

## Olympic Water and Sewer, Inc.

70 Breaker Lane  
Port Ludlow, WA 98365  
(360) 437-2101

Mr. Mark Vasconi  
Acting Director, Regulatory Services  
Washington Utilities and Transportation Commission  
PO Box 47250  
1300 S. Evergreen Park Dr. SW  
Olympia, WA 98504-7250

February 2, 2011

Re: Docket No. UW-101543

Dear Mr. Vasconi,

My name is Larry Smith and I am the president of a regulated water utility, Olympic Water and Sewer, Inc., (OWSI) in Port Ludlow, Washington. OWSI filed a rate case in September last year which was ultimately suspended December 16, 2010.

I am contacting you because it has been over 45 days since the open meeting when our filing was suspended and we have not received a response from WUTC staff on the next steps in settling this matter. We understand that suspending our filing set it on a track for hearing, but we cannot reasonably assess whether or not we should be preparing for a hearing since we do not know what the outstanding issues are, what the staff's stance is on the filing as a whole, and have not received any communication from staff other than additional data requests. We do not want to be blind-sided with administrative requirements related to a hearing if this matter can be settled, nor do we want to be put in a position of having to choose a less than desirable outcome or spend our customers' resources going to hearing because of timing.

I am attaching a copy of a letter submitted to Gene Eckhardt, Assistant Director, dated January 19, 2011, wherein we requested an update on the filing, a detail of the outstanding issues, and WUTC staff's stance on these issues. In this letter, you will also note our ongoing frustration with what seems to be a moving target on how expenses are treated from one rate case to another.

As of today, we have received no response to that letter, but we have received two additional data requests (#6 and #7), both of which have been answered – see attached. The line of questioning of these data requests seems to be targeted at issues we have previously discussed, provided data for, and answered from a multitude of angles. We have not been told what staff's direct concern is other than a general sense that staff believes the costs are too high.

# Olympic Water and Sewer, Inc.

Enclosures

Cc: Gene Eckhardt, WUTC Water Staff  
Sally Brown, Attorney General's Office

Olympic Water and Sewer, Inc.

70 Breaker Lane

Port Ludlow, WA 98365

(360) 437-2101

Mr. Gene Eckhardt  
Assistant Director, Water and Transportation  
Washington Utilities and Transportation Commission  
PO Box 47250  
1300 S. Evergreen Park Dr. SW  
Olympia, WA 98504-7250

2011 JAN 21 11:05:52

January 19, 2011

Re: Docket UW-101543

DELIVERED BY E-MAIL, HARD COPY VIA USPS

Dear Mr. Eckhardt,

The purpose of this letter is to seek clarification on the WUTC's policies related to rate case decisions and procedures and to request a determination on our knowledge of differences between current staff proposals for various expense and ratebase items versus our proposals.

As a matter of background information, Olympic Water and Sewer, Inc., (OWSI) submitted a general rate filing with the WUTC on September 16, 2010, requesting a rate adjustment of \$182,097 of additional revenue. OWSI had been interfacing with one of your lead auditors, Jim Ward, through our consultant, Herta Fairbanks, over the course of the previous 6 months to get the WUTC's stance on various items including ratebase treatment, allowable rates of return, hypothetical capital structures, rate design applications, modes of presentation of data, minimum filing requirements, customer notice requirements, etc. We were confident that through this ongoing communication and our experience and knowledge gained in the 2008 rate case, we would be able to present a case to the WUTC that was clean and understandable and therefore could be handled expeditiously. This has turned out to not be the case.

Clarification regarding WUTC policies and determinations requested:

- 1) Legal Fees – Recovery Period: In the 2008 rate case (2007 test year), Staff disagreed with our request to recover legal fees, stating that a test year presentation of legal fees does not connote a “routine” expense and therefore it was suggested that the legal fees be treated as an asset to carry the same life as the plant the legal fees were intended to defend, i.e. the Water System Plan with a six-year life. After significant negotiations with staff, it was agreed that the 2007 (test year) and 2008 (pro forma) legal fees incurred to date (at that time 3/28/08) would be “normalized” and amortized over two years to

## Olympic Water and Sewer, Inc.

represent an average year legal fee amount (see Exhibit 1). This resulted in a staff revised legal expense of \$8,705 (see Exhibit 2).

In this rate case using a 2009 test year, legal fees were once again requested for recovery in the amount of \$9,250, an increase of 6% over the amount allowed in the 2008 rate case. Staff immediately targeted legal fees as an area for discussion and submitted data requests, all of which were promptly answered. Although OWSI requested recovery of the \$9,250 in the test year, Staff responded with complete removal of all legal costs stating that they are related to the discovery of contaminated soils on OWSI property and that discussions of the remediation of the site are ongoing. OWSI reluctantly accepted this treatment because this was part of a larger discussion of expense and ratebase items and the impact of this one item was of lesser significance. However, OWSI then requested the unamortized portions of previous year's legal fees to be included in the rate case if the present year amount, which was again proposed as a "representative year", was completely removed. The answer received was, yes, but that now the amortization period is three years instead of two. This was a departure from what the company had been told prior to this rate case and certainly a departure from that which was agreed to in the last rate case. Please clarify what the appropriate period is for recovery of legal expenses.

- 2) Legal Fees – Recoverable expenses: In this rate case, the legal fees are related to attorneys engaged for the purposes of defending OWSI's rights related to a contaminated soil issue discovered as a result of the attempted drilling of what was to be Well 17. Staff removed these costs and has placed them as "held until the situation is settled" citing that they should be held because legal fees can be recovered from opposing parties in some cases. We disagree with this treatment. We are working cooperatively with the prior land owner to investigate the extent of contamination. In fact, the only times legal fees are recoverable from opposing parties are with a court order and only with certain enabling statutory authority. We encountered similar discussions with Staff in the 2008 rate case, with Staff wanting to hold the legal fees on defending the validity of our Water System Plan until it was resolved, but eventually Staff allowed recovery over a two-year average. In the end, OWSI is striving to reduce our overall cost of remediating the discovered fuel contamination –which is a legitimate cost of doing business – thereby reducing the impact of this discovery on our ratepayers. When WUTC Staff proposed to remove these legal expenses, OWSI requested treatment of these expenses as Working Capital. After some debate by the WUTC, this request was denied.

If the WUTC Staff is going to insist that these costs be held on a hope that some level of the legal expense will be paid through a settlement, then OWSI is once again requesting treatment of these held costs as either Working Capital or Construction Work in Progress. OWSI's investors have put this money into the company and are currently not being granted any recovery mechanism.

- 3) Well Drilling costs – Well #17: OWSI requested recovery of the costs associated with the attempted drilling of what was to be Well #17. The drilling ceased at 50' upon

discovery of hydrocarbon contamination. These costs were captured in two different categories of expense – Repairs and Maintenance and Contractual Services. WUTC staff and OWSI had detailed discussions on treatment of these costs at a meeting in November at the WUTC with Jim Ward and Dennis Shutler. At that meeting OWSI and Staff negotiated to remove these expense items from the test period and place them into ratebase with a three-year recovery. This was confirmed in an email from Mr. Ward to myself on Dec. 1 (see Exhibit 3). We don't understand the methodology of creating a ratebase item of a non-existent non-asset, but agreed to this treatment in an attempt to

a) finalize some negotiated level of adjusted rates (much as was decided on the legal expense discussion) and to

b) get some recovery of an expense that Staff otherwise did not know how to treat.

Our customers were also notified of the three-year amortization of this non-asset in an interested parties letter submitted by the WUTC prior to the December 16 open meeting. (see Exhibit 4). We cannot cite the actual date of submittal because we found this document on your website and it has an 'autofill' function on the date line.

We then met with Staff again at our offices on December 14, at which time Mr. Ward notified us that the WUTC had changed its mind and all costs the WUTC deemed related to the contamination issue, including the drilling costs, were being held along with the legal expenses discussed earlier. No recovery, no rate base treatment (see Exhibit 5), stating the costs are not known or measurable. We don't understand this treatment and find it completely unacceptable. We don't agree to bundling the costs associated with the attempted well drilling with the investigation and remediation efforts as these are two completely separate projects. The costs of this project are completely known and measurable and we have submitted receipts substantiating the requested amount. Attempted drilling of the well has nothing to do with cleaning up fuel contamination. Another alternative proposed by WUTC Staff at our December 14<sup>th</sup> meeting, was that perhaps the costs of the well drilling should be called "stranded costs". This does not seem to be a reasonable treatment either since the definition of stranded costs are investments made that are later deemed useless as a result in a change in the regulatory environment, as was experienced in the electric utility industry during deregulation. We have contacted the Institute for Public Utilities at Michigan State University as well as the NRRI and discussed how they would treat these costs if they were faced with the same circumstance. Their response was that the costs are a legitimate cost of doing business as a water company and therefore are recoverable when incurred. We hereby request that the costs associated with the attempted drilling of Well #17 be included in our rate calculation in this rate case as a prudent cost of doing business.

- 4) Corporate allocations: OWSI receives allocations of expenses from the parent company (Port Ludlow Associates) as a result of our corporate structure. This arrangement was significantly scrutinized in the 2008 rate case and the result was an agreed-upon treatment and allocation methodology between OWSI and WUTC Staff (see Exhibit 6). This same methodology was followed in preparation of this rate case and the allocations

were not addressed in the initial data requests by WUTC Staff. It was not until November (the rate case was filed in September) that the corporate allocations became an issue. At this time, Staff made reference to “capping corporate allocations at 50% of G&A”. We asked why this was being proposed and were told that this is more in line with what Staff sees in other companies. It was always our understanding that the WUTC evaluates each and every company as an individual since no two water companies are alike. We requested some documentation of this finding and were told there was nothing. Our customers have been notified repeatedly by WUTC staff that the WUTC does not compare one company’s operations to another, yet in this filing we are told that they do in some cases. In addition, in the same customer letter referenced earlier to the Interested Parties (Exhibit 4), the WUTC addresses this very issue and states “The company has provided reasonable allocation methods and cost breakdowns.” Yet, after this letter was submitted to our customers, the allocations are now being revisited and seemingly arbitrarily reduced. We are requesting our proposed corporate allocations be allowed in rates as filed, which matches the methodology already audited and approved by the WUTC Staff in the 2008 rate case.

- 5) Overall Frustration: As stated at the start of this letter, OWSI spent a considerable amount of time through our consultant Herta Fairbanks, in trying to prepare a clean and reasonable rate filing. We were in frequent contact with WUTC Staff, particularly Jim Ward, and greatly appreciate the guidance he provided during this preparation period. We filed the rate adjustment after implementing all of his recommendations and used the WUTC’s excel worksheet to the extent possible to ensure that we provided everything necessary in a format that is easily manipulated by your staff. We also employed the most current WUTC-thinking in developing our new three-tiered rate design, even though we had made a significant change in our rate design in the last rate case at the WUTC at Staff’s request. After filing, we promptly received several data requests, all of which were promptly answered. We invited staff to visit our offices to review our books and records and we offered, and ultimately did, bring our books and records to staff in Olympia. When staff had not completed its review of the filing, we voluntarily extended the effective date to allow for more time. After our November meeting with Staff, we had negotiated most of the outstanding issues, the only one left to discuss at that time was the corporate allocations. The agreed-to expense levels for all expenses that were under discussion were part of a “packaged deal” wherein we, as a company responsible to both investors and customers, negotiated and accepted what we felt was in everyone’s best interest in an attempt to settle this rate case as efficiently as possible. By our meeting on December 14<sup>th</sup>, the WUTC Staff had reversed their decision on the agreed treatment of the main expense items and we were told we were being suspended. We were also told that we would have some indication of what the WUTC Staff was thinking shortly. We have submitted information requested after the December open meeting and are still waiting for a response. We’ve been told we won’t be on any open meeting in January, but that February is certainly possible. We are now on a time-clock heading towards hearing and have no confidence that anything has been resolved. We have not received any additional information since the December open meeting and still have not seen an updated Results of Operations worksheet. It seems extremely imprudent for us to spend our ratepayers’ money on consultants and attorneys to chase an ever-changing regulatory

# Olympic Water and Sewer, Inc.

stance on our rate filing that at one point appeared to be settled but then, without notice or discussion, was summarily changed by WUTC Staff.

- 6) Staff's portrayal of the company in front of the Commission and our customers: While we have been completely cooperative throughout this proceeding and have made our rate filing and response to the WUTC our utmost priority, we feel our customer perception has been tainted by virtue of the information sent out by the WUTC Staff and further, we believe that Staff has significantly misrepresented OWSI to your Board of Commissioners. The memo submitted to your Commissioners for the December 16, 2010 open meeting speaks primarily of Customer Comments and the only mention of OWSI's involvement in this rate filing is summarized in two sentences at the end of four pages of memo, wherein Staff incorrectly states "The company has not responded to staff's data requests. Therefore, the company has not demonstrated the need for the additional revenue...". Not only had the company responded to all data requests, all were responded to within one business day except one which was responded to in three business days, and nowhere in the memo does it acknowledge that we have been working with the WUTC to settle this matter, or that we have voluntarily extended the effective date to allow the WUTC staff more time to review, etc. It should also be noted that we were not provided a copy of the staff's memo directly but were notified of its existence on your web site by a community member. Considering we filed this request and are direct parties to the action, it seems appropriate that we should have received a copy of staff's recommendation directly from staff.

We have not seen a revised staff proposed results of operations since December 6, 2010. We request a detail of all of the issues the WUTC currently sees as "under consideration" or "disallowed", the reasons for them being considered "under consideration" or "disallowed", a copy of the current Staff results of operations, and a proposed timetable for settlement.

If you have any questions about this letter, please contact me immediately at (360) 437-8246.

Sincerely,



Larry Smith, President  
Olympic Water and Sewer

Cc: Jim Ward, WUTC Water Staff  
Sally Brown, Attorney General's Office

## Exhibit 1





March 27, 2008

Ms. Carol Washburn  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive S.W.  
P.O. Box 47250  
Olympia, WA 98504-7250

**PROVIDED ELECTRONICALLY ONLY**

Subject: Olympic Water & Sewer, Inc. General Rate Filing, UW-080312

Dear Ms. Washburn,

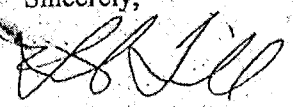
We have been in discussions with WUTC Staff and it appears as though an adjustment should be made to the request for recovery of legal expenses (listed as Contractual Services-Legal). The original proposal by Olympic Water & Sewer, Inc. (OWSI) was for recovery of the 2007 legal expenses incurred in the amount of \$10,051 as well as recovery of a pro forma adjustment for anticipated 2008 expenses anticipated to be incurred in defense of OWSI's water system plan.

WUTC Staff stated that the expense included in the pro forma adjustment should not be allowed because the total amount requested was not based on specific invoices. It is our belief that the proposed costs will be incurred and therefore in an effort to share the risk of the adjustment, OWSI is proposing that the 2008 costs to date be added to the 2007 actual costs and the average of the two years be used as a normalized expense amount. The calculation for the normalized legal expense is shown below. A copy of the 2008 invoice demonstrating the cost to date will be provided via e-mail tomorrow, 3/28/08. We believe that the requested normalization adjustment is appropriate because the actual legal expenses will exceed the requested adjustment. The 2008 cost through February only is \$7,358. **Normalizing the 2007 and 2008 to-date expenses is an extremely conservative approach to the Contractual Services - Legal account and OWSI will agree to this approach in lieu of an amortized 2007 figure.**

2007 Actual Contractual Services - Legal	\$10,051
2008 Actual Contractual Services - Legal (to date)	<u>7,358</u>
Total Contractual Services - Legal	\$17,358
<b>Normalized Annual Expense (above \$ / 2)</b>	<b><u>\$8,679</u></b>

Thank you for your consideration of this request and if you have any questions or require further clarification, please contact me at (360) 570-7266.

Sincerely,

  
Herta Fairbanks  
Senior Financial Analyst

e-Cc: Larry Smith, OWSI  
Diana Smeland, OWSI  
Jim Ward, WUTC  
Shawn Koorn, HDR

## Exhibit 2

Olympic Water & Sewer Inc.  
 UW-080312  
 Results of Operations  
 For the year ending December 31, 2007

Line No.	(a) Description	(b) Company End of Year 2007	(c) Total Restating Adjustment Schedule 1	(d) Restated Results (b) + (c)	(e) Total Pro Forma Adjustment Schedule 1	(f) Pro Forma Results (d) + (e)	(g) Revised Revenue Schedule 5	(h) Results of Company Rates (f) + (g)
<b>RESULTS OF OPERATIONS</b>								
<b>REVENUES</b>								
1	Unmetered Sales							
2	Metered Sales, 3/4 inch (1,584)	474,613		474,613		474,613	185,446	660,059
3	Metered Sales, Up-size Meters (39)	38,868		38,868		38,868		38,868
4	Metered Sales, Bulk							
5	Ready - To - Serve							
6	Other Income, Ancillary Charges							
7	<b>OPERATING REVENUE</b>	<b>\$513,481</b>		<b>\$513,481</b>		<b>\$513,481</b>	<b>\$185,446</b>	<b>\$698,927</b>
<b>EXPENSES</b>								
10	Salary Employees	109,232		109,232	5,462	114,694		114,694
11	Salary Officers							20,515
12	Employee Pension/Benefit	18,995		18,995	1,520	20,515		20,515
13	Purchased Power	37,290		37,290		37,290		37,290
14	Chemicals							430
15	Material & Supplies	430		430		430		430
16	Contractual Engineer							9,500
17	Contractual Accounting	9,500		9,500		9,500		9,500
18	Contractual Legal	10,051		10,051	(1,347)	8,705		8,705
19	Contractual Ops	144,543		144,543		144,543		144,543
20	Testing	2,804		2,804		2,804		2,804
21	Rents / Building, Property							9,458
22	Transportation	9,458		9,458		9,458		9,458
23	Insurance	4,057		4,057		4,057		4,057
24	Regulatory, Fees / Rate Case / Bad Debt	985		985		985	631	1,615
25	Company - Other							483
26	Travel/ Education/ Bank/ CCR	483		483		483		483
27	Office/ Postage / Phone	10,177		10,177		10,177		10,177
28	DSL / T1 Line							22,589
29	Repairs	22,589		22,589		22,589		22,589
30	Net Depreciation/Amortization	47,738		47,738		47,738		47,738
31	Utility Excise Tax	26,059	(237)	25,823		25,823	9,326	35,149
32	Property Tax	22,043		22,043		22,043		22,043
33	Payroll Tax	9,390		9,390		9,390		9,390
34	Other Tax & License (DOH)	3,834		3,834		3,834		3,834
35	Other Expenses							
36	<b>OPERATING EXPENSES</b>	<b>\$489,660</b>	<b>(\$237)</b>	<b>\$489,424</b>	<b>\$5,635</b>	<b>\$495,058</b>	<b>\$9,957</b>	<b>\$505,015</b>
37	<b>OPERATING INCOME before taxes</b>	<b>23,821</b>	<b>237</b>	<b>24,057</b>	<b>(5,635)</b>	<b>18,423</b>	<b>175,489</b>	<b>193,912</b>
38	Interest Expense				50,883	50,883		50,883
39	Fed Income Tax - 34%	92,983	(89,374)	3,609	(11,036)	(7,428)	57,055	49,628
40	<b>TOTAL EXPENSE</b>	<b>582,643</b>	<b>(89,611)</b>	<b>493,032</b>	<b>45,481</b>	<b>538,513</b>	<b>67,012</b>	<b>605,525</b>
41	<b>INCOME (LOSS)</b>	<b>(\$69,162)</b>	<b>\$89,611</b>	<b>\$20,449</b>	<b>\$5,402</b>	<b>(\$25,032)</b>	<b>\$118,434</b>	<b>\$93,402</b>
42	<b>NET OPERATING INCOME</b>	<b>(\$69,162)</b>		<b>\$20,449</b>		<b>\$25,851</b>		<b>\$144,285</b>
<b>RATE BASE</b>								
46	Utility Plant in Service	3,272,130	(285,935)	2,986,196		2,986,196		2,986,196
47	Accumulated Depreciation	(1,597,276)	36,522	(1,560,755)		(1,560,755)		(1,560,755)
48	Acquisition Adjustment							(351,774)
49	CIAC Plant in Service	(332,251)	(19,523)	(351,774)		(351,774)		(351,774)
50	Accumulated Amortization [1]		187,897	187,897		187,897		187,897
51	<b>NET RATE BASE</b>	<b>1,342,603</b>	<b>-\$81,039</b>	<b>\$1,261,564</b>		<b>\$1,261,564</b>		<b>\$1,261,564</b>
<b>RATE OF RETURN %</b>								
53		-5.15%		1.62%		2.05%		11.44%
54	Customer Count	1,623		1,623		1,623		1,623

## Exhibit 3

## Fairbanks, Herta

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**From:** Larry Smith [LSmith@portludlowassociates.com]  
**Sent:** Thursday, January 06, 2011 2:21 PM  
**To:** Fairbanks, Herta  
**Subject:** FW: Olympic Water and Sewer rate case Status and Summary

-----Original Message-----

**From:** Ward, Jim (UTC) [mailto:JWard@utc.wa.gov]  
**Sent:** Wednesday, December 01, 2010 2:38 PM  
**To:** Larry Smith  
**Cc:** Shutler, Dennis (UTC)  
**Subject:** Olympic Water and Sewer rate case Status and Summary

Mr. Smith

After our discussions and moving many items around the amount of a rate increase in severely changed.

For example we removed the legal cost associated with well 17. This was the \$3,500 for 2009, and all cost for 2010 of an additional \$15,000 = \$18,500.

Next was the capitalization of the well 17 over 3 years.

From Repairs	\$17,799
From contractual	\$14,995
Added Deprecation of	\$10,931
Added assets of	\$21,863

Capitalization of Tank painting cost over 5 years

Removed from repairs	\$3,400
Added depreciation of	\$680
Added assets of	\$2,720

Added CIAC amortization to depreciation in the amount of (\$10,884)

Adjustment to insurance to spread claims payments over 3 years. Removed \$3,998 and left \$1,999

Corrected federal taxes to \$32,221. Your spreadsheet recently submitted showed fed taxes at \$115,834, this would be 50% of operating income and did not consider interest or correct tax bracket – 39%. This amount (\$115,834) then needed to be collected in rates which is not correct.

No benefit increases. This removed \$2,862. Still under consideration is correcting total compensation to 50 % of total expenses which would cause a reduction in compensation.

I did average testing over a three year period (2008-2010) to arrive at an average of \$3,627, a reduction of \$1,156.

I have revised rate base at about \$1,296,869 @ 9.3% return and yours was \$1,185,938 @ 9.59% return.

Please review these and let me know what you think.

Jim Ward  
Regulatory Analyst  
Washington Utilities and Transportation Commission  
PO Box 47250

## Exhibit 4



STATE OF WASHINGTON  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION  
1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250  
(360) 664-1160 • TTY (360) 586-8203

bkName  
bkAddress  
bkCityStateZip

January 11, 2011

Docket Number: bkDocket

Dear Interested Person:

Thank you for contacting the Washington Utilities and Transportation Commission (commission) regarding the rate increase requested by Olympic Water and Sewer, Inc. (OWSI). I am responding to the issues addressed in your letters submitted to the commission dated October 1, 2010, and November 15, 2010. You raised several concerns, and the following responds to your issues.

*Are the costs associated with well #17 accounted for appropriately?*

Yes. The company reconsidered well #17 costs and will use a three-year cost recovery period of the initial drilling on the new well to the point where construction stopped.

*Are capital costs allowed to be included in annual expenses or should they be amortized over the projected life of the well?*

Capital costs are depreciated annually over the useful life of the asset.

*Is the company correctly allocating federal income taxes, insurance costs, depreciation/amortization expenses, interest expenses, management costs and fees, well repair expenses and legal costs?*

Both the company and staff have restructured the above costs to more appropriately match the costs for operations of the company.

*Will staff's analysis include the allocation of labor hours and costs between the three operating organizations of Port Ludlow Associates, Olympic Water and Sewer, Inc. (water) and Olympic Water and Sewer, Inc. (sewer)?*

Yes. The company has provided reasonable allocation methods and cost breakdowns.

*Is the company pursuing recovery of remediation costs for the cleanup of contaminated soils at the new well in this filing?*

Staff and the company have agreed that legal and remediation costs should be removed from this filing.

*The UTC's website did not contain all the financial data for customers to review.*  
Company-filed work papers are available after receipt, review, distribution and updating to the commission's website. Staff work papers are not posted to the commission's website until staff has completed their analysis.

This filing will be heard at the commission's open meeting on December 16, 2010, at 930am. Please contact me at 1-888-333-9882 if you have any further questions. Thank you for contacting the Commission about this proceeding.

Sincerely,

bkStaff  
Public Involvement Coordinator



## Exhibit 5

## Fairbanks, Herta

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**From:** Ward, Jim (UTC) [JWard@utc.wa.gov]  
**Sent:** Wednesday, December 15, 2010 11:16 AM  
**To:** Larry Smith; Fairbanks, Herta  
**Cc:** White, Amy (UTC); Mickelson, Christopher (UTC)  
**Subject:** Allocation model  
**Attachments:** Corp OH allocations.xlsx

Good morning

### Allocations

I have attached the allocation model I spoke of on Tuesday.

### Well #17

In discussions with other analyst the agreed format for the well is to hold all cost until the matter is settled. It would then become known and measurable.

In terms of treating it as working capital the agreed format was it would all be held until it is final. Then the options could be to petition to add the cost to the next well or petition to recover by some other means or time period. No current additions to rate base or working capital would be allowed. Not known and measurable.

Jim Ward  
Regulatory Analyst  
Washington Utilities and Transportation Commission  
PO Box 47250  
Olympia, WA 98504-7250  
Tel: 360-664-1250  
Fax: 360-586-1150  
E-mail: [jward@utc.wa.gov](mailto:jward@utc.wa.gov)

This email/letter states the informal opinions of commission staff, offered as technical assistance, and are not intended as legal advice. We reserve the right to amend these opinions should circumstances change or additional information be brought to our attention. Staff's opinions are not binding on the commission.

## Exhibit 6

Agenda Date: May 15, 2008  
Item Number: A2

**Docket:** UW-080312  
Company Name: Olympic Water & Sewer, Inc.

Staff: Jim Ward, Regulatory Analyst  
Dennis Shutler, Consumer Affairs Specialist

### **Recommendation**

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Olympic Water & Sewer, Inc.; and
2. Allow the staff recommended revised temporary rates to become effective May 22, 2008, on a permanent basis.

### **Discussion**

On February 15, 2008, Olympic Water & Sewer, Inc., (Olympic or company) filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$258,905 (50 percent) in additional revenue per year. Olympic serves 1,625 customers near Port Ludlow located in Jefferson County. The proposed revisions are prompted by higher costs for power, labor, fuel and laboratory testing. This filing removes the 600 cubic feet of water allowance currently included with the base charge.

The company notified its customers of the rate increase by mail on February 11, 2008. The commission received ten comments on this filing. Olympic's last general rate filing decreased rates and became effective in 1994. All customers receive metered service.

On March 6, 2008, staff attended a public meeting with the company and its customers in Port Ludlow, Washington. Approximately 35 customers attended the public meeting and commented on the proposed rate increase. Summarizing comments that customers sent to the commission and comments received by staff at the public meeting, customers are most concerned about:

The Size of the Increase – Although staff understands the customers' concerns regarding the amount of the increase, staff does not explicitly consider the amount of the increase in preparing recommendations. Staff's goal is to recommend the "right" rates that will allow the company to recover its reasonable operating expenses and earn a reasonable rate of return (profit).

Water System Plan Considerations – Staff received several customer comments about the company's water system plan. Customers believe that the plan update was not filed in a timely manner. Customers also believe that the plan considers information that has not been supported by additional data. Adequate flow and pressure have been questioned as not meeting standards in all locations of the water system service area. The Department of Health (the DOH) has jurisdiction over water system plans. Staff consulted with the DOH on the water

system plan provided by the company. The DOH approved the water system plan in December 2007. The water system is in substantial compliance with all DOH requirements.

Company Reserve Accounts – Customers believe that the company should maintain separate reserve accounts to fund future projects and capital upgrades. The commission can allow the company to establish a “reserve account” (RCW 80.28.022) exclusively for the purposes of making capital improvements approved by the DOH as a part of a long-range plan (water system plan), or required by the DOH to assure compliance with federal or state drinking water regulations, or to perform construction or maintenance required by the Department of Ecology to secure safety to life and property under RCW 43.21A.064. The commission, on its own motion and after hearing, can also order a company to establish a reserve account. Reserve accounts are normally funded by a surcharge, which requires prior commission approval. After reviewing the company’s records, staff found no reserve accounts for future projects and capital upgrades. Establishing a reserve account would require customers to pay an extra amount to be set aside for future plant and future customer benefits.

Company separation of water and sewer operations – Several customers commented about employees of the company performing both water and sewer functions. The company provides both water and sewer services and uses common employees and equipment for both operations. Staff’s review noted that the company has employees that are certified and perform both water and sewer functions. Accounting for time and cost starts with each employee’s time sheet that clearly shows hours attributable to water and sewer work. This cost separation continues through the payroll and accounting allocations of expenses. Staff has reviewed these allocations and agrees with the company that the allocations are proper.

Staff’s review of Olympic’s operations revealed that the company’s proposed rates were excessive. Staff and the company have agreed to a revised revenue requirement of \$185,446 (36 percent) additional revenue per year, and a revised rate design. On April 4, 2008, the company filed revised rates at the staff recommended level.

On April 10, 2008, the commission entered a Complaint and Order Suspending Tariff Revisions to allow customers the opportunity to comment on the revised rates before determining whether the revisions are fair, just, reasonable, and sufficient. The commission allowed the revised rates to go into effect on a temporary basis on April 22, 2008, subject to refund.

On April 10, 2008, Consumer Affairs staff sent every customer who commented on the filing a letter advising them of staff’s recommended revised rates. One customer responded to staff’s letter. The customer asked for an explanation of why the commission approved the rate increase when the order states that the company has not demonstrated that the rates are fair, just, and reasonable.

Staff responded that although Olympic has not yet demonstrated that the tariff revisions would ultimately result in rates that are fair, just, reasonable and sufficient, the commission found it reasonable, based on Staff's analysis, to approve the revised rates to become effective April 22, 2008, on a temporary basis, subject to refund. The commission suspended the revised rates to give customers notice of, and an opportunity to comment on, the revised rates. Allowing the revised rates to become effective on a temporary basis, subject to refund, protects both the customers and the company. It protects the customers by providing a refund if the commission sets lower permanent rates. It protects the company by ensuring the company receives the revenue it needs to cover reasonable operating expenses and the opportunity to earn a reasonable return.

The memo noted the company has not demonstrated the proposed rates are fair, just, reasonable and sufficient, while on the other hand approving a revised rate increase that became effective on April 22<sup>nd</sup> on a temporary basis, subject to refund. The customer also inquired into the procedure for filing an appeal to a commission decision. Staff did provide the customer an explanation of the filing process and how to obtain forms necessary for an appeal. The current, proposed and revised rates are provided below.

**Rate Comparison**

<b>Monthly Rates</b>	<b>Current Rates</b>	<b>Proposed Rates</b>	<b>Revised Rates</b>
Base Charge 3/4 x 5/8 inch (with 600 cu ft)	\$20.50	N/A	N/A
Base Charge 3/4 x 5/8 inch (zero allowance)	N/A	\$20.25	\$18.25
Over 600 cu ft	\$0.0190 per cu ft	N/A	N/A
0 to 1,000 cu ft	N/A	\$0.0251 per cu ft	\$0.0225 per cu ft
Over 1,000 cu ft	N/A	\$0.0365 per cu ft	\$0.0335 per cu ft

Notes: cu ft = cubic feet      1 cu ft = 7.48 gallons

**Rate Comparison**

<b>Monthly Rates</b>	<b>Current Rates</b>	<b>Proposed Rates</b>	<b>Revised Rates</b>
Base Charge 1 inch	\$34.24	\$32.82	\$30.48
Base Charge 1 1/2 inch	\$68.27	\$67.43	\$60.77
Base Charge 2 inch	\$109.27	\$107.93	\$97.27
Base Charge 3 inch	\$205.00	\$202.50	\$182.50

Notes: cu ft = cubic feet      1 cu ft = 7.48 gallons