

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

**WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION,**

COMPLAINANT,

VS.

RAINIER VIEW WATER COMPANY, INC.,

RESPONDENT.

DIRECT TESTIMONY

OF DOUGLAS FISHER

ON BEHALF OF RAINIER VIEW WATER COMPANY, INC.

October 26, 2001

RAINIER VIEW WATER COMPANY, INC.
DIRECT TESTIMONY OF DOUGLAS FISHER

I. IDENTIFICATION OF WITNESS

Q. Please state your name and provide your business address for the record.

A. Douglas Fisher. My address is 219 S. 115th Street, Tacoma, WA 98444.

Q. What is your role with Rainier View?

A. I am employed by Rainier View as its Controller. In that capacity, I am responsible for the financial operations of the Company. I report directly to the President, Neil H. Richardson. I also serve on the Company's Board of Directors.

Q. Please describe the purpose of your testimony.

A. I shall describe the Company's general operations. I will then set out the Company's Results of Operations, including restating and proforma adjustments. I describe the Company's overall revenue requirement, capital structure, proposed rate of return and rate design.

Q. Please summarize your testimony.

A. Rainier View is facing a critical point in its history. The Company has developed over the past decade from a company with a troubled financial future and relatively high levels of customer concerns to a sound financial company with very few customer complaints. Rainier View currently provides very high service to its customers. However, Rainier View is facing a sharp downturn in its financial condition which in turn can result in service affecting cuts in maintenance and delayed response to customer needs.

The Company is in need of a rate increase. The filing in this case is seeking to increase revenues by \$445,895, a 13.68 percent increase over current levels.

Q. Please describe Rainier View's operations.

A. Rainier View provides water service to approximately eleven thousand homes and businesses. Its service base is primarily residential. Most of the customers are in southern Pierce County in the Graham and Bethel areas. The Company does operate other water systems on the Key Peninsula and other areas. The Company has thirty-one water systems in all.

Rainier View provides water service to the thirty-one systems and eleven thousand customers with twenty-four employees. These twenty-four employees provide a

wide range of services. There are customer service representatives who deal with billing issues and other customer concerns. There are outside plant people who are responsible for ensuring that the Company's operations run smoothly and repair any problems that do develop. There are staff that deal with regulatory issues, whether they are regulations of the Department of Ecology, Department of Health, Pierce County Departments of Health or Public Works, or this Commission. The Company has a very dedicated staff, lead by its President, Mr. Richardson.

Mr. Richardson's management style is to hire competent staff, provide them with the training they need to do their job, provide them with the direction and support to accomplish that job and then give the employees the responsibility and freedom to exercise their judgment and professionalism to accomplish that job. Mr.

Richardson's management has resulted in a staff that is loyal and professional. It is a staff that gets the job done.

Q. Please describe Rainier View's approach to providing service.

A. All water companies face a similar set of challenges. Water companies are extraordinarily heavily regulated. Rainier View is regulated by the Department of Ecology as to the scope of its water rights. Rainier View is regulated by the Department of Health on water quality issues. This Commission regulates Rainier View's financial operations and, to some extent, its water quality service issues.

Rainier View must comport with the requirements of the Pierce County Fire Marshall and the fire districts that overlap its territory. Rainier View must meet the requirements of the Pierce County Department of Health and also interface with and respond to concerns from Pierce County Public Works Department.

The problems facing water companies seem to grow each year. As water standards are capable of being measured in more minute quantities, increasingly the water service quality regulations place additional requirements on Rainier View. For example, prior to approximately 1995 the standard for measuring whether or not there was a copper or lead problem was based upon the water quality at the meter. The regulations were changed so that after about 1995, water testing had to occur at the customer's tap, measured with the first draw of water in the morning. What this meant for Rainier View is that its water, which when it comes out of the wells is of a very high quality, had to be measured at the customer's tap. This meant that the water was given time to interact with the copper lines in the customer's house. In new construction, a protective layer has not had time to build up in copper pipes and, particularly, if the plumbing is not properly grounded, water that is slightly acidic can interact with copper pipes and produce results that are in excess of the standards for copper. One regulatory response to this situation might have been to develop an educational program that reminds people with new plumbing to flush their water for a few minutes before consuming it. However, instead, the regulatory

response was to shift the responsibility to the water purveyor. This required Rainier View to undertake a program to install very expensive, very complicated, very high maintenance treatment facilities on its primary water systems. There are other, smaller water systems that also need to have treatment installed and Rainier View is addressing that issue on an ongoing basis.

Rainier View's approach to these issues has been to try to develop creative solutions that minimize cost to the customer while still meeting the goal of providing high quality service to the customer. Rainier View also has a management policy of communicating as openly as possible with its customers and with its various regulators.

Q. Do you have any examples of these communications?

A. Yes. Rainier View regularly uses bill inserts with its customers to communicate with the customers. For example, in light of the low rainfall experienced this past year, Rainier View urged its customers to conserve and provided water conservation tips on multiple bill inserts. That effort, coupled with the general media coverage of the quasi-drought we have been experiencing, resulted in substantial conservation this past summer. Unfortunately, that has also resulted in Rainier View's receiving far less revenue this summer than it would ordinarily have expected. The bi-product of that effort is that it has placed the Company in a

precarious financial position. That precarious financial situation is not reflected in the filing in this case, since the filing in this case is based upon a historical 2000 test year.

In addition, expense levels have also increased for such things as insurance and power costs. Some of these increases came too late to include in this filing. We show on Exhibit ____ (DF-2) a need to increase revenues by \$488,051. However, the filing is only for \$445,895.

Q. What do you mean by a precarious financial position?

A. It should be obvious that for a water company, its revenue is cyclical in nature. The Company receives a high percentage of its revenue during the summer months and relies on that revenue to get it through the winter months. I suppose an analogy is that it is much like a squirrel storing acorns for the winter months.

Unfortunately, this year because revenues did not reach the levels that were expected, the Company has not been able to develop a financial cushion to take it through this winter. As a result, in early September I instituted immediate financial controls. I eliminated all overtime. I deferred construction expenses. I deferred maintenance expenses where possible. I will need to ask some vendors to accept substantially delayed payments.

Q. What is the effect of that precarious financial condition on this rate case?

A. It points out that many of the traditional regulatory tools are inadequate to deal with the real world needs of water companies. Even though Rainier View serves some eleven thousand customers, its financial resources are very limited compared to other companies in other regulated industries. Strict application of traditional regulatory principles can have the effect of quickly pushing a water company into a situation where it must sacrifice customer service in order to live within the financial constraints imposed on it by the regulatory process.

For years I have advocated developing alternative tools. One example is that I have advocated allowing water companies that meet certain standards, such as very low levels of customer complaints, to seek automatic increases in rates that are consistent with the rate of inflation. Had such a mechanism been in place, Rainier View would have had the level of rate increase it is now seeking in this case implemented in a very gentle stair-step approach, without the high costs of going through a rate case. It also would have meant that the Company would not have been in such precarious financial condition as it now finds itself in. A financial condition that is not even going to be completely addressed by this rate case.

Q. Do you have another example of the Company's approach to addressing problems it faces?

A. I have a very good example. In the early 1990's, this Company had a two-fold problem. First, the Company had a very low rate base compared to total plant-in-service, and had difficulty convincing regulators and lenders that it was financially viable. In addition, at that time, the federal tax laws were such that if a developer had a water system that it wished to turn over to a water company, the water company had to charge the developer approximately fifty percent of the value of the water system in order to accept the water system. This was because the transaction was treated by the IRS as a taxable transaction. The effect of this was that it discouraged consolidation of water systems and developers were reluctant to turn over water systems to a water company such as Rainier View at such a financial penalty.

To address this problem, Rainier View came up with a developer line extension program under which Rainier View would buy the water system at an agreed rate over time. To get the funds to buy the system, Rainier View put in the developer line extension contract the concept of a ready-to-serve charge. The ready-to-serve charge and the price paid for the water system were designed to, on average, balance out. The result of this program was that Rainier View's rate base increased to the benefit of its customer base. The customer base benefited because Rainier

View was then able to develop a financing source on favorable terms. That financing source substantially lowered the debt costs that would otherwise have to be borne by the customer base.

As an example of how we communicate with the regulators, this program was discussed in great detail with Commission Staff prior to the Company implementing the program. We implemented the program only after getting the go-ahead from Commission Staff. Of course, over the years the subsequent developer line extension agreements were submitted to the Commission for review and approval.

Q. Has the program been successful?

A. Yes. As a direct result of implementing this program, Rainier View was able to enter into a long-term relationship with CoBank. CoBank is in the business of lending to regulated industries and understands those industries as opposed to commercial lenders who are a little more reluctant to undertake a long-term relationship with a water company such as Rainier View. As a result of the relationship with CoBank, Rainier View has been able to enter into debt financing, both for general purposes and for the surcharges it has implemented, on rates that have been far less than those that Rainier View would have been able to get through

a commercial lender. That has been a direct, long-term benefit to Rainier View's customers.

Q. Do you have any other examples of how the Company is trying to meet customer needs?

A. I have several examples. The Company has proposed, and the Commission has approved, a generator installation program. This will result in generators being installed on each of the Company's systems so that water will continue to flow even during a power interruption.

As another example, the Company has installed telemonitoring systems on most of its storage tanks. Under this system, if the tank level falls to a level approaching the point where it may be service affecting, an alarm is triggered and the Company is notified. This allows us to respond to problems before the customer is aware that a problem exists.

As another example, in light of the events of September 11, the Company is re-evaluating its security measures. The Company is sending a mailing to its customers reassuring them that all of our water storage facilities are secured, and are not open reservoirs. All of the larger water storage facilities are fenced, at least at the access points. Further, we are investigating the ways in which we can install

alarms to let us know if someone is attempting to open an access point to those water storage facilities.

We are also strongly seeking ways to encourage conservation. As I indicated above, we have been implementing an education program with our customers. We hired a professional leak detection company to come out and review our largest system. On that review, we found and repaired leaks that accounted for approximately three hundred gallons per minute of water usage.

Q. What is the benefit to the customer from water conservation?

A. Using water wisely benefits everyone, except perhaps the Company's revenues. The way it benefits the customer is that through wise water usage, if the average per customer consumption decreases, the Company is able to serve more customers with the same quantity of water. This results in being able to add more customers to the Company's water system and spreading the fixed operating costs of the Company over a wider base. In addition to this long term direct benefit to the customer base, the societal benefits of conserving a scarce resource are promoted.

We are considering implementing a rate design that involves steps to encourage conservation. However, before we could implement such a rate design, the Commission would need to recognize that an inverted rate structure would produce

a significant suppression in Company revenues. The Company is not in the financial condition where it can absorb the risk of a significant decrease in revenues from a modification of rate design.

Q. Please describe the Company's filing in this case.

A. The Company has filed to increase rates by approximately \$445,895. This represents a 13.68 percent increase in revenues. Attached as Exhibit _____ (DF-2) is the Company's Results of Operations.

Q. Please explain Exhibit _____ (DF-2).

A. The first column sets out the categories of operating revenues, expenses and rate base. The second column sets out the per-books year end results of December 31, 2000. The third column sets out the restating adjustments. The fourth column sets out the restated amounts. The fifth column sets the proforma adjustments. The sixth column establishes the proforma results before proposed rates. The next column sets out the proforma effect of the proposed rates and the last column sets out the proforma results after the effect of the proposed rates. The result of this filing would have the Company earn an overall rate of return of 9.47%.

Q. Do you know of any issues that will be raised concerning the per-books amount?

A. I have discussed the numbers with Commission Staff and I do not know, at this time, of any issues related to the per-books amount.

Q. Please describe the restating adjustments.

A. There are three restating adjustments, although I have only labeled two of them.

The restating adjustments are set out on Exhibit _____ (DF-3). The first adjustment, RA-1, restates treatment surcharge revenue. This adjustment results from the agreement on how to handle surcharge revenue as reflected in the Accounting Order issued in Docket UW-010030.

The second restating adjustment is to bad debt expense. The bad debt expense in the year 2000 as booked is extraordinarily low. The actual bad debt expense for the test year was not booked until 2001 because of a change over to a new billing system. I reviewed the historical bad debt expense and the test year actual bad debt expense. The test year expense is consistent with prior years.

You will note that the results of RA-1 and RA-2 have an effect on line 29 of the Results of Operations, Exhibit _____ (DF-2). This also carries through lines 34 and 35 as well.

The third restating adjustment is to calculate average rate base. That calculation is set out on Exhibit _____ (DF-3) and incorporated into the Results of Operations.

Q. Please describe the proforma adjustments.

A. An exhibit setting out the proforma adjustments is included as Exhibit _____ (DF-4). The first of these adjustments is PA-1, Salaries. There are two portions to this adjustment. The first portion is to reflect the Company's wage increase granted in December of 2000. The second is to reflect the Company's wage increase that will be granted in December of 2001. I recognize that a portion of this adjustment could be considered a restating adjustment. However, I chose to portray the salary adjustments as one overall adjustment on a proforma basis.

Q. What is the basis for the salary adjustment?

A. In 2000, the Company faced losing a number of its key employees to other water utilities. The Company's wage level was well below prevailing rates. Loyalty and a good working environment can only go so far. The Company committed to its employees that it would conduct a wage survey and while the Company could not bring its employees up to the top of that wage survey, the Company would commit to making a step approach to bringing wages more in line with that paid by other water utilities. This commitment by the Company resulted in many of its

employees agreeing to stay with the Company. As I have indicated, the employees enjoy the management environment established by Mr. Richardson and are willing to work at a job that gives them professional satisfaction if the wages are at least competitive, although perhaps not at the level that another utility might pay them.

The Company did survey other surrounding water utility wage levels paid to various categories of employees. As a result of that wage scale comparison, an increase on average of 12.66 percent was granted in December of 2000. In addition, the Company has committed to a few employees to give that increase of fifty cents per hour in June of 2001.

Q. Please explain Adjustment PA-2.

A. This adjustment is to bring Indian Springs rates into line with the remaining rates of the Company. At the time that Rainier View acquired the Indian Springs system, the Company was allowed to retain the higher, Indian Springs rates for those customers. This was put into place as a mechanism to reflect, at least for an interim period of time, the substantial benefit to the Indian Springs customers from the acquisition by Rainier View and the intertie of the Rainier View systems with the Indian Springs system. The Company committed to the Commission to reduce those rates in its general rate cases filed five years after acquisition of the Indian Springs system. Now is the appropriate time to recognize that change.

Q. Please explain PA-3.

A. This adjustment reflects the increases in the medical plan effective December 1, 2000 and December 1, 2001 and dental plan effective April 1, 2001. Again, part of this increase could be reflected as a restating adjustment. However, I have chosen to portray it as one adjustment for simplicity of presentation.

As is the case for every other industry, the Company is facing very high increases in medical premiums. I have another exhibit which describes in detail this increase.

We recently received notification of the new rates that will go into effect on December 1, 2001. Exhibit _____ (DF-5) describes the increase on a per-employee basis. Page 2 of that exhibit sets out the notification of the increase that will take effect on December 1, 2001. Although the notification is listed as going to Richardson Well Drilling, it is the notification for Rainier View. For medical insurance purposes, Rainier View combines with its affiliated companies Richardson Well Drilling and Richardson Bottling to try to achieve some degree of buying power. I am not sure that we are getting much in the way of a reduced rate by combining the companies, but certainly Rainier View's premium is no higher from that combination.

Q. Please describe Adjustment PA-4.

A. This adjustment incorporates the rate case expense expected for this proceeding. Since it is anticipated that this case will involve considerable work, and is expected to go to hearing, there will be a significant expense. The adjustment reflects that expense amortized over three years. Exhibit ____ (DF-6) provides additional detail for this adjustment.

Q. Please describe the insurance increase under PA-5.

A. This adjustment comes from insurance premiums calculated from September 15 of each year to the next. Current premium dated 9/15/01 to 9/15/02 is \$100,247 of which \$30,356 is for automobile and \$69,891 is liability. Exhibit ____ (DF-7) provides additional detail for this adjustment.

Q. Please describe Adjustment PA-6.

A. When the Company implemented its generator program, described above, a portion of the costs proposed to the Commission for recovery through the surcharge was the maintenance costs. Because of the size and complexity of these generators and the need to be as assured as possible that they will operate when needed, the Company has hired an outside contractor to perform maintenance responsibilities. At the time that the generator surcharge was proposed, Commission Staff recommended that

these costs be covered through general rates, rather than a surcharge. This adjustment reflects the cost of the O&M expenses for the generators.

Q. Please explain the Adjustment PA-7 for power increase.

A. This adjustment reflects the known increases from Tacoma Power and Light, Peninsula Light and Puget Sound Energy. Attached as Exhibit _____ (DF-8) is a more detailed breakout of the increases currently known. Unfortunately, we expect a further increase to be announced later this year, but at this time we do not have anything known and measurable about the additional, expected increases to submit to the Commission.

Q. Please describe Adjustment PA-8.

A. This is an adjustment to rate base to reflect the purchase of the new billing software. The Company was in the position where its existing billing software was no longer being supported by the software company that developed the program. The Company compared the options available to it and purchased new billing software.

Q. Please describe Exhibit PA-9.

A. This reflects the Company's purchase of two new meter-reading Jeeps. The Company in the past had been using retired Post Office vehicles. However, those were becoming very difficult to find and very expensive to maintain. In the interest

of safety for our employees and to fulfill our need for new vehicles, the Company determined that it would purchase two right-hand drive Jeeps to use for meter reading purposes.

Q. Please describe Exhibit PA-10.

A. This adjustment reflects the expenses, to date, of defending what the Company believes to be an unfounded claim by certain developers that the contracts entered into for the Silver Creek Development constituted an undue preference or unreasonable discrimination. The contracts for the Silver Creek Development have resulted in bringing on line a 4.5 million gallon storage tank and analysis and clarification of the Company's water rights. There is also additional infrastructure that has been developed under those contracts such as an intertie and booster station. The results of these activities have produced a system that is more reliable for the benefit of all customers on that system than would otherwise be the case.

The case recently has been settled. There will be additional costs as the case goes through the settlement process. However, the total expenses for this litigation should be known by the end of the year.

The Company believes that it would have prevailed in litigation. However, pursuing this matter through litigation would have resulted in even higher costs and

carried with it the risk that the Company might, ultimately, not prevail. Therefore, settlement was prudent and the incurrence of these costs by the Company were prudent expenses to benefit the Company and its customers from the imposition of even greater costs. The Company is asking to recover these costs in rates. A more detailed breakdown of these costs are contained in Exhibit _____ (DF-9).

Q. Do you have an exhibit that sets out the Company's revenue requirement calculation?

A. Yes. Please see Exhibit _____ (DF-10). That exhibit sets out the calculation of the conversion factor, rate of return and the additional revenue requirement resulting therefrom.

The Company is proposing a overall rate of return of 10.27 percent based upon the Company's actual capital structure. The embedded cost of debt is 6.95 percent. The Company is proposing a return on equity of 13 percent. Given the inherent risks in a company such as Rainier View, a 13 percent return on equity is very modest.

We have also set out what would result if a fifty-fifty capital structure was used.

However, since the current capital structure is 55.34 percent debt and 44.66 percent

equity, the Company is proposing to use its actual capital structure. The result is an additional revenue requirement of \$488,051.

Q. What is the Company proposing for rate design?

A. Exhibit ____ (DF-11) sets out the Company's proposed rate design. The Company is proposing a 15 percent increase to unmetered service, a 14 percent increase to the base rate and a 22 percent increase to the usage component. This produces slightly more than the revenue requirement. Since the revenue requirement exceeds the amount requested in the original filing, the rate design will need to be adjusted as this case moves forward.

Q. Does that conclude your direct, written testimony?

A. At this time, it does.