



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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February 7, 2011

Mr. Larry Smith
Olympic Water and Sewer, Inc.
70 Breaker Lane
Port Ludlow, Washington 98365

Subj: Docket No. UW-101543

Dear Mr. Smith:

First, I want to apologize for the length of time it has taken for me to respond to your letter received January 21, 2011. I recognize that staff, including myself, should have communicated our positions more clearly and more timely. Second, I want to take this opportunity to briefly discuss specific items you raised in that letter. Namely, the primary issues of the case, additional information you provided or referenced and the upcoming process that will govern this case.

Primary Issues

Staff agrees that you have identified the primary issues that remain to be resolved. Specifically, these issues are: treatment of legal fees; the cost of drilling Well No. 17; and the allocation of corporate overhead costs. Staff is formulating its position on all of these issues, has not yet arrived at a final decision and may alter its recommendation as new information is received and considered. However, staff will provide the company a revised results-of-operations statement no later than Wednesday, February 9, 2011, so you can review the current status of our analysis. Mr. Jim Ward, the auditor assigned to the case, is preparing the revised results-of-operations statement.

Additional Information

Staff appreciates the additional information the company provided regarding the commission's treatment of corporate overhead in the company's 1987 rate case. We are reviewing that case. Your letter also refers to advice received from the Institute of Public Utilities at Michigan State University and the NRRI regarding the treatment of the costs incurred in drilling Well No. 17. Please provide staff with copies of the communications (letter, email, etc.) regarding that issue so staff can consider this information in this matter.



Process

Generally when making a determination on issues involving rates, the Commission reaches a decision through a process that involves one or two possible phases. Those two phases are the Open Meeting phase and formal adjudication phase. In most instances, a rate case will be settled in the Open Meeting phase and not proceed to a formal adjudication. In an Open Meeting phase, a regulated company and staff will reach an informal settlement that will be presented to the Commissioners at a regularly scheduled Open Meeting where the Commissioners will render a decision. In this case, if a settlement is reached between Olympic Water and Sewer, Inc., and the UTC staff by February 15, 2011, the Commission could consider this matter at the February 25, 2011, open meeting and rates could become effective on or after February 26, 2011, if the Commission adopts the informal settlement.¹

If, however, an informal settlement in this case is not reached by March 1, 2011, the case will shift to the second phase which is formal adjudication and the Administrative Law Division will issue a notice of prehearing conference.² While a case is in a formal adjudication, the parties can still arrive at a settlement. The settlement would need to be filed with the Administrative Law Judge (ALJ) as a written agreement and the parties would also need to file a written narrative and supporting testimony. The narrative would explain the various elements of the settlement (e.g. rates, notice requirements, etc.) and why the settlement is in the public interest. The ALJ may then also require the parties to notify interested customers of the proposed settlement so they can comment, or schedule a public hearing to take comments from the public. Moreover, the ALJ may also schedule a settlement hearing to question witnesses. The ALJ would then consider the proposed settlement and issue an order.

Alternatively, but still under the process of a formal adjudication, if the parties cannot come to a settlement, the case would proceed to a hearing where the company generally files its direct case supported by written testimony, staff then files a response, the company files a rebuttal, followed by a hearing to cross examine witnesses.

¹ February 28, 2011, is the deadline to reach an informal settlement that the Commission would consider at the March 10, 2011, Open Meeting. Rates could then become effective on or after March 11, 2011.

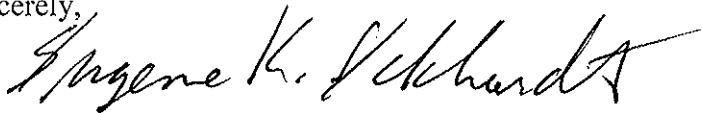
² The purpose of the prehearing conference is to: 1) consider petitions for intervention by interested parties (who are typically customers served by the utility involved in the case); 2) identify issues for the parties to address in the hearing; and, 3) schedule the hearing process.

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In concluding, I want to again apologize for not contacting you earlier regarding the concerns you expressed in your letter of January 21, 2011. Staff's goal is to recommend a revenue requirement and rates that, in our opinion, will be fair, just, reasonable and sufficient for both customers and the company, and will allow the company to recover reasonable, prudent expenses and provide an opportunity to earn a reasonable return.

I look forward to working with the company to resolve this matter. If you have any questions regarding the process or issues, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Eugene K. Eckhardt". The signature is written in a cursive style with a large, sweeping initial "E".

Eugene K. Eckhardt

Assistant Director of Water and Transportation