

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	
)	
Complainant,)	DOCKET UW-060343
)	
v.)	
)	SETTLEMENT AGREEMENT
ILIAD WATER SERVICE, INC.)	
)	
Respondent.)	
)	
.....)	
)	

1 This Settlement Agreement (or "Agreement") is entered into by the parties to this proceeding for the purpose of resolving all issues raised in the above docket.

I. PARTIES

2 The Parties to this Settlement Agreement are the Staff of the Washington Utilities and Transportation Commission (Staff) and Iliad Water Service, Inc. (Iliad Water or Company), collectively, "the Parties."

II. BACKGROUND

3 Iliad Water serves approximately 91 customers on three water systems: Alder Lake water system near Elbe in Pierce County, Western Stavis II and III water system near Silverdale in Kitsap County, and Cascade Crest water system near Marysville in Snohomish County. There are 40 customers on the Alder Lake water system.

4 On March 1, 2006, Iliad Water filed a tariff revision for a surcharge effective April 1, 2006, seeking to increase rates to fund the installation of a water chlorination system on its Alder Lake water system ordered by the Department of Health (DOH) in 2000. Iliad requested recovery of \$132,795 through a one-time flat rate assessment of \$3,405, or at the customers' option, a monthly surcharge of \$49.26 for ten years. The amount of the surcharge was based on a financing commitment from a third-party private lender. The Commission suspended the tariff on March 29, 2006, and convened an evidentiary hearing before Administrative Law Judge Patricia Clark on November 8 and 9, 2006, in Olympia,

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Washington. The Commission also held a hearing in Eatonville, Washington, on November 16, 2006, to receive public comment. The Parties filed post-hearing briefs.

- 5 On January 10, 2007, Judge Clark issued an initial order, Order 04, rejecting the proposed tariff. On January 22, 2007, Iliad Water filed a Petition for Review. On January 24, 2007, Staff filed a Response to the Petition for Review. On January 30, 2007, Iliad Water filed a Reply to Staff's Response.
- 6 On February 28, 2007, the Commission issued Interlocutory Order 05, which upheld the initial order and rejected the tariff filing, directed Staff to conduct an investigation into Iliad Water and report its conclusions by May 1, 2007, and deferred action and held the docket open pending this investigation, consideration of its conclusions, and a determination as to funding under the Drinking Water State Revolving Fund (DWSRF) loan.
- 7 On March 9, 2007, Staff filed a Petition for Review and Clarification of the Interlocutory Order. Iliad Water filed a Reply to Staff's Petition on March 15, 2007. On April 27, 2007, the Commission issued Interlocutory Order 06. The Commission's order accepted the Petition for Review, denied Staff's request that a final order be entered in the docket, provided clarification of the ordered investigation, and granted an extension of the deadline to file Staff's report to June 29, 2007.
- 8 On June 29, 2007, the Commission extended the deadline for Staff to file its report, at Staff's request. On July 10, 2007, Staff filed an Investigation Report (Report) of Iliad Water in the docket. The Report contained a detailed analysis of the estimated cost of the chlorination system if either private financing or DWSRF financing was used. Staff's analysis concluded that, in fairness, only customers on the Alder Lake System should pay for the cost of the chlorination system. Staff concluded that a surcharge is the proper cost recovery method, and that, if private financing is used, allowing customers the option to choose between a one-time charge or a monthly surcharge would give customers an opportunity to make the best economic choice fitting their circumstances. The Report also contained a detailed discussion of the Company's financial viability. In concluding that Iliad Water was not financially viable, Staff made three recommendations. Staff recommended that, by the end of September, 2007, Iliad Water: (1) file for rate relief, (2) negotiate with Iliad, Inc., and Water Services Company to discharge existing debt to these companies, and (3) file an Equity Investment Plan demonstrating the Company's plans to build and maintain a positive capital structure.
- 9 On August 20, 2007, the Commission issued a Notice of Appointment of Settlement Judge and a Notice of Status Conference. This notice acknowledged the filing of Staff's report, and stated it was now appropriate for the Commission to initiate further process in the docket to facilitate final resolution of the issues.
- 10 At the request of Commission Staff, the Status Conference was rescheduled for August 30, 2007. Staff and Iliad Water attended the conference with Settlement Judge Dennis Moss.

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- 11 With the assistance of Judge Moss, a settlement conference was convened on November 2, 2007, involving representatives of Commission Staff, Iliad Water, and DOH. The parties discussed their progress to date, and pledged to work towards a comprehensive resolution of the issues of concern to them in the docket, that would be in the parties', and the public's best interest.
- 12 In the meantime, on September 17, 2007, Iliad Water filed a general rate case, in Docket UW-071885, seeking additional revenue. On November 28, 2007, the Commission suspended the filing and allowed temporary rates to go into effect, subject to refund. At a prehearing conference in that docket on January 9, 2008, the Commission granted Staff's and Iliad Water's request that settlement negotiations in the general rate case be consolidated with ongoing negotiations in this docket, and that Judge Moss be appointed as Settlement Judge.
- 13 Staff and Iliad Water further engaged in settlement discussions, and subsequently agreed to a resolution of all issues between them in this docket.

III. AGREEMENT

A. Preliminary Matters

- 14 The Parties have reached agreement on the issues raised in the above docket and wish to present their agreement for the Commission's consideration and approval. The Parties therefore adopt the following Agreement, which the Parties enter into voluntarily, to resolve the matters in dispute between them and to expedite the orderly disposition of this proceeding.

B. Financing

- 15 The Parties recognize that, despite Iliad Water's application for a DWSRF loan with the Public Works Board (PWB) and a determination of eligibility, it is unlikely that Iliad Water can meet all of the conditions required by the PWB in order to secure this loan.
- 16 Accordingly, Iliad Water has found alternative private financing, and agrees to finance the construction of the chlorination system through a private loan secured with Iliad, Inc., at an interest rate of 5 percent over 20 years. The Parties agree that the surcharge detailed in paragraph 17 will service this loan. *Attachment A* is a letter from Iliad Water which describes the status of the DWSRF loan, and the alternative private financing.

C. Surcharges

- 17 The Parties agree that the cost of building the water chlorination system required by DOH on the Alder Lake water system, as financed, shall be recovered through either: (1) a monthly surcharge on the Company's Alder Lake water system customers in the amount of

\$19.23 per month, for a period of 240 months (20 years) or until a principal amount of \$116,575 (minus any additional capital investment by the Company over time) has been recovered, or (2) at the customer's option, a one-time surcharge in the amount of \$2,914.38. *Attachment B* contains a chart describing this cost recovery, comparing monthly and one-time payments.

18 The Parties agree that the rate case costs incurred by Iliad Water in this docket will be recovered by either: (1) a monthly surcharge on the Company's Alder Lake water system customers in the amount of \$4.13 per month, for a period of 36 months (3 years) or until \$5,940 has been recovered, or (2) at the customer's option, a one-time surcharge of \$148.50. There are no interest charges associated with these amounts. *Attachment B* contains a chart describing this cost recovery, comparing monthly and one-time payments.

19 The Parties agree that all one-time payments described in Paragraph 17 will be used to immediately pay down the principal amount due to Iliad, Inc.

20 The Parties agree that Iliad Water will give notice to customers of the surcharges described in Paragraphs 17 and 18 within fifteen (15) days of the date the Agreement is approved by the Commission.

21 The Parties agree that all customers shall have thirty (30) days after receiving notice from the Company about the surcharges to select their preferred surcharge options from the choices in Paragraphs 17 and 18. For both the chlorination system and the rate case costs, customers will be given the choice between making one-time payments or making monthly payments over the respective periods.

22 Iliad Water agrees to make a compliance filing with the Commission reflecting the agreed surcharges once the above thirty (30) day period has elapsed.

23 Nothing in this Agreement precludes the prepayment by any customer of the balance due for the cost of the water chlorination system during the 240 months this surcharge is in effect. Nothing in this Agreement precludes the prepayment by any customer of the balance due for the rate case costs during the 36 months this surcharge will be in effect.

24 Iliad Water agrees to provide a payoff amount to any customer who initially elects monthly payments but later wishes to pay off the remaining surcharge balance as lump sum. There will be no prepayment penalty to any customer who initially elects monthly payments if the customer pays the balance due during the period the surcharge is in effect.

D. Equity Investment in the Chlorination Project

25 The Parties agree that Iliad Water will provide the following capital investments into the chlorination project: (1) installation of service meters, which is estimated to cost \$9,975, and (2) new well house piping and appurtenances, which are estimated to cost \$10,450. *See*

Attachment A. This capital investment will reduce the cost of the project subject to surcharge and improve Iliad Water's capital structure. This Agreement does not preclude Iliad Water from making other additional capital investments in the chlorination project as the opportunity arises.

E. Reporting

- 26 The Parties agree that, for this docket, Iliad Water must file a report with the Commission concerning both the chlorination surcharge and the chlorination rate case cost surcharge. This report shall be due within sixty (60) days after the date customers are required to select their preferred financing alternative. The report shall detail how many customers chose the one-time payment option and how many customers chose the monthly payment option, and will also include a detail of the remaining loan balance due to Iliad, Inc., after Iliad Water applies all one-time payments to the loan balance due to Iliad, Inc.
- 27 The Parties agree that Iliad Water shall file annual reports with the Commission on the status of the chlorination project loan repayment and on the rate case cost repayment. These reports shall show, at a minimum, all revenues collected from the surcharges, an amortization showing amounts paid toward interest and principal, and a loan balance due to Iliad, Inc. The reports shall be due annually beginning one year from the date the Agreement is approved by the Commission.

E. Other Matters

- 28 The Parties agree that Iliad Water has filed for rate relief, as recommended by Staff in its Report. Iliad Water satisfied Staff's recommendation by filing a tariff revision with the Commission, assigned to Docket UW-071885.
- 29 The Parties agree that Iliad Water has written off a significant amount of the debt owed to Iliad, Inc., partially addressing the second recommendation made by Staff in its Report. This is shown in *Attachment C*.
- 30 The Parties agree that Iliad Water has not filed a formal Equity Investment Plan as recommended by Staff in its Report, but has agreed to make the equity investment into the chlorination project described in Paragraph 25. In addition, the Company is not precluded from investing additional capital to improve the Company's capital structure and reduce project costs subject to surcharge. *Attachment D* is a letter to the Commission filed by Iliad Water in Docket UW-071885 concerning its Management Plan.

IV. GENERAL PROVISIONS

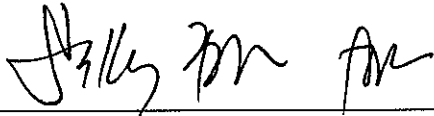
- 31 The Parties agree that this Agreement is a settlement of all contested issues between them in this proceeding. The Parties understand that this Agreement is not binding unless and until accepted by the Commission.

- 32 The Parties agree to cooperate in submitting this Agreement promptly to the Commission for acceptance. The Parties agree to support adoption of this Agreement in proceedings before the Commission. No party to this Agreement or its agents, employees, consultants, or attorneys will engage in advocacy contrary to the Commission's adoption of this Agreement.
- 33 The Parties agree that neither the settlement discussions nor the terms of this Agreement create any precedent in terms of methodology, theory, result or in any other manner, for Iliad Water or any other company.
- 34 The Parties agree to 1) provide each other the right to review, in advance of publication, any and all announcements or news releases that the other party intends to make about the Agreement (with the right of review to include a reasonable opportunity to request changes to the text of such announcements), and 2) include in any news release or announcement a statement to the effect that Staff's recommendation to approve the Agreement is not binding on the Commission itself.
- 35 Nothing in this Agreement shall limit or bar any other entity from pursuing legal remedies against Iliad Water or Iliad Water's ability to assert defenses to such claims.
- 36 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty, and delay of continuing litigation. The Parties recognize that this Agreement represents a compromise of the Parties' positions. As such, conduct, statements, and documents disclosed during negotiations of this Agreement shall not be admissible as evidence in this or any other proceeding, except in any proceeding to enforce the terms of this Agreement or any Commission order fully adopting those terms. This Agreement shall not be construed against either party because it was the drafter of this Agreement.
- 37 The Parties have negotiated this Agreement as an integrated document to be effective upon execution and Commission approval. This Agreement supersedes all prior oral and written agreements on issues addressed herein. Accordingly, the Parties recommend that the Commission adopt this Agreement in its entirety.
- 38 The Parties may execute this Agreement in counterparts and, as executed, shall constitute one Agreement. Copies sent by facsimile are as effective as original documents.
- 39 The Parties shall take all actions necessary, as appropriate, to carry out this Agreement.
- 40 In the event the Commission rejects all or any portion of this Agreement, each party reserves the right to withdraw from this Agreement by written notice to the other party and the Commission. Written notice must be served within ten (10) days of the order rejecting part or all of this Agreement. In such event, neither party will be bound or prejudiced by the terms of this Agreement, and either party shall be entitled to seek reconsideration of the order. Additionally, the Parties will jointly request that a prehearing conference be convened for purposes of establishing a procedural schedule to complete the case.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

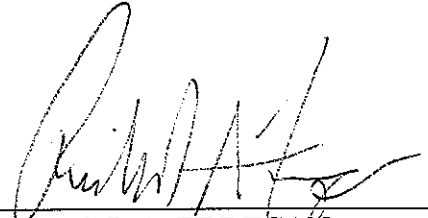
ILIAD WATER SERVICE, INC.

ROBERT M. MCKENNA
Attorney General



MICHAEL A. FASSIO
Assistant Attorney General
Counsel for the Utilities and
Transportation Commission Staff

Dated: 04/15/08, 2008



RICHARD A. FINNIGAN
Counsel for Iliad Water Service, Inc.

Dated: April 15, 2008

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March 3, 2008

Michael Fassio
Assistant Attorney General
Attorney General of Washington
1400 South Evergreen Park Drive SW
Olympia, WA 98504-0128

Re: UW-060343 – Presentation of Finance and Proposal

Dear Michael:

This will follow up the request that Gene Eckhardt made in our meeting of February 28, 2008. At that time, he requested that Iliad Water Services, Inc. ("Iliad Water") present its financing option for the treatment facilities in a more formal way than the e-mail that I had previously sent to Commission Staff on February 19, 2008. This letter will respond to that request.

As you are aware from our meeting on February 28, 2008, Iliad Water must meet three conditions to receive a Safe Drinking Water Revolving Fund loan. For one of those three conditions, it is appearing more and more likely that it will be impossible to meet. That condition is to provide some sort of financial instrument, such as a letter of credit or performance bond, that insures that the loan will be paid over the twenty year life of the loan. In other words, the financial instrument must be in place for the duration of the loan itself.

The Company has investigated both a performance bond and letter of credit. Neither instrument is available for a term of twenty years. Both the performance bond and letter of credit are subject to renewal, likely on an annual basis, although a performance bond may be available that is renewed on a biennial basis. Representatives of the Public Works Board have indicated that such a short term instrument will not satisfy the condition.

Michael Fassio
March 3, 2008
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In light of this situation, the Company has searched for other alternatives. Under the circumstances, Iliad, Inc. is willing to fund the loan. Because the Safe Drinking Water Revolving Fund has additional requirements that a private lender would not need, the actual cost of the project can be reduced substantially below the estimated \$177,000 for the Safe Drinking Water Revolving Fund loan. In fact, the Company estimates that with private financing, the project can be completed for \$137,000.

As you are aware, Iliad Water has previously committed to funding certain portions of the project as equity investment. These portions amount to a little over \$20,000 and, with tax, should finish between \$20,000 and \$25,000 in total.

For ease of calculation, I have assumed equity funding of \$20,000. This means that a privately funded loan will be at \$117,000. Iliad, Inc. is willing to make that money available at 5%. A twenty year loan of \$117,000 at five percent has a monthly principal and interest amortization of \$772.15 per month. This has a customer impact of approximately \$19.80 per month.

On the other hand, the Safe Drinking Water Revolving Fund loan would be for approximately \$157,000 at 1.5%. In addition, there would be a 2% premium for any financial product that would be added to the loan (this is the going rate for a performance bond or letter of credit). The premium is an annual premium. A twenty year loan of \$157,000 at 1.5% has a monthly amortization of \$757.60. With an initial price for the financial product of \$3,140 per year or \$6.71 per month per customer, the total impact of the Safe Drinking Water Revolving loan would be \$26.14 per month per customer. This means that private financing at 5% is a benefit to the customer.

Iliad Water would also make an up front payment option available to customers that choose to opt for the up front payment, as an alternative to the monthly payment option.

Given the uncertainty surrounding the Safe Drinking Water Revolving Fund loan, Iliad Water would like to move forward with this proposal of private financing

Michael Fassio
March 3, 2008
Page 3 of 3

to settle this docket.

Sincerely,

RICHARD A. FINNIGAN

RAF/km

cc: Derek Dorland (via e-mail)
WUTC Records Center (via e-mail)

Iliad Water Services, Inc.
 UW-060343
 Surcharge Cost Comparison
 Attachment B

Item to finance	Construction Cost Amount to finance	No. of Customers	Per Customer One-Time Payment Amount (1)	Annual Interest Rate	Term of loan (months)	Monthly Payment Per Customer (2)	Total of Payments (3)
	A	B	C = A/B	D	E	F = PMT (D/12, E, C)	F X E
Proposed Financing Alternative:							
Iliad, Inc. financing							
Net capital investment (construction)	\$ 116,575	40	\$ 2,914.38	5.0%	240	\$ 19.23	\$ 4,616.06
Legal rate case costs	\$ 5,940	40	\$ 148.50	0.0%	36	\$ 4.13	\$ 148.50
			\$ 3,062.88	Total monthly surcharge		\$ 23.36	\$ 4,764.56
Other Financing Alternative Considered							
Net capital investment via SRF loan	\$ 155,884	40	\$ 3,897.10	1.5%	240	\$ 18.81	\$ 4,513.27
Legal rate case costs	\$ 5,940	40	\$ 148.50	0.0%	36	\$ 4.13	\$ 148.50
Performance bond (year one)	\$ 3,540	40	\$ 88.50	0.0%	12	\$ 7.38	\$ 88.50
			\$ 4,134.10	Total monthly surcharge		\$ 30.31	\$ 4,750.27

- (1) The Per Customer One-Time Payment amount shows how much each customer on the Alder Lake system will be required to pay if a single payment is made to Iliad Water Service, Inc. It is the construction cost divided by the number of customers on the Alder Lake system.
- (2) The Monthly Payment Per Customer shows amounts due if the customer does not make the One-Time Payment. These amounts are: \$19.23 for the construction costs (over twenty years) plus \$4.13 per month for the rate case costs (over three years.) A monthly interest rate for each component is calculated by dividing the annual rate by 12. This rate is then used to calculate the monthly cost by using the one-time payment amount and the term of the loan.
- (3) The Total of Payments shows how much each Alder Lake customer will pay in total if the monthly payment option is chosen. For the construction, the total of payments will be \$4,616.06 at 5% interest. For the rate case costs, the total will be \$148.50 at 0% interest. The total of payments is \$4,764.56.

Attachment C

Iliad Water Services, Inc.
 UW-060343 / UW-071885
 Balance Sheet Amounts Recalculated
 All figures for 12/31/2006

	Before Adjustment	Write-Off	After Adjustment
Total Assets	\$ 87,914		\$ 87,914
Total Equity Capital	\$ (185,969)	\$ 86,878	\$ (99,091)
Long-Term Debt	\$ 191,094	\$ (13,874)	\$ 177,220
Accounts Payable	\$ 82,789	\$ (73,004) ¹	\$ 9,785
Total Equity Capital and Debt	\$ 87,914	\$ -	\$ 87,914

¹ This figure is more precisely an "accounting adjustment."

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November 14, 2007

VIA HAND DELIVERY AND E-MAIL

Gene Eckhardt
 Washington Utilities and Transportation Commission
 1300 S. Evergreen Park Drive SW
 Olympia, WA 98504-7250

Re: Iliad Water Services, Inc. - Docket No. UW-071885 -
 Management Plan

Dear Gene:

This is to report to you that the Company has determined that there will not be significant opportunities for capital investment in the short run. However, with a negative equity of approximately \$25,000, the Company believes that some opportunities will exist over the next few years as minor capital expenditure requirements arise. The owner will make every effort to fund these capital expenditures as owner's equity, assuming satisfactory resolution of the pending rate case.

Further, if the Company does not have a positive capital structure within five years, the Company will seek a buyer and endeavor to find other investors or new ownership.

Sincerely,

Richard A. Finnigan / km

RICHARD A. FINNIGAN

RAF/km

cc: Amy White (via hand delivery and e-mail)
 Derek Dorland (via e-mail)

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