an accurate predictor of the future and that use of an average avoids problems inherent in use of a single point to predict variable rate interest.

110 The Commission finds the result of the initial order to be proper, and finds that the record is insufficient to provide the guidance that Commission Staff requests. Based on the record, and the choice between the parties' two positions, the initial order adopted an acceptable result. The order rejected use of reference materials proposed

for official notice because of timing and lack of opportunity to respond. *RCW 34.05.452(5)*. The sole question was whether in calculating interest for a company funded by variable-rate debt, an average over time is preferable to a single point in time. We agree with the initial order that, given only the choice and the record in this proceeding, including the practical limitations on funding their presentations that affected both parties, the result is proper.

111 If the matter arises in a future proceeding, the Company and Staff may seek introduction or notice of appropriate reference materials and may build a record on which to argue the points that Staff mentions on administrative review and on which the Commission might make an informed decision.

3. Capital Structure

112 The Company proposes use of a hypothetical capital structure of 50 percent debt and 50 percent equity, in part to avoid disagreements with Commission Staff over the calculation of the Company's actual capital structure.

113 Staff calculates the Company's actual capital structure as consisting of 70.76% debt and 29.24% equity

114 The initial order calculated the latest available capital structure from the balance sheet in Exhibit No. 1 at September 30, 2001, as 61.76 percent debt and 38.24 percent equity. It found the Company's actual capital structure to be the most accurate view of what the Company's capital structure will be while the rates are in effect It also found that the Company's actual capital structure would provide an appropriate balance between two long-standing principles of sound ratemaking: 1) that a utility is entitled to earn a return on capital sufficient to preserve its creditworthiness; and 2) that the rate of return on capital must not burden ratepayers unnecessarily, i.e., it must be economical.

TABLE 5: Capital Structure, Cost Rates & Fair Rate of Return

Ln #	Item	Capital Structure	Embedded Cost	Rate of Return
1	Equity	**38.24%**	12.00%	4.59%
2	Debt	**61.76%**	6.75%	4.17%
3	Total Capital	100.00%		**8.76%**

115 An overall authorized rate of return of 8.76 percent will provide Rainier View with the opportunity to earn a return sufficient to maintain its financial integrity, attract capital on reasonable terms, and receive a return comparable to other enterprises of corresponding risk.

H. ACTUAL RESULTS OF OPERATION AND RATE OF RETURN

116 Table 6, below, summarizes the Company's results of operations for the 12 months ended December 31, 2000, and incorporates the Commission's decisions regarding all contested issues having a revenue requirement impact.

**TABLE 6: RAINIER VIEW WATER CO., INC.
COMMISSION DECISION RESULTS OF OPERATIONS
FOR THE 12 MONTHS ENDED DECEMBER 31, 2000
DECISION**

Ln#	Description	Total Net Operating Income	Total Average Rate Base	Rate of Return - %
	(A)	(B)	(C)	(D)
1	Actual Results of Operation	$597,971	$5,069,911	11.79%
2	Total Uncontested Adjustments	($204,558)	$42,506	
3	Total Contested Adjustments	($137,157)	($161,213)	
4	Results Before Rate Changes	$256,257	$4,951,204	5.18%
5	NOI (Excess) / Deficiency	$177,469	$0	
6	Results at Commission Decision	$433,725	$4,951,204	8.76%

117 Table 7 below reflects the revenue requirement calculation for the adjusted results of operations of Rainier View for the test period based upon the Commission's decisions in this Order.

TABLE 7: REVENUE REQUIREMENT CALUCATION DECISION

Ln #	Description	Amount $
	(A)	(B)
1	Total Pro Forma Average Rate Base	$4,951,204
2	Overall Authorized Rate of Return - %	8.76%
3	Net Operating Income Requirement (Ln 1 x (Ln 2/100)	$433,725
4	Pro Forma Net Operating Income	$256,257
5	Net Operating Income (Excess) or Deficiency (Ln 3 – Ln 4)	$177,469
6	Net-To-Gross Conversion Factor	0.6211986
7	Gross Revenue (Excess) or Deficiency (Ln 5/Ln 6)	**$285,688**
8	Percentage Increase (Decrease) in Overall Operating Revenues	**9.45%**

118 The recommended revenue requirement calculation reflects a revenue deficiency of $285,688. The indicated overall recommended increase in operating revenues is 9.45%.

I. Rate Design

119 The Company proposed to lower the rates charged to customers on its Indian Springs system to bring those rates to parity with the customers on its other systems. Commission Staff did not object to the proposal. The Company also proposed that the general rate case revenue requirement be recovered through an increase to both the base rate and the overage (use) as set out in Exhibit 3 to its brief (which is an update of Exhibit 14 in the record).

120 The initial order proposed to implement a reduction in rates for Indian Springs customers via a recommended methodology.

121 Commission Staff's petition for administrative review noted the Staff's concerns about the relationship between use of the Indian Springs prior rates to calculate test year revenues, then implementing a reduction in those rates that would alter the future revenue stream. In response, the Company offered to work with Staff to calculate an appropriate rate structure. Commission Staff did not rebuff the suggestion in its reply.

122 The Commission asks the parties to agree on a proposed rate schedule that addresses the Commission Staff concerns. In its compliance filing, the Company must present work papers demonstrating the calculation of the rates with regard to the implementation of reductions for the Indian Springs customers.

III. FINDINGS OF FACT

123 Having discussed in detail both the oral and documentary evidence concerning all material matters inquired into, and having previously stated findings and conclusions based thereon, the Commission now makes the following summary of the facts. The portions of the proceeding detailed findings and the discussion pertaining to the ultimate facts are incorporated herein by this reference.

124 (1) The Washington Utilities and Transportation Commission (the Commission) is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including water companies that have reached the appropriate jurisdictional threshold.

125 (2) Rainier View Water Company, Inc. (Rainier View) is a public service company subject to the jurisdiction of the Commission.

126 (3) Rainier View is a water company engaged in the business of furnishing potable water to the public for compensation within Washington State.

127 (4) Rainier View provides domestic water service to over 11,000 homes and businesses, serving largely residential customers, through 31 water systems located primarily in Pierce County, Washington.

128 (5) On June 15, 2001, Rainier View filed with the Commission revisions to its currently effective Tariff WN U-2, designated as:

Eighth Revised Sheet No. 21 canceling Seventh Revised Sheet No. 21

First Revised Sheet No. 21.1 canceling Original Sheet No. 21.1

Seventh Revised Sheet No. 32 canceling Sixth Revised Sheet No. 32.

The Company's proposal would increase its annual revenues by $453,157 or 13.6 percent.

129 (6) The 12-month period ending December 31, 2000 is an appropriate test year to examine for ratemaking purposes in these proceedings.

130 (7) Federal income tax expense should not be removed from Rainier View's results of operations for ratemaking purposes. Rainier View has been allowed to recover federal income tax expense both from its general customer base and from individual developers, depending upon the circumstance, for at least the past ten years. The federal income tax expense is an obligation that attaches

to income generated by the regulated operations of the Company. Federal income tax at an effective tax rate of 34 percent should be imputed.

131 (8) A company subject to taxation should adjust rate base for the deferred tax component related to the timing differences for tax depreciation compared with book depreciation. Rainier View should be ordered to prepare a study of what the accumulated deferred income tax balance would be, if the Company had been previously treated as a C corporation under a normalized tax accounting methodology. The Company should provide this study to the regulatory staff of the Commission (Staff) no later than 90 days after the date of this order and maintain a continuing “off-book” or side-record calculation of accumulated deferred income taxes that is well documented and available for Staff’s audit.

132 (9) The appropriate Net-To-Gross Conversion Factor to be used in setting rates for Rainier View is 0.6211986.

133 (10) The parties agreed to several adjustments to the per books numbers from the test year. These adjustments are listed in Table 1. These adjustments result in a $204,558 decrease in net operating income and a $42,506 increase in rate base. These adjustments are consistent with generally accepted ratemaking principles and should be adopted.

134 (11) Seventeen contested net operating income adjustments to the per books numbers from the test year are listed in Tables 2 and 3, and the Commission’s decisions are listed in Table 3.

135 (12) The Company should be directed to examine its prior records and identify the amounts of Ready-To-Serve Fees which were recorded as non-operating income, and provide this analysis to Staff within 90 days after the date of this order.

136 (13) There are three contested rate base adjustments to the per book numbers for the test year. These adjustments are listed in Tables 4 and 5, and the resolutions this Order finds correct are listed in Table 5. These adjustments are consistent with generally accepted ratemaking principles and should be adopted.

137 (14) The appropriate capital structure to be used in setting rates for Rainier View is 61.76 percent debt and 38.24 percent equity.

138 (15) The appropriate cost of equity to be used in setting rates for Rainier View is 12 per cent.

139 (16) The appropriate cost of debt to be used in setting rates for Rainier View is 6.75%.

140 (17) The appropriate overall return for the Company is 8.76 per cent.

141 (18) The calculation of the return on investment as set forth in Table 5 is reasonable, is supported by substantial evidence in the record of this case and should be approved.

142 (19) The results of operations set forth in Table 6 are reasonable, are supported by substantial evidence in the record of this case and should be approved.

143 (20) The revenue requirement calculation for the adjusted results of operations of Rainier View for the test period based upon the decisions recommended in this proposed Order set forth in Table 7 is reasonable, is supported by substantial evidence in the record of this case and should be approved.

144 (21) Additional revenues in the amount of $285,688 are appropriate and should be allowed. This is based upon a need to recover an additional $177,469 in Net Operating Income.

145 (22) The revenues from the Indian Springs system should be restated as a step in calculating and applying increases to the non-Indian Springs rates. The Indian Springs rates should then be refiled at parity with the adjusted non-Indian Springs rates. Commission Staff and the Company are capable of reaching an agreed methodology to accomplish a proper overall rate level and should be directed to do so.

146 (23) The rates that result from this Order together are just, reasonable, and compensatory.

147 (24) The rates that result from this Order are neither unduly preferential nor discriminatory.

IV. CONCLUSIONS OF LAW

148 Having discussed above in detail all matters material to this decision, and having stated general findings and conclusions, the following provides summary conclusions of law. Those portions of the preceding detailed discussion that state conclusions pertaining to the ultimate decisions of the Order are incorporated by this reference.

149 (1) The Washington Utilities and Transportation Commission has jurisdiction over the parties to, and subject matter of, this proceeding. RCW 80.01.040; Chapter 80.04 RCW; Chapter 80.28 RCW.

150 (2) The rates and charges included in, or made effective by, Rainier View's tariff WN U-2, Seventh Revised Sheet No. 21, Original Sheet No. 21.1 and Sixth Revised Sheet No. 32, do not produce rates that are just, fair, reasonable and sufficient and fail to yield reasonable compensation for the services rendered, and are rejected.

151 (3) A rate increase of 9.45 percent will result in rates that are fair, just, reasonable, and sufficient.

152 (4) Rates, term and practices determined in accordance with the findings and conclusions of this Order, including separately stating Findings of Fact and Conclusions of Law, and the forgoing analysis and discussion of the record, support Commission determined rates, charges and practices that should be fixed by order as the just, reasonable, and sufficient rates, charges and practices that Rainier View should observe and put in force in accordance with the terms of this Order.

153 (5) The Commission should retain jurisdiction over the subject matter of and the parties to the proceeding to effectuate the provisions of this Order. *Title 80 RCW.*

V. ORDER

154 Based on the above findings of fact and conclusions of law, the Commission hereby makes and enters the following Order.

155 (1) The Commission has jurisdiction over the subject matter of and the parties to this proceeding.

156 (2) Rainier View Water Company, Inc., is authorized and required to make appropriate compliance filings, no later than ten business days after the effective date of this Order.

157 (3) Commission Staff must examine the compliance filing, and must provide its analysis of whether the compliance filing meets the requirements of this Order, no later than five business days after the Company's compliance filing is made with the Commission.

158 (4) The Company must prepare a study of what its accumulated deferred income tax balance should be, if the Company had been previously treated as a C corporation under a normalized tax accounting methodology. The Company should file this study in this docket no later than 90 days following entry for this order, and the Company must henceforth maintain an "off-book" or side-record calculation of accumulated deferred income taxes, which is well documented and available for Staff's audit.

159 (5) The Company must examine its prior records and identify the amounts of Ready-To-Serve Fees which were recorded as non-operating income, and provide this analysis to the Staff within 90 days after the entry of this order.

160 (6) The Company must calculate and file with the Commission within 90 days the balance of imputed deferred taxes. The Company must maintain this calcuation on an ongoing basis and file changes with the Commission within 30 days after changes occur.

DATED at Olympia, Washington, and effective this____day of July, 2002.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner

NOTICE TO THE PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-20(1).