

**Exhibit JW-1T
Docket UW-091050
Docket UW-091051
Witness: Jim Ward**

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

Burton Water Company, Inc.,

Respondent.

**DOCKET UW-091050
DOCKET UW-091051**

TESTIMONY OF

Jim Ward

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

IN SUPPORT OF SETTLEMENT STIPULATION

December 23, 2009

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1 I. INTRODUCTION

2
3 **Q. Please state your name and business address.**

4 A. My name is Jim Ward. My business address is 1300 South Evergreen Park Drive
5 SW, Olympia, Washington, 98504-7250. My email address is Jward@utc.wa.gov.

6
7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by the Washington Utilities and Transportation Commission (the
9 Commission or UTC) as a Regulatory Analyst.

10
11 **Q. How long have you been employed by the Commission?**

12 A. I have been employed by the Commission since August 1989.

13
14 **Q. Please describe your relevant background and professional qualifications.**

15 A. I graduated from Saint Martin's College in Lacey, Washington, in 1989, with a
16 Bachelor of Arts in Accounting and Finance. In 1995, I received a Master's degree
17 in Human Resource Management from Chapman College. While employed at the
18 Commission, I have attended several seminars and training sessions, such as the
19 Tenth Annual Western Utility Rate Seminar in 1991, co-sponsored by the California
20 Public Service Commission, the Division of Continuing Education, University of
21 Utah and the National Association of Regulatory Utility Commissioners (NARUC)
22 Water Committee. In 1990, I became certified by the Department of Health as a
23 Water Distribution Manager I. In August 2000, I completed the Financial

1 Management: Cost of Service Rate-Making class sponsored by American Water
2 Works Association. In June 2003, I completed the Utility Finance & Accounting
3 Seminar presented by Financial Accounting Institute.

4 I have participated in the development of UTC rules, prepared detailed
5 statistical studies for use by commissioners and other UTC employees and examined
6 utility reports for compliance with UTC regulations. I have also reviewed numerous
7 rate filings and presented UTC Staff's analysis and recommendations regarding
8 those filings at open UTC open public meetings. I have also testified in eight
9 hearings before the Commission on water company rate cases.

UW-071885 Iliad Water Services, Inc. General rate increase	UW-070944 Rosario Utilities, LLC General rate increase	UW-060343 Iliad Water Services, Inc. General rate increase
UW-042132 Roche Harbor Water System Capital improvement charge increase	UW-001929 Meadows Water System LLC General rate increase	UW-001928 Quail Run Water Company General rate increase
UW-010877 Rainier View Water Company General rate increase	UW-980072 American Water Resources, Inc. General rate increase	

10
11 **II. SCOPE OF TESTIMONY**

12
13 **Q. What is the scope of your testimony?**

14 **A.** I explain the terms of the Settlement Stipulation and provide Commission Staff's
15 overall support for the Settlement Stipulation regarding two tariff filings by Burton
16 Water Company, Inc. (Burton or Company): Dockets UW-091050 and UW-091051.
17

1 **Q. What is the nature of Docket UW-091051 and UW-091050?**

2 **A.** Docket UW-091051 is a general rate case filing. Docket UW-091050 involves
3 several miscellaneous tariff items usually categorized as non-recurring charges. I
4 explain each docket in detail later in my testimony.

5

6 **III. COMMISSION'S SETTLEMENT APPROVAL STANDARD**

7

8 **Q. What is the Commission's settlement approval standard?**

9 **A.** The Commission's settlement approval standard is whether the proposed settlement
10 is "consistent with the public interest." (WAC 480-07-750(1)). In addition, it must
11 be lawful for the Commission to approve the settlement, and the settlement terms
12 must be supported by the record. *Id.*

13

14

15 **Q. Does the Settlement Stipulation satisfy that standard and the other**
16 **requirements of the rule?**

17 **A.** Yes, for the reasons stated in my testimony.

18

19 **IV. STAFF'S REVIEW OF BURTON'S RATE FILINGS**

20

21 **Q. Please describe Burton's tariff filing in Docket UW-091051.**

22 **A.** Docket UW-091051 is a general rate case filing. It involves tariff revisions filed by
23 Burton that would change the Company's currently effective Tariff WN-U2 to affect

1 a general rate increase for water service.¹ Burton serves 415 customers on Vashon
2 Island. In the filing, the Company requested an annual revenue increase of \$60,485,
3 or 37.8 percent.
4

5 **Q. Please describe Burton's tariff filing in Docket UW-091050.**

6 **A.** Docket UW-091050 involves tariff revisions filed by Burton that would change
7 certain of the provisions in the Company's currently effective Tariff WN-U2, for
8 items other than charges for monthly water service.² These charges relate to service
9 reconnection, account set-up, Non-Sufficient Funds check charges, and water
10 availability charges, plus new charges for cross connection site visit, cross
11 connection inspection, and unauthorized meter lock removal. This tariff filing also
12 added clarification to rules related to irrigation, and adds language on limitation of
13 liability, unauthorized use of service and cross connection control. I explain these
14 items later in my testimony.
15

16 **Q. Please describe Staff's review of Burton's tariff filings.**

17 **A.** Staff conducted a review of accounting records provided by the Company, including
18 the Company's general ledger; customer accounts receivable records; documentation
19 of expenses such as repairs, electricity, and office expenses; information related to
20 payments made to related parties; and documents relating to the Company's plant

¹ In Docket UW-091051, the Company designated the new tariff sheets as "Fourth Revised Sheet No. 22" and "Second Revised Sheet No. 23." The stated effective date is August 1, 2009.

² In Docket UW-091050, the Company designated the new tariff sheets as "First Revised Sheet No. 2," "First Revised Sheet No. 13," "Original Sheet No. 13.1," "Original Sheet No. 16," "Original Sheet No. 17," "Original Sheet No. 26," "Original Sheet No. 27," "Original Sheet No. 28," and "Second Revised Sheet No. 40." The stated effective date is August 1, 2009.

1 and assets. I reviewed Burton's financial statements, annual reports filed with the
2 Commission tax return for the test period and the current tariff. I also reviewed
3 information provided by Burton in response to seven written Staff data requests.
4 Many of the responses contained information that was created only in response to the
5 specific data request rather than being maintained as part of regular business
6 operations of the Company.

7
8 **Q. Please describe the analysis you applied to reach your conclusions.**

9 A. First, I entered expense and income data as submitted by the Company into a
10 standardized analysis spreadsheet used by UTC Staff. The spreadsheet performs
11 routine calculations on items such as the Company's capital structure, rate base,
12 taxes and interest paid. Then, I analyzed each expense category to determine
13 whether each component of expense was well-documented, a reasonable and prudent
14 business expense and an allowable business expense that should be borne by
15 ratepayers. In performing this analysis, I consulted with other UTC Staff members,
16 to assure consistency and appropriateness. The analysis I performed is consistent
17 with the analysis Staff conducts in similar dockets.

18
19 **Q. What do you conclude based on your analysis?**

20 A. Based on my review of this filing, Staff concludes that the resolution of these
21 dockets on the terms described in the Settlement Stipulation is consistent with the
22 public interest. I discuss those terms next.

1 **V. STAFF’S REVIEW OF THE SETTLEMENT STIPULATION**

2
3 **Q. What do you address in Section V of your testimony?**

4 A. I address Section III of the Settlement Stipulation, entitled “Agreement.” The
5 lettering of each topic in my testimony aligns with the lettering in the corresponding
6 sections of Section III of the Settlement Stipulation.

7
8 **A. RATE INCREASE AND RATE EFFECTIVE DATE IN DOCKET UW-091051**

9
10 **Q. What revenue change does the Settlement Stipulation call for?**

11 A. According to Settlement Stipulation Section III.A, Paragraph 9, the Company will
12 receive additional annual revenues of \$28,502. This revenue increase will be
13 implemented through a 17.8 per cent rate increase, effective the first day of the
14 month after the Commission approves the Stipulation.

15
16 **Q. How does this compare to the rate increase the Company is requesting in its**
17 **filing in Docket UW-091051?**

18 A. From a ratepayer perspective, it compares very favorably. The Company filed for an
19 overall revenue increase of \$60,485, or a 37.8 percent overall increase in rates.

20
21 **Q. From Staff’s perspective, is the proposed revenue increase reasonable in other**
22 **respects?**

1 A. Yes. Based on Staff's overall analysis, the settlement revenue requirement is
2 reasonable. It is at the level Staff would likely have recommended, had this case
3 been litigated. The primary need for the rate increase is the Company's investment
4 in a new storage tank, which is currently operational. Staff reviewed this capital
5 addition in detail and concluded that Burton prudently incurred this plant investment.
6 Note that because the plant was added in the middle of the test period, the averaging
7 of beginning of year and end of year plant balances method effectively includes half
8 the investment in rate base at this time. Burton has indicated to Staff that it intends
9 to make a tariff filing sometime near the end of the first quarter of 2010, to reflect
10 the other half of the investment. Although Staff has concluded that Burton prudently
11 acquired the plant, nothing in the Settlement Stipulation binds the Commission,
12 including Staff, from treating that Burton tariff filing, or any future Burton tariff
13 filing, in any particular way.

14
15 **B. RATE SPREAD AND RATE DESIGN FOR REVENUE INCREASE**

16
17 **Q. From Staff's perspective, are the rate spread and rate design provisions**
18 **contained in Section III.B, Paragraphs 10-11 of the Settlement Stipulation**
19 **reasonable?**

20 A. Yes. The rate spread and rate design is calculated to generate the appropriate
21 revenue requirement as agreed to in this rate case. The rate design is also reasonable.

22

1 **Q. Please describe the rates and the design of rates that implement the proposed**
2 **revenue increase.**

3 A. The agreed rate design increase the ready-to-serve rate to equal the base monthly
4 charge for customers served by a 3/4 inch meter (“3/4 inch customers”) and
5 establishes up-size meter base charges. This up-size meter rate design is consistent
6 with American Water Works Association (AWWA) flow factors for the size of each
7 meter size.

8 The rate design calls for a base charge with zero water usage, followed by
9 three rate blocks, with an increasing usage price through each block. This is
10 considered to be a conservation-oriented rate design.

11 The third block usage amount and rate for 3/4 inch customers has been set by
12 the company to help encourage conservation by a few customers that consume very
13 large quantities of water.

14 Overall, the rate design is consistent with rate designs the UTC has approved
15 for other water companies.

16
17 **Q. Please provide the rates that implement the proposed revenue increase.**

18 A. For customers served by a ready-to-serve charge, the monthly rate is \$21.59. The
19 term “ready to serve” applies to any property owner who has a completed, signed
20 and accepted water service application, who has paid Burton all applicable fees
21 required for meter service connection, and for whom Burton has installed the direct
22 connection from the water system to the applicant’s property line. However, Burton
23 does not yet provide water to that property.

1 The Parties agree that the agreed revenue increase will be implemented as

2 follows:

3 **Customers Served by a 3/4" Meter**

	Usage in Cubic Feet	Monthly Rate per 100 Cubic Feet
Base Charge	0	\$21.59
First Block	0 – 2,500	\$1.83
Second Block	2,501 – 5,000	\$4.71
Third Block	Over 5,000	\$6.00

4
5 **Customers Served by a 1" Meter**

	Usage in Cubic Feet	Monthly Rate per 100 Cubic Feet
Base Charge	0	\$36.06
First Block	0 – 4,175	\$1.83
Second Block	4,176 – 8,350	\$4.71
Third Block	Over 8,530	\$6.00

6
7 **C. MISCELLANEOUS CHARGES AND OTHER PROPOSALS IN DOCKET**
8 **UW-091050**

9
10 **Q. Earlier, you listed the miscellaneous charges proposed by Burton in Docket**
11 **UW-091050. In general, what are these charges designed to do and why are**
12 **they appropriate?**

13 **A. In general, these charges are designed to recover the cost a customer causes the**
14 **Company to incur, other than the cost to supply water. Each of these charges is**

1 appropriate because they reflect a reasonable and prudent charge for the service
2 rendered, and they are consistent with the charges of other UTC-regulated
3 companies. Each charge reflects the policy that costs should be borne by the
4 ratepayer causing the utility to incur the cost.
5

6 **Q. Please provide a brief explanation of each charge.**

7 A. **Service reconnection** - new rate of \$50.00 – This charge compensates Burton for the
8 cost it incurs when its service technician visits a customer’s property to reconnect
9 (turn-on) service, as well as the Company’s cost of administrative personnel to notify
10 the customer of services and complete company records.

11 **Account set-up** - new rate of \$20.00 – This charge compensates Burton for
12 the cost it incurs when its service technician inspects a customer’s property to assure
13 that it is ready for service, and makes an initial reading of the meter, as well as for
14 the Company’s cost of administrative personnel to complete company billing
15 records.

16 **Non-Sufficient Funds (NSF) check charges** – new rate of \$40.00 – This
17 charge compensates Burton for the cost to process NSF charges and its
18 administrative cost to re-deposit a check, correct Company records and notify the
19 customer of non-payment for services.

20 **Water availability charges** - new rate of \$25.00 – This charge compensates
21 Burton for its administrative cost to research property water availability, update
22 company records and notify customers of property accessibility for services.

1 **Charges for cross connection site visit** - new charge of \$50.00 – This
2 charge compensates Burton for the cost it incurs when its service technician visits a
3 customer’s property for a service inspection to determine if actual or potential cross-
4 connection hazard exists, and the cost the Company incurs for administrative
5 personnel to complete Company records and notify customers of completed services.

6 **Charges for cross connection inspection** - new charge of \$35.00 per hour –
7 This charge compensates Burton for the cost of its service technician visits a
8 customer’s property for a service inspection to determine if an actual or potential
9 cross-connection hazard exists. A cross-connection is defined as any actual or
10 potential physical connection between a public water system or the consumer's water
11 system and any source of non-potable liquid, solid, or gas that could contaminate the
12 potable water supply by backflow. Cross connections exist in all plumbing systems.
13 Cross connections may also exist in the purveyor’s water system facilities.

14 **Charges for unauthorized meter lock removal** – This is an update to Tariff
15 rule 21 to explain what unauthorized water use is, and the procedures Burton uses to
16 stop unauthorized service. The charges compensate Burton for time and materials
17 expended in implementing this procedure.

18 **Irrigation rules clarification** – This is an update to Tariff Rule 15 to include
19 language on irrigation use during water system priority uses (fire flow) and best
20 practices for irrigation water uses. This is an equitable tariff change consistent with
21 the tariffs and practices of other water utilities regulated by the Commission.

22 **Limitation of liability** – This tariff change adds language to limit Burton’s
23 liability, which is consistent with tariff provisions filed by other UTC-regulated

1 water companies. This provision does not limit the Company's liability for gross
2 negligence or intentional misconduct.

3 **Unauthorized use of service** - This is an update to Tariff Rule 21 to define
4 unauthorized water use, identify the Company's practices of stopping unauthorized
5 service and establish charges to compensate the Company for time and material
6 expended for this procedure.

7 **Cross connection control** - This program is required by the Department of
8 Health (DOH) to minimize or eliminate any actual or potential physical connection
9 between a public water system (or the consumer's water system) and any source of non-
10 potable liquid, solid, or gas that could contaminate the potable water supply by
11 backflow. DOH's cross connection rule (WAC 246-290 (Group A Drinking Water
12 Regulations)) applies to only water system purveyors such as Burton and not to the
13 water system's customers.

14
15 **D. AUTHORIZED RETURN ON RATE BASE**

16
17 **Q. What overall rate of return on rate base will the Company use for this rate case**
18 **reporting and accounting purposes?**

19 A. For this rate case reporting and accounting purposes, the Parties agree that the
20 Company will use an overall rate of return of 10.09 percent, and a return on equity
21 (ROE) of 12 percent.

1 **Q. From Staff's perspective, please explain the overall rate of return (10.09**
2 **percent) and the return on equity (12 percent).**

3 A. The overall rate of return on rate base is a function of the total capital structure and
4 the weighted cost of capital. In this case, Staff calculated the weighted cost of debt
5 to be 9.31 percent. Currently, Burton's owners hold all of the Company's debt, so
6 the interest rate for this affiliated (non-arm's length) debt is imputed at a cost rate
7 200 basis points above the prime rate³ for the test period.

8 The Commission established this imputation policy in *Utilities and*
9 *Transportation Commission v. American Water Resources, Inc.*, Dockets UW-
10 980258, 980072, 980265 and 980076, Sixth Supplemental Order (January 21, 1999).

11 For Burton's return on equity, Staff used a cost rate of 12 percent, as the
12 Commission established in Docket UW-010877, a 2001 general rate case involving
13 Rainier View Water Company, which has over 11,000 customers.

14 Using a 12 percent return on equity, a 9.31 percent cost of debt, and Burton's
15 actual capital structure of 70.8 percent debt and 29.2 percent equity, Staff calculated
16 Burton's weighted cost of capital, or overall rate of return, for this case to be 10.1
17 percent. This calculation is consistent with Commission rules and past Commission
18 practices, and Staff concludes that it is reasonable.

19

³ American Water Resources – Docket UW-980072

1
2
3 **VI. CONCLUSION**

4 **Q. Please summarize why Staff concludes the Settlement Stipulation is consistent**
5 **with the public interest.**

6 A. From Staff's perspective, if accepted by the Commission, the Settlement Stipulation
7 would result in rates that are fair, just and reasonable. The non-rate provisions of the
8 Settlement Stipulation are also reasonable, for the reasons I described.

9 Moreover, according to Settlement Stipulation Section F.6, General
10 Provisions, the Settlement Stipulation will not be used to resolve issues in future
11 proceedings. Consequently, the Settlement Stipulation properly preserves the
12 Commission's discretion in future cases.

13 **Q. Does this conclude your testimony?**

14 A. Yes.
15