

**WASHINGTON UTILITIES AND TRANSPORTATION**

**COMMISSION,**

**COMPLAINANT,**

**V.**

**KAYAK ESTATES WATER, LLC,**

**RESPONDENT.**

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STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

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**DOCKET NO. UW-051444**

**DIRECT TESTIMONY**

**OF DAVID K. DORLAND**

**ON BEHALF OF KAYAK ESTATES WATER, LLC**

**February 28, 2006**

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1           **Q:    PLEASE STATE YOUR NAME AND GIVE YOUR BUSINESS**  
2           **ADDRESS.**

3           A.     My name is David K. Dorland. My business address is PO Box 20429, Seattle,  
4           WA 98102.

5  
6           **Q.    WHAT IS YOUR EMPLOYMENT?**

7           A.     I am President of Iliad, Inc.

8  
9           **Q.    WHAT IS THE RELATIONSHIP BETWEEN ILIAD, INC. AND KAYAK**  
10          **ESTATES WATER, LLC?**

11          A.     Iliad manages the Kayak Estates Water System under contract.

12  
13          **Q.    DOES ILIAD, INC. HAVE ANY OWNERSHIP INTEREST IN KAYAK**  
14          **ESTATES?**

15          A.     No.

16  
17          **Q.    DO YOU HAVE ANY PERSONAL OWNERSHIP INTEREST IN**  
18          **KAYAK ESTATES?**

19          A.     Yes. I am a minority owner, holding less than 20% of the ownership interest.

20

1           **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2           A.     The purpose of my testimony is to explain why this rate docket was filed. In  
3           addition, I explain the proposed rate design. Finally, I point out additional rate impacts  
4           to consumers that are not included in this filing.

5  
6           **Q.     WHY WAS A RATE INCREASE FILED?**

7           A.     With the inverted rate structure that was put into place with the acquisition of  
8           the Kayak water system by Kayak Estates Water, LLC, there was a need to review the  
9           rate structure to determine if the Company should modify that rate structure. There was  
10          a question of whether the inverted rate structure would produce an inappropriate  
11          amount of revenues. This question was posited by the Commission Staff when the  
12          inverted rate structure was put in place.

13  
14          **Q.     WHAT HAS BEEN THE RESULT OF THE INVERTED RATE**  
15          **STRUCTURE?**

16          A.     It has not produced excess revenue. In fact, the operating expenses for the  
17          Company are higher than expected. This is due in large part to requirements placed on  
18          the Company by the Department of Health related to the need to continually flush the  
19          system.

20

1           **Q.     WHAT IS THE PURPOSE OF THE FILING?**

2           A.     The purpose of the filing is to simply be sure that the operating expenses are  
3 covered and a reasonable return on investment is received. We have not proposed a  
4 number of pro-forma adjustments that one might find in another case.

5  
6           **Q.     WHAT IS THE RATE DESIGN THAT YOU ARE PROPOSING?**

7           A.     We are proposing to increase the base rate from \$17.00 to \$22.70. We also  
8 propose an increase to the first usage block from \$0.75 per hundred cubic feet to \$0.95  
9 per hundred cubic feet. I am not sure this produces enough revenue to meet the  
10 revenue shortfall. We are still looking at the rate design.

11  
12           **Q.     WHY HAVEN'T YOU INCREASED THE OTHER TWO USAGE**  
13 **BLOCKS?**

14           A.     The rates related to the second and third blocks, at \$1.50 per hundred cubic feet  
15 and \$3.00 per hundred cubic feet, seem to have their intended effect of increasing  
16 conservation. Trying to shift additional revenue requirement into those usage blocks  
17 could well mean that the Company would under recover its revenue requirement.  
18 Moving the first usage block to \$0.95 still retains a substantial difference between the  
19 first and second usage blocks of \$0.65 per hundred cubic feet.

20

1           **Q.     WHAT OTHER ADJUSTMENTS DO YOU HAVE THAT MAY AFFECT**  
2           **FUTURE RATES?**

3           A.     There are two. The first is not a major effect on rates. It is the increase that  
4           would be associated by putting into place some DOH required improvements. These  
5           improvements are the installation of a 8" inch bypass check valve assembly with  
6           provisions for additional booster pump with electrical control system. The costs are  
7           \$16,300.00.

8                     The second is more substantial. The Company is in the process of preparing a  
9           new comprehensive water plan. The engineering costs associated with that plan are  
10          estimated to be \$17,800.00. Amortizing these costs over six years would produce an  
11          amount to be covered in the rates of \$5,683.34 per year.

12  
13          **Q.     WHY DID YOU NOT INCLUDE THESE ITEMS IN THE CURRENT**  
14          **FILING?**

15          A.     At the time we filed, the DOH improvements were not quite completed. Thus,  
16          the final costs were not completely understood. In addition, we knew that the  
17          comprehensive plan work would have to be done, but we did not have a firm fix on the  
18          costs for that project as well.

19                     Quite frankly, we had expected this rate case to be resolved in short order, and  
20          not drug out for an extremely lengthy amount of time.

21

1           **Q.     WHAT DO YOU MEAN A LENGTHY AMOUNT OF TIME?**

2           A.     We filed this case on September 26, 2005. We produced substantial amounts of  
3 supporting information in response to informal data requests in October and November  
4 of 2005. I had expected this matter to be resolved in January or February of 2006.

5                     This is a simple case, and should not require the costs and expenses that we are  
6 being forced into for this proceeding. My suspicion is that Commission Staff simply  
7 wants to drag this out on the thought that the system may be purchased by Snohomish  
8 County PUD.

9  
10           **Q.     DO YOU HAVE ANY OBSERVATIONS CONCERNING CONSUMER**  
11 **IMPACTS?**

12           A.     We have tried to be as reasonable as possible in dealing with our consumers. I  
13 think this is borne out by the fact that there have been relatively few customer  
14 complaints concerning the proposed rate increase.

15                     Under the schedule for this case, we are now expected to go through the  
16 expensive summer operating months without additional revenues. Whether or not the  
17 system is purchased by Snohomish County PUD, this situation operates to penalize the  
18 owners of the water company without good cause.

19  
20           **Q.     WHAT IS THE LIKELIHOOD OF PURCHASE BY SNOHOMISH**  
21 **COUNTY PUD?**

22           A.     I know that the PUD is considering the purchase. As of the date of this  
23 Testimony, I cannot speculate as to the likelihood of such a purchase being culminated.

1  
2           **Q.    DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**  
3           A.    Yes.