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1 BEFORE THE WASHINGTON UTILITIES AND
2 TRANSPORTATION COMMISSION
3 WASHINGTON UTILITIES AND)
TRANSPORTATION COMMISSION,) Docket No. UW-030410
4)
 Complainant,) Volume II
5) Pages 13 to 89
 vs.)
6)
TIMBERLINE VILLAGE WATER)
7 COMPANY, INC.,)
)
8 Respondent.)
)
9 _____)

10 A Hearing in the above matter was held on
11 August 20, 2003, from 3:05 p.m to 5:15 p.m., at 1300
12 South Evergreen Park Drive Southwest, Room 206, Olympia,
13 Washington, before Administrative Law Judge ANN RENDAHL.

14 The parties were present as follows:

15 THE COMMISSION, by MARY M. TENNYSON, Senior
16 Assistant Attorney General, 1400 South Evergreen Park
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18 TIMBERLINE VILLAGE WATER COMPANY, INC., by
19 STEPHEN L. HARRINGTON, 3242 Capitol Boulevard, Suite B,
Tumwater, Washington 98501, Telephone (360) 357-3277,
20 Fax (360) 357-3758, E-Mail steveh@thewaterco.net.

21 TIMBERLINE COMMUNITY ASSOCIATION, by GLENNA
MALANCA, Attorney at Law, 8915 North Harborview Drive,
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24 Joan E. Kinn, CCR, RPR
25 Court Reporter

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1 P R O C E E D I N G S

2 JUDGE RENDAHL: Good afternoon, we're here
3 before the Washington Utilities and Transportation
4 Commission this afternoon, Wednesday, August the 20th,
5 2003, to hold a settlement hearing in Docket Number
6 UW-030410, which is the Washington Utilities and
7 Transportation Commission versus Timberline Village
8 Water Company, Incorporated. The Commission scheduled
9 this hearing by notice to the parties dated August 8,
10 2003. I'm Ann Rendahl, the Administrative Law Judge
11 assigned to preside over this proceeding.

12 The purpose of our hearing this afternoon is
13 to take testimony and evidence from the parties in this
14 proceeding to allow the Commission to determine whether
15 the proposed settlement filed with the Commission on
16 August 8th is in the public interest and the proposed
17 rates in the settlement are fair, just, and reasonable.

18 A public hearing is scheduled to begin this
19 evening at 5:30 in this same room, and if there's any
20 person who is not a formal party to this case who wishes
21 to speak about the proposed settlement, that's the
22 opportunity to do so.

23 I will take appearances from the parties at
24 this time, and because you have given your full
25 information at the pre-hearing conference, if you would

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1 just state your name and the party you represent for the
2 record, that will be sufficient. Let's begin with
3 Commission Staff.

4 MS. TENNYSON: Thank you, my name is Mary M.
5 Tennyson, Senior Assistant Attorney General,
6 representing Commission Staff.

7 JUDGE RENDAHL: Thank you.

8 MS. MALANCA: Glenna Malanca representing the
9 Timberline Community Association.

10 JUDGE RENDAHL: Thank you.

11 And Mr. Finnigan is not here today, but,
12 Mr. Harrington, you're here representing the Company?

13 MR. HARRINGTON: Correct.

14 JUDGE RENDAHL: Okay, why don't you go ahead.

15 MR. HARRINGTON: My name is Stephen L.
16 Harrington representing Timberline Village Water
17 Company, Incorporated.

18 Judge, do you need my address and things
19 since I wasn't here at the last hearing?

20 JUDGE RENDAHL: That would be helpful.

21 MR. HARRINGTON: Okay.

22 JUDGE RENDAHL: If you can give your address
23 and telephone number and fax number and e-mail.

24 MR. HARRINGTON: Telephone number and fax
25 number and e-mail, okay.

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1 JUDGE RENDAHL: Thank you.

2 MR. HARRINGTON: That's kind of what I
3 thought. Our address is 3242 Capitol Boulevard, Suite
4 B, Tumwater, Washington 98501, phone number (360)
5 357-3277, fax (360) 357-3758, and e-mail is
6 steveh@thewaterco.net.

7 JUDGE RENDAHL: The water co is?

8 MR. HARRINGTON: All one word.

9 JUDGE RENDAHL: All one word .net?

10 MR. HARRINGTON: Correct.

11 JUDGE RENDAHL: Okay, thank you. Now because
12 Mr. Finnigan is not here, is he still intended to be the
13 recipient of any notices or orders, or are you also
14 supposed to be receiving those?

15 MR. HARRINGTON: We have both been receiving
16 them, I believe.

17 JUDGE RENDAHL: Okay.

18 Well, I have some preliminary matters before
19 we go on to hearing the testimony and receiving
20 exhibits. After the pre-hearing conference on August
21 8th, Staff and the Company filed a settlement agreement
22 which was anticipated during the pre-hearing conference.
23 And I'm just curious, since I understand Staff and the
24 Company and the Association might have discussed matters
25 during that time, it would be helpful to know if what we

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1 have here is a contested settlement hearing or if all
2 parties have agreed to the settlement. Does anybody
3 want to speak to that?

4 MS. MALANCA: I think it would be most
5 appropriate for the new party not involved, the
6 intervener, not involved in the negotiations. This will
7 not be contested, and I would want to point out that it
8 wasn't until late yesterday afternoon that our president
9 of the Association was able to reach enough board
10 members to obtain a majority, just that time of year,
11 but we are not going to be contesting the settlement.

12 JUDGE RENDAHL: Okay, thank you.

13 In terms of the process for the hearing, I
14 was anticipating we would hear from Commission Staff, a
15 witness from Commission Staff, maybe a witness from the
16 Company, and possibly a witness from the Association.
17 Starting with Commission Staff and going around, I would
18 like to know who you plan to present as a witness.

19 MS. TENNYSON: Commission Staff plans to
20 present James Ward, a Commission regulatory analyst.

21 JUDGE RENDAHL: For the Company.

22 MR. HARRINGTON: The Company would be myself,
23 Stephen Harrington.

24 JUDGE RENDAHL: Thank you.

25 And Ms. Malanca.

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1 MS. MALANCA: We were not involved, the
2 Association was not involved in any of the negotiations.
3 I can only state that I have been authorized to
4 represent the Association at this hearing. We
5 understood at 3:00 there would be no comment from other
6 than the attorneys, so I have not provided for the
7 president to be here, but I am authorized to speak for
8 the Association.

9 JUDGE RENDAHL: Okay, and you're acting as an
10 attorney as well, correct?

11 MS. MALANCA: That is correct.

12 JUDGE RENDAHL: Okay, so --

13 MS. MALANCA: And I could be a witness.

14 JUDGE RENDAHL: -- in the event that if you
15 have questions of Mr. Ward, there will be an opportunity
16 for everyone --

17 MS. MALANCA: Yes.

18 JUDGE RENDAHL: -- to cross examine Mr. Ward.
19 If you do have questions, that's an opportunity to get
20 your information --

21 MS. MALANCA: Yes.

22 JUDGE RENDAHL: -- in that way. And if you
23 wish to make a statement at the end, I will take
24 statements from the parties, understanding Mr. Finnigan
25 is not here and maybe Mr. Harrington wishes to make a

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1 statement. So we will have an opportunity at the end if
2 you wish to do that on the record.

3 MS. MALANCA: My impression from dealing with
4 the president is that they would have had no testimony
5 but to say they don't contest the settlement.

6 JUDGE RENDAHL: Okay, thank you very much.

7 Okay, And as to exhibits, the notice that
8 went out after the settlement agreement was filed
9 requested any exhibits be filed by the 15th. Since
10 nothing was received, I'm assuming that the settlement
11 agreement and the attachments are what's intended as
12 exhibits; is that correct?

13 MS. TENNYSON: That is correct.

14 JUDGE RENDAHL: Okay. And I received a copy
15 of those documents, and what I'm thinking would be best
16 to do is instead of having the settlement agreement and
17 the attachments collectively as one exhibit to separate
18 them out and have the agreement itself as Exhibit 1, and
19 the first attachment which I will describe as maybe the
20 results of operation would be the best way to describe
21 it, and then the third exhibit which is titled revenue
22 and rate calculations would be Exhibit 3. Is that
23 acceptable?

24 MS. TENNYSON: That is acceptable to Staff.

25 JUDGE RENDAHL: Okay.

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1 Now the only other sort of housekeeping
2 matter before we go ahead is the issue of initial order
3 versus a final order. The statutes, RCW 34.05.460(1)
4 provide that a presiding officer will enter an initial
5 order after a hearing, but there is the option, the
6 Commission has done this in past proceedings, is that
7 the parties waive their right to an initial order, the
8 Commission will enter a final order following the
9 settlement hearing. And so at this time I guess I would
10 ask if the parties wish to make that request to go
11 directly to a final order or not?

12 MS. TENNYSON: Yes, we do.

13 MR. HARRINGTON: Yes.

14 MS. MALANCA: And that is agreeable with the
15 Association.

16 JUDGE RENDAHL: Okay. And understanding that
17 once a final order is entered, if anyone wishes to seek
18 reconsideration, there is a ten day period to seek
19 reconsideration, and that's usually -- there is a notice
20 at the end of the order that explains that and how to go
21 about doing that.

22 In terms of the hearing process, we will go
23 first with Mr. Ward, then allow opportunity for
24 cross-examination, and then if Mr. Harrington wishes to
25 I guess make a statement and then any questions from any

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1 party. And then likewise, Ms. Malanca, if you wish to
2 make a statement, we will proceed in that way.

3 And one last question. In terms of the
4 timing of the order, the request is to have the rates in
5 effect by September 1. I won't be here next week, and
6 the commissioners are out, only one commissioner is in
7 the office the first week of September. So I will
8 endeavor to make sure that there is a final order
9 available for signature next week. If that does not
10 occur, it will be the week of September 8th just to
11 advise you all of the timing, and so we will try to make
12 this happen.

13 Okay, let's go forward with Mr. Ward, are you
14 ready?

15 Let's be off the record for a moment.

16 (Discussion off the record.)

17 JUDGE RENDAHL: Mr. Ward, will you please
18 state your full name and your address for the record,
19 please.

20 MR. WARD: I am James A. Ward. My address is
21 1300 South Evergreen Park Drive Southwest, Post Office
22 Box 47250, Olympia, Washington 98504.

23 JUDGE RENDAHL: Thank you. Would you raise
24 your right hand, please.

25 (Witness James A. Ward was sworn.)

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1 JUDGE RENDAHL: Okay, please go ahead.

2 MS. TENNYSON: Thank you.

3

4 Whereupon,

5 JAMES A. WARD,

6 having been first duly sworn, was called as a witness

7 herein and was examined and testified as follows:

8

9 DIRECT EXAMINATION

10 BY MS. TENNYSON:

11 Q. Mr. Ward, can you tell us what your position
12 with the Commission is and your job responsibilities.

13 A. I am a regulatory analyst for the Utilities
14 Commission. My responsibilities are to review and
15 report my findings of those reviews to the
16 commissioners. I review water companies mainly for rate
17 cases and contracts and any other charges that they may
18 apply in their tariff.

19 Q. When you do this review of water company rate
20 filings, what kind of things do you look at?

21 A. It varies between the companies. I typically
22 look at most of the major expenses that a company has,
23 the amount of water being used by the customers, and
24 also any future costs that the company may incur that we
25 can reliably know and measure going into the future.

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1 Q. And were you assigned to review the rate
2 filing by Timberline Village Water Company?

3 A. Yes, in Docket Number UW-030410.

4 Q. Did any of the other Staff of the Commission
5 assist you in auditing the Company's records or looking
6 at any other aspects of the filing?

7 A. Yes, we had one other regulatory analyst,
8 Danny P. Kermode, also assisted me.

9 Q. And are the results of his analysis
10 incorporated in the settlement and the Exhibits 1 and 2
11 that we have in this case?

12 A. Yes, they are.

13 Q. Okay. Just to give us some background, could
14 you describe the request that the Company made in this
15 case, let's start with when it was filed, the proposed
16 effective date, and the dollar amount, and so just the
17 general parameters of the case.

18 A. Yes. Timberline Village Water Company,
19 Incorporated on March 26, 2003, filed for a general rate
20 increase, approximately \$53,651 plus state taxes on
21 that. The proposed effective date of that filing was
22 May 1st, 2003. That filing included general rates to
23 the flat rated customers and also started a metered
24 rate, a ready to serve rate, and it was proposing to
25 implement several ancillary charges including a revised

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1 service connection charge and a facilities charge.

2 Q. And after reviewing that filing, did you make
3 a recommendation to the Commission on suspending the
4 filing?

5 A. This matter was heard before the Commission
6 on April 30th, 2003. Staff had not completed its
7 investigation and come to a final determination,
8 therefore at that open meeting Staff's recommendation
9 was to suspend the filing. The Commission did suspend
10 the filing at that open meeting.

11 Q. Okay. At this point we have presented a
12 settlement agreement to -- we filed it with the
13 Commission. I would like you to, if you can, walk us
14 through the settlement agreement by paragraph, and just
15 describe what each paragraph -- what's included in each
16 paragraph.

17 A. Okay, I can assume that everyone does have a
18 copy of the settlement agreement in Docket Number
19 UW-030410 in front of them.

20 JUDGE RENDAHL: Now for the record, this has
21 been marked as Exhibit 1.

22 MS. TENNYSON: That is correct, thank you for
23 that correction.

24 A. Okay, Paragraph 1 is essentially a background
25 stating who the Company is, who the Commission is, and

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1 what the regulatory authority is over that, quoting the
2 appropriate Revised Code of Washington and Washington
3 Administrative Codes.

4 Paragraph 2 starts to give a history of this
5 filing, that the Company on March 26, 2003, did file
6 tariff revisions to its currently effective tariff. The
7 pages and the revisions are listed in the settlement
8 agreement.

9 Paragraph 3 talks about the dollar amount and
10 the percent increase that was being asked for and also
11 outlines some ancillary charges and the facilities
12 charge. And it goes on to say that Timberline Village
13 at that time served approximately 213 customers in the
14 Packwood area, which is in East Lewis County.

15 BY MS. TENNYSON:

16 Q. Okay, Paragraph 4 I think just goes through
17 with what you have just discussed in terms of the filing
18 having been suspended, so I think we can skip that one.

19 Let's go with Paragraph 5. I understand with
20 Timberline Village Water Company they have a what we
21 call an SMA company to provide services to the water
22 system, to operate and maintain the water system. Can
23 you tell us what an SMA is?

24 A. SMA is the abbreviation for a satellite
25 management agency. This is a recognized agency by the

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1 State Department of Health that they're authorized and
2 certified to manage water systems within the state of
3 Washington. The SMA that is being used by Timberline
4 Village is called Utility Management Services. They
5 provide not only routine maintenance and operations,
6 they do meter reading, provide testing services, billing
7 services, and handle customer concerns or complaints.

8 Q. Now Paragraph 5 of the settlement refers to
9 UMS as an affiliated interest of Timberline Village and
10 of five other regulated water companies. Can you
11 describe why that's significant?

12 A. In this case here we have one of the owners
13 of Timberline Village Water Company is also an owner of
14 the Utility Management Services. What the Commission
15 looks for under RCW 80.16 is that the cost incurred to
16 the affiliated interest should be passed on to the
17 regulated company at that cost. That's a concern when
18 you have an affiliated party where you're self dealing
19 from one company to another.

20 Q. Now it's my understanding the Commission does
21 not regulate the Utility Management Services per se.
22 Why do we look at what Utility Management Services
23 charges to Timberline Village as a regulated water
24 company?

25 A. As I said earlier, what the Commission is

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1 after is what is the appropriate cost to provide the
2 service to the regulated customer. In reviewing that
3 cost of an affiliated company, we go back and look at
4 some of the books and records of that affiliated company
5 to establish that cost so there isn't some kind of a
6 hidden cost involved or a overpricing of services, more
7 the self dealing type of situations.

8 Q. So the Commission though doesn't tell the
9 Utility Management Services what it might charge to
10 customers, but is it correct to say they can only -- but
11 the Commission looks at what is appropriate rates for
12 the customers to pay and what amounts or costs can be
13 included in those rates the customers pay?

14 A. Right. In the review that we do of the
15 regulated water company and the review that we do of the
16 non-regulated water company, in this case the affiliated
17 interest, SMA, we look at what that cost is to provide
18 the service. That is the cost that we allow as part of
19 our rate making process, not necessarily what is charged
20 or what might be a market price for an item.

21 Q. Thank you. Let's go on to look at Paragraph
22 6 and beyond in the settlement agreement. Can you --
23 let's -- what are the elements of the revenue
24 requirement for Timberline Village Water, and how do we
25 calculate those?

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1 A. Timberline Village Water is made up of
2 essentially two types of cost. One would be what we
3 call a direct cost for Timberline Village. In that case
4 here it might be the actual operating cost, for
5 instance, of the electricity to run the pumps associated
6 with Timberline Village. That's one of the types of
7 cost we look at. There are a lot of these direct costs
8 that we can review. We also look at some costs that are
9 beyond direct cost, for instance, the affiliated SMA
10 services being provided. In this case here there was
11 that affiliated interest, SMA service being provided.
12 There was also shared insurance on a company wide basis
13 and officer salary on a company wide basis, and company
14 wide I mean by the term of the Utility Management
15 Service company wide since this company does offer its
16 services to other regulated water systems and also to
17 non-regulated entities.

18 Q. Okay. In terms of the officer salary, is
19 that, in fact, officer salary for Utility Management
20 Services, or did you actually look at officer salary for
21 kind of all of the water companies, regulated water
22 companies that Mr. Harrington is involved with as an
23 officer?

24 A. What we looked at was, taken on a whole for
25 all of the regulated water systems, what would be an

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1 appropriate salary. At that point, we then took that
2 salary, added in benefits and appropriate payroll taxes
3 to the regulated water systems. That was then allocated
4 back to each water system based on the number of
5 customers within that water system.

6 Q. Okay. So you didn't look at Timberline
7 Village and say precisely that, you know, we think an
8 officer of this should make X dollars or -- but you were
9 looking at a total salary for -- based on the number of
10 customers of all of the systems?

11 A. Of all of the regulated water systems, yes,
12 which at this point there are five regulated, no, six
13 regulated water systems.

14 Q. And for Timberline Village, did you use, in
15 looking at their rates and in reaching the settlement
16 agreement, did you look at standard regulatory
17 accounting methods for those employed?

18 A. In going back to the Utility Management
19 Services, yes. We attempted to establish what a typical
20 year of cost would be for Utility Management Services.
21 We then removed some items that weren't necessarily
22 appropriate to be charged to regulated entities, and
23 from there we came up with allocation methods for the
24 remainder of those costs to be spread among the
25 regulated water companies.

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1 There was also some portion that was not
2 charged to or allocated to the regulated water
3 companies. And by a typical year, we're looking at
4 approximately 12 months of operation recognizing that
5 some of the accounting may be out of period and need to
6 be adjusted. We also look at future items that are
7 known and measurable and should be included as part of
8 the ongoing cost to a regulated utility.

9 Q. Okay. So what I'm hearing are you used the
10 12 month test period that you typically employ in
11 looking at regulated companies; is that correct?

12 A. Yes, and we also try to use the same 12 month
13 test period of the regulated utility for the
14 non-regulated entity that we're looking at.

15 Q. Okay. And you also indicated that you looked
16 at expenses that might not be appropriate to be -- that
17 occurred -- were in that 12 month period that might not
18 be appropriate to carry forward; would those be
19 restating adjustments?

20 A. Typically those are restating adjustments,
21 yes.

22 Q. And you referred to adjustments or changes or
23 known and measurable -- things that were known and
24 measurable changes; are those typically called pro forma
25 adjustments?

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1 A. Those are pro forma adjustments when a known
2 and measurable cost occurs.

3 Q. Thank you. You referenced the insurance or
4 combined insurance costs and --

5 JUDGE RENDAHL: Ms. Tennyson, can you refer
6 to the paragraph number in the settlement that you're
7 talking about now?

8 MS. TENNYSON: I was just -- that was my next
9 word.

10 JUDGE RENDAHL: Sorry.

11 BY MS. TENNYSON:

12 Q. Looking at Paragraph 9 of the agreement, can
13 you describe for us how the insurance costs that Utility
14 Management Services incurs, how is that allocated to the
15 regulated water companies and to the other businesses
16 that UMS does work for?

17 A. Insurance, essentially what we reviewed there
18 was the insurance bill that came to Utility Management
19 Services and was paid for by all the regulated and
20 non-regulated entities which Mr. Harrington is involved
21 in. In looking at that bill, we were able to separate
22 it into categories. One of the categories was
23 automobile insurance, one was property insurance, and
24 another was general liability.

25 The automobile insurance, we used that to go

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1 to what we call the overhead account of Utility
2 Management Services. It is spread equally among all of
3 the Utility Management Services. The property
4 insurance, a portion of that was specifically allocated
5 out of Utility Management Services' review for our
6 purposes because it dealt with items that were not part
7 of or costs being charged to the regulated companies.
8 The rest of that portion was charged to the regulated
9 companies based on the number of customers within that
10 system. The general liability insurance was looked at,
11 and most of that insurance was, in fact, caused by the
12 regulated water utilities. That once again was also
13 allocated based on the number of customers in each of
14 those water systems.

15 MS. TENNYSON: Your Honor, I might note at
16 this point, when we refer -- Paragraph 9 of the
17 agreement, we referred several times to items that are
18 in Paragraph D(3)(c). Part of that was a -- is only
19 because of a formatting issue with trying -- with the
20 way that Word works trying to put the italicized numbers
21 to -- Paragraph D is unfortunately a fairly long
22 paragraph, or I'm sorry, Paragraph 10 and starts with D.
23 It was a long paragraph, and we did break it down into
24 subparagraphs. There was no way to assign separate
25 italicized paragraph numbers in the margin to that using

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1 Word's features without just messing the whole
2 formatting up, so.

3 JUDGE RENDAHL: It works just fine.

4 MS. TENNYSON: Thank you. But if there are
5 specific questions about where the references are, we
6 will be happy to address those.

7 BY MS. TENNYSON:

8 Q. Okay, turning to Paragraph 10, why don't we
9 walk through that a little bit. Let's start with the
10 first paragraph under it. Just if you don't -- I don't
11 want you to read it, but tell us what we're looking at
12 there.

13 A. Well, essentially Paragraph 10 tries to break
14 out the different allocation areas or the cost areas
15 that we tried to put some of the costs to. For
16 instance, there are the satellite management agency
17 functions that we would regulate of the six regulated
18 companies. Utility Management Services also provides
19 those same type of services to non-regulated water
20 utilities, ones that they have contracts with. We also
21 looked at some of the other things. Construction work
22 is done by Utility Management Services, and there's also
23 some direct repairs and maintenance done by Utility
24 Management Services. So we tried to identify all of
25 these functional type areas that Utility Management

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1 Services does so we could properly allocate the costs
2 through all of these differentials and to the regulated
3 water systems.

4 Q. Okay. Then looking at Paragraph, comes out
5 as Paragraph D(1), UMS total cost, that's I believe what
6 you referenced earlier that you used standard regulatory
7 accounting but then addressed officer salary and the
8 insurance costs separately.

9 A. Yes, we did.

10 Q. Okay. So let's go on to Subparagraph 2
11 titled UMS functional cost.

12 A. In looking at the cost of Utility Management
13 Services, most of the cost that we were able to allocate
14 is based on the functions that they do, for instance,
15 meter reading, field technician, and general
16 administrative type costs. These are the areas we had
17 information on about cost studies or timesheets to
18 allocate these costs.

19 Q. Do all of the regulated companies for which
20 UMS performs services, do all of them have meters?

21 A. No, but they may have. The person that does
22 the meter reading also does the testing. We just
23 referred to him always as the meter reader or meter
24 tester in a lot of instances, but there is some cost
25 associated with that person for each system. In some

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1 cases it's very minimal, and in other cases it's quite
2 large dependent upon the water system.

3 Q. Are these, the categories of work functions,
4 are these functions that UMS defined or something that
5 you defined or how did we get these functions?

6 A. These functional cost areas were defined by
7 Utility Management Services. We did review them for
8 their appropriateness and at this point agreed with what
9 was there based on the information available.

10 Q. Okay. Going on to Subparagraph 3, it's
11 titled UMS allocation factors, basically is this what
12 you were referring to in your earlier testimony about
13 the functions, and does this just describe them a little
14 further?

15 A. Yes, this just describes them that the meter
16 reader testing function was done on direct hours per
17 water system or per job that was done if it wasn't a
18 regulated water system. Goes on to do the same thing
19 for the technical field support function based on direct
20 hours. There was also the administrative and general
21 management, a portion of which was removed for
22 non-regulated type activity, the remainder of that being
23 allocated based on the number of customers in each water
24 system.

25 Q. Thank you. I know that there was a lot of

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1 work gone into to look into the allocation and what UMS
2 does. What was your purpose in looking at what UMS does
3 and looking towards the future, how you believe this
4 will assist the Commission in regulated companies?

5 A. Once again, Utility Management Services
6 provides many services to six regulated water companies
7 at least at this point, also to non-regulated contract
8 type customers. They do some amount of work for
9 construction and some amount of other repairs and
10 maintenance. We were attempting to develop a
11 methodology that the Company could use in future rate
12 cases to those six regulated water companies, also that
13 we could use in this rate case which directly involved
14 Timberline Village.

15 Q. And in looking towards developing a
16 methodology, you're looking for consistency, what other
17 purposes?

18 A. At this point what we came up with based on
19 the information was what we describe at the --
20 throughout this as a Staff model. Actually, it was a
21 company model that Staff adapted and made some changes
22 to. We used that model because that was the best
23 information available that the Company had. I believe
24 if you continue on through this, it talks about that
25 this model will most likely be used up until May 1st of

0039

1 2004, after which we would like to make adjustments to
2 the model. The company has been keeping more accurate,
3 more consistent, better time records so we can better
4 allocate these functional type work in the future.

5 Q. So then referring to Paragraph 12 of the
6 agreement, you refer there to the May 1st, 2004, date,
7 you're looking at assigning direct costs or having UMS
8 assign the direct costs to the regulated companies in
9 actual timesheet data; is that correct?

10 A. Right, we would have more accurate
11 information to assign the costs by. As I said earlier,
12 in this model that we're using at this point we have
13 used some direct hours, we have used some allocated
14 hours based on timesheets and based on time studies.

15 Q. Going on to Paragraph 13, which is under the
16 heading E, rate of return, can you tell us how you came
17 up with a rate of return?

18 A. The rate of return is standard rate making
19 type of an analysis where we used a weighted cost of
20 capital. That is we take the cost of the equity to run
21 the company, the cost of any debt associated with the
22 company. We look at what the debt notes are at as far
23 as interest rates. We also look at what the current
24 market is allowing for equity. We then take the
25 proportioned amount of equity and debt and come up with

0040

1 a weighted cost of capital. In this case, the overall
2 rate of return for Timberline Village using the weighted
3 cost of capital model is 7.04%.

4 Q. Included within that paragraph there's a
5 reference to the 6.75% followed by the parenthetical
6 prime plus 200 basis points on owner held debt. Can you
7 tell us why that figure was used, the prime plus 200
8 basis points?

9 A. Once again what we have here is an owner who
10 has essentially been doing self dealing where he becomes
11 the bank for the water company that he owns. This is
12 once again an affiliated interest type of transaction.
13 In reviewing that, what we have used in the past and has
14 been accepted by the Commission is to use the current
15 prime rate plus some adjustment of 200 basis points for
16 risk analysis. That is where we came up with a 6.75%
17 cost of debt that is owed to the owner of the Company
18 itself.

19 Q. And you said the Commission has accepted this
20 prime plus 200 basis points, was that in the American
21 Water rate case that was litigated several years ago?

22 A. That would have been one of the places, yes.

23 Q. I'm trying to remember the docket number, but
24 that's not coming to mind at the moment.

25 Let's go on to Paragraph 14 titled revenue

0041

1 requirement and rates. The rates are set out. Now you
2 indicated that for the first time the Company had
3 proposed in this filing a ready to serve and metered
4 rates. This sets out what the Company proposed and
5 where you arrived at settlement; is that correct?

6 A. Right. In the analysis and review that we
7 have done prior to this of both Timberline Village Water
8 direct and of the SMA affiliated costs, we came up with
9 an overall revenue requirement of approximately \$32,181
10 on an annual basis. To come up with that, we had to go
11 back and look at what makes up the customer base of this
12 company. There are some metered customers, there are
13 some flat rated customers, and the Company is
14 introducing at this time ready to serve customers.

15 In going back and determining how we would
16 come up with the \$32,000, we look at where the costs are
17 incurred. We came up with a ready to serve cost of
18 approximately \$7.55 per month per customer. Removing
19 that from the revenue requirement, we then come up with
20 the revenue that we need to get from the average
21 residential customer. That establishes the flat rate.
22 Then recognizing what the average customer would use if
23 they were metered, we can establish what a base rate is
24 for that customer and also what a usage rate would be
25 for that customer equating them back to the flat rate

0042

1 customer. That's essentially how we do rate design to
2 come up with a revenue requirement.

3 Q. So your goal then in setting the metered rate
4 is to, from those customers who have a metered rate, to
5 generate approximately the same amount of revenue as the
6 flat rated customers?

7 A. Yes, assuming they would be the same type of
8 user as the flat rated customer.

9 Q. Right. So if they're the same size meter but
10 if they use lots more water, they're going to be paying
11 more?

12 A. They would be paying more, yes, than a flat
13 rated customer.

14 Q. So if you can refer to what's been marked as
15 Exhibit 3, this is our revenue and rate calculation
16 sheet attached to the settlement agreement, just
17 basically it lays out that methodology you have just
18 described for us?

19 A. Yes, this is a spreadsheet that does that.
20 I'm sorry that it's not line numbered or column numbered
21 for easier reference, but in the first box on the upper
22 right-hand corner where it says residential rate
23 design --

24 Q. That's in the upper left-hand corner of mine.

25 A. Left-hand corner of ours and mine. We take

0043

1 into account the ready to serve revenue, what would be
2 generated monthly, that calculates across the page to
3 the right. We look at what a metered rate would
4 generate based on the average usage of a customer. That
5 then calculates to the \$27.60 in this case, which should
6 be also the flat rated customer of \$27.60. Working
7 those numbers across the page, we determine how much
8 money could be generated each month and then on an
9 annual basis.

10 Q. You also have a box in the lower left-hand
11 half of the page, larger than residential rate design.
12 Do we have larger meters on this company that you know
13 of?

14 A. At this point we only have approximately 20
15 or 21 actual meters, and they're residential meters. I
16 am aware that the Company has the potential for some
17 future larger than residential meters. I believe there
18 is a resort or inn or motel of some type and a
19 restaurant that could be available in the future.

20 Q. In the lower right-hand corner of the page
21 you have some figures in bold, above them the heading I
22 would interpret it to mean average bill, it's AVG bill.
23 Can you describe what that -- what the calculation there
24 is for us?

25 A. What this is is it takes the average cost or

0044

1 the average revenue to equal the average bill per month
2 per customer, which in this case would be \$27.60.
3 Timberline Village has filed to separate out its State
4 Business and Occupation tax. That is then added back on
5 to whatever bill may be generated by the rates. In this
6 case it's \$1.39 per month per customer. This company
7 has no surcharges currently available, so what this does
8 is it says what the average bill the customer would
9 receive and pay is. In this case it would be \$28.99 per
10 month on average.

11 Q. And if, because of the way the Company has
12 filed with using the tax separate, if the tax rate
13 changed, might the dollar amount here change?

14 A. Yes, it would.

15 Q. Now we have --

16 (Bridge line interruption.)

17 JUDGE RENDAHL: Hello, this is Judge Rendahl,
18 can I ask who has joined us?

19 You're listening to a settlement hearing in
20 Docket UW-030410 involving Timberline Water Company.

21 Let's proceed.

22 MS. TENNYSON: Thank you.

23 BY MS. TENNYSON:

24 Q. We have discussed briefly that in calculating
25 the costs for Timberline Village that you have treated

0045

1 officer salary and the UMS insurance separately and
2 differently. Can you describe why they were allocated
3 on different bases?

4 A. In the case of the owners, well, in the case
5 of UMS cost, most of UMS cost was allocated based on
6 direct hours and overhead based on the number of
7 customers. In the case of the salary, that was based
8 strictly on the number of customers of the regulated
9 water systems that Mr. Harrington is involved with. We
10 didn't set a salary directly for Mr. Harrington, we set
11 a salary for the management services of each of the
12 regulated water systems. Once again, insurance was also
13 separated out. That was allocated and based on the
14 number of customers after portions were removed that
15 would be normally non-regulated type service.

16 Q. Okay. In the settlement agreement there's
17 also a reference to the ancillary charges, and that was
18 also referenced in the Commission's order suspending the
19 filing that there were several proposed ancillary
20 charges. Can you describe what the settlement
21 agreement, what we reached in the agreement as the
22 ancillary charges?

23 A. Currently the Company has only one of the
24 ancillary charges listed. That is a service connection
25 fee. Currently that charge is \$200. The company had

0046

1 proposed \$550, and in the settlement we have agreed to
2 \$550. The other charges that the Company has proposed
3 is a late charge of \$3.50. That is part of the
4 settlement at \$3.50. A new account fee, \$15, part of
5 the settlement, \$15. A non-sufficient fund fee was
6 proposed at \$25, the settlement was at \$15. A special
7 meter read was proposed at \$25, settlement at \$25. The
8 last charge was the facilities charge, this was proposed
9 at \$1,850, the settlement has no facility charge
10 associated with it.

11 Q. Can you describe why Staff did not feel that
12 a facilities charge was appropriate for this company?

13 A. A facility charge is a funding mechanism
14 whereby the Company can continue to grow. Essentially
15 what it does is it provides a source of money for future
16 improvements. This company currently has an established
17 service area and has no plans to our knowledge to grow
18 outside of that service area. They still have current
19 capacity within that service area. Therefore, this
20 facility charge would not be an appropriate funding
21 mechanism in this case at this point.

22 MS. TENNYSON: I have no further questions
23 for Mr. Ward at this time.

24 JUDGE RENDAHL: Okay.

25 Mr. Harrington, do you have any questions for

0047

1 Mr. Ward?

2 MR. HARRINGTON: No.

3 JUDGE RENDAHL: Okay.

4 Ms. Malanca, do you have any questions for

5 Mr. Ward?

6 MS. MALANCA: Yes, I do, a couple.

7 JUDGE RENDAHL: Please go ahead.

8 MS. MALANCA: Thank you.

9

10 C R O S S - E X A M I N A T I O N

11 BY MS. MALANCA:

12 Q. Mr. Ward, I want to clarify for my
13 edification some of these allocations of costs and how
14 they relate to the affiliated company contract that is
15 filed and has been filed in the last few years for
16 Timberline Village Water Company. There are various
17 costs that are allocated on the basis that has been
18 agreed to between the parties. Some of those costs are
19 covered, are they not, in the contracts that have been
20 filed with affiliated company or management services?

21 A. Right, we have an affiliated or we have on
22 file a copy of those reports and a copy of --

23 Q. By contract --

24 A. -- the contracts that are filed each year by
25 Utility Management Services for each of the regulated

0048

1 water entities that it has that are regulated by this
2 Commission. That report or that contract does have a
3 dollar amount in there and terms and conditions in there
4 for Utility Management to provide services to each of
5 the regulated water utilities.

6 Q. Now that's I believe reflected in Exhibit 2,
7 the cost for apparently through December 31st, '02, and
8 then some pro forma figures, and included are the
9 contractual operation management, which is the
10 affiliated company service, the service contract?

11 A. Right, but I would like to point out that
12 what is here may not necessarily be what is in the
13 contract. As I discussed earlier, what we look at is
14 the cost to provide the service, not necessarily the
15 charge that one company may levy against the other and
16 they may agree to in fact. But we look at the cost to
17 provide the service to the regulated customer.

18 Q. That's excellent. Then my question is, is
19 Exhibit Number 2 reflective of your settlement
20 negotiations, not the filed contracts?

21 A. Right, it is part of the settlement, not the
22 filed contracts.

23 Q. Were these figures -- I believe I had -- I
24 thought I had seen Exhibit 2 prior to negotiations
25 commencing. Is this indeed actually a result of your

0049

1 negotiations, Exhibit Number 2?

2 A. Exhibit Number 2 is a result of the
3 settlement agreement, yes.

4 Q. Okay. The format may be the same, but it
5 sounds as though some of those figures have changed
6 subsequent to negotiations?

7 A. I'm not sure what other sheet you're
8 referring to. The company did provide a copy very
9 similar to this format with their initial filing as
10 their results of operation.

11 Q. That's of which I speak, and this though is a
12 product of negotiations?

13 A. Right, yes.

14 Q. That answers many of my questions.

15 The last question I do have, when you were
16 first reviewing Paragraph 8 with your attorney, you
17 indicated that there was an officer salary that had been
18 allocated for all of the regulated companies for
19 Mr. Harrington, and then later I believe I heard you say
20 that you didn't set a salary for Mr. Harrington, just
21 for Management Services. Exhibit 2 indicates there's a
22 salary for Mr. Harrington and for Management Services,
23 and is that the accurate reflection? I may have
24 misunderstood you in that second instance.

25 A. Let me clarify what I did do.

0050

1 Q. Okay.

2 A. We looked at a salary appropriate for the
3 regulated water systems, and we allocated that to each
4 of the water systems. That is shown on Exhibit Number
5 2. It would be down under salary officers, second line
6 under expenses.

7 Q. I see that.

8 A. It carries over to the far right-hand revised
9 period at \$8,595 on an annual basis. That is the
10 allocated amount for any management service provided by
11 Utility Management Services or by Mr. Harrington or by
12 whoever that may be. That is the charge we allowed or
13 the cost we allowed in the Timberline Village rate case.

14 Q. Then further down there's an item,
15 contractual operation management, SMA, and that shows
16 \$26,604. Am I -

17 A. Yes.

18 Q. Could you clarify that?

19 A. That is --

20 JUDGE RENDAHL: You're referring, excuse me,
21 you're referring at this point to Exhibit 2 still?

22 MS. MALANCA: That is correct.

23 JUDGE RENDAHL: And the final column where it
24 reads --

25 MS. MALANCA: Yes.

0051

1 JUDGE RENDAHL: -- \$26,604 across from
2 contractual ops/management/SMA testing?

3 MS. MALANCA: Final column to the right,
4 that's correct.

5 JUDGE RENDAHL: Okay, thank you.

6 A. Yes, that is the cost of Utility Management
7 Services to provide its services that I described
8 earlier to Timberline Village. Mainly the cost
9 associated with that would be the normal cost to operate
10 the business of Utility Management Service. In Utility
11 Management Services, we did not allow any costs for
12 management per se.

13 BY MS. MALANCA:

14 Q. Okay. Exhibit 3, the box on what I will call
15 the lower left-hand side of the page, does that relate,
16 the larger than residential rate design, does that
17 relate to metered service only?

18 A. Yes, it does.

19 Q. Okay. And do you know or can you explain why
20 a difference of \$22.80 for a base rate on a metered
21 service jumping to \$38.76 in a 1 inch metered? I
22 believe that's a connection size, isn't it, service
23 connection size?

24 A. 1 inch meter is, yes.

25 Q. If the water is metered, can you explain why

0052

1 it would be appropriate to charge a base rate without
2 any consideration of water usage just based on the size
3 of the service connection?

4 A. This goes back to Department of Health and
5 how they allocate what they call equivalent residential
6 units, and essentially what they look at is the capacity
7 of a meter to take water. And in this case here, a 1
8 inch meter would have the capacity of 1.7 times a
9 standard 3/4 inch meter. So Department of Health is
10 allocating in some cases that a 1 inch meter actually
11 uses almost two residential units. In order to keep the
12 Company whole and in order to charge appropriately the
13 cost, we have this factor for the meter size, because
14 the Company does need to maintain approximately 1.7
15 times the capacity in their system to serve this 1 inch
16 customer than they would a standard 3/4 inch customer.

17 Q. As far as you know, are all or most of the
18 residential connections the 3/4 inch versus a 1 inch?

19 A. I do not know what size any of the
20 connections are.

21 Q. Okay. Or if that's a standard to use a
22 larger service connection in newer construction, you
23 just -- you don't know that?

24 A. Typically from what I have found, newer
25 construction uses a 5/8, 3/4 inch meter for most

0053

1 residential services. That provides more than adequate
2 water pressure and quantity for residential.

3 MS. MALANCA: Thank you.

4 I have no further questions.

5 JUDGE RENDAHL: Thank you.

6 I have do have a few questions, and I hope
7 you will bear with me, and it's just so that I can make
8 sure I understand what's happening in the settlement.
9 I'm going to go again back through, as you did,
10 Ms. Tennyson, and go by paragraph to ask my questions.

11

12 E X A M I N A T I O N

13 BY JUDGE RENDAHL:

14 Q. So if we're looking at what has been marked
15 as Exhibit 1 and referring to Exhibit 2 primarily, you
16 talk about the revenue requirement, Mr. Ward, and what
17 makes up the revenue requirement. And when you look at
18 Exhibit 2, titled results of operation statement, as
19 Ms. Tennyson went through with you, there are various
20 adjustments that are made in the rate making process to
21 make sure that the costs and expenses that the Company
22 has experienced and may experience are fully reflected.
23 And so when you go, when you look at the results of
24 operation statement, Exhibit 2, for example, looking at
25 the second column titled, from the left, titled company

0054

1 12-31-02, do you see that column?

2 A. Yes.

3 Q. And as you go down across from where it says
4 on the left materials and supplies, there's a bold
5 reference to R5. Now my question to you, does that mean
6 that's a restating adjustment, probably the fifth one
7 made; is that correct?

8 A. Yes, it is.

9 Q. And those restating adjustments are reflected
10 in the next column over where it states restating
11 adjustment, correct?

12 A. Right.

13 Q. And then as you go across the page, just for
14 -- I have titled my columns A through J, so if that
15 helps you A is where it's headed revenues, B company
16 12-31-02, C is restating adjustments, and so on until
17 you get to the revised period on the right with J, so
18 that might make it clearer as I walk through this.

19 A. I agree.

20 Q. Was the settlement, the revised rates in
21 column I, did those revisions in column I, were those
22 revised based on column H to get column J; is that the
23 calculation that was made?

24 A. Essentially, yes.

25 Q. Okay. But if you look at salary officers and

0055

1 go over to column I, there's a debit or a subtraction of
2 \$5,205. If I subtract that from the left-hand column,
3 column H, from \$17,580, I don't get \$8,595. So that was
4 one of my questions, is there a way to clarify how the
5 \$8,595 was reached with that debit?

6 A. That would have to go back to column D, per
7 books adjusted.

8 Q. Okay.

9 A. The per books adjusted is the recognized
10 level of cost for that year. Then coming forward there
11 were pro forma adjustments by the Company. There is the
12 proposed rates and any revenue sensitive items they
13 would have had under column G. And essentially under
14 column I is the adjustments necessary to come up with
15 the revised rates going forward under column J. Some of
16 those are from H when they were agreed with, some we're
17 back to column D when they were not agreed with, trying
18 to show the results of what the Company had proposed and
19 of what the settlement had proposed simultaneously.

20 Q. Thank you, that's very helpful.

21 And again referring back, comparing between
22 Exhibit 1 and Exhibit 2, looking at Paragraph 8 of
23 Exhibit 1, which is the discussion of the apportionment
24 of officer or Mr. Harrington's salary as you have
25 discussed on the record, and Attachment 2, that figure

0056

1 of \$8,595 in column J is the officer salary for UMS and
2 as you described not necessarily a salary for
3 Mr. Harrington but whatever officer might, management
4 cost might be allocated to Timberline?

5 A. Right, yes. I would like to make one
6 clarification, you started to say to manage or I think
7 Utility Management Services. This is only the
8 management cost or salary apportioned to Timberline
9 Village, and who that goes to was not determined by us
10 at the Commission.

11 Q. Thank you.

12 The UMS property and liability insurance
13 that's discussed in Paragraph 9 of Exhibit 1, can you
14 explain where this item is reflected in the Exhibit 2,
15 the results of operation statement?

16 A. To begin with, a portion of that cost was
17 removed. The remainder of that was added together in a
18 separate spreadsheet along with the other insurance
19 cost, and that is reflected under column A about midway
20 down the page, the line called insurance. And if you
21 look across through to column J as you have labeled it,
22 the allocated portion to Timberline Village for all
23 insurance is \$3,070. We made an adjustment P10a of \$994
24 to come up with that figure, and that was based on
25 column H and I to equal J.

0057

1 Q. Okay. So I understand that the total of the
2 \$3,070 reflected in column J for insurance was
3 calculated on a separate spreadsheet where a portion of
4 insurance cost was removed for unregulated activities,
5 and the remainder of the various types of insurance
6 costs were then totalled and allocated by customer to
7 all the various water systems; is that a correct
8 understanding?

9 A. To the regulated water systems, yes.

10 Q. Okay, thank you.

11 MS. TENNYSON: Your Honor, I do believe that
12 it's a portion of the insurance expense may, for
13 automobile insurance, may be reflected in the
14 contractual operations management SMA. I'm not
15 positive, I don't have that spreadsheet, but I believe
16 that's correct.

17 A. There are two portions that went to the
18 general administrative cost. Automobile was one of
19 those, and there was also some portion of property
20 insurance for property held by Utility Management
21 Services. Those went to the general administrative
22 cost, which then comes back into Exhibit 2 under the
23 contractual operations management SMA cost.

24 Q. And that would be a portion of the \$26,000
25 figure?

0058

1 A. Yes, it would be.

2 Q. Okay, thank you, that's helpful.

3 Now you stated earlier that the allocation
4 method was originally proposed by Timberline and has
5 been modified by Staff for use in this filing; is that
6 correct.

7 A. Yes, it is.

8 Q. Paragraph 11 I believe of Exhibit 1 states
9 that Staff has strong concerns about using standard
10 costs as allocation factors. First, can you clarify for
11 me what you mean by standard costs?

12 A. Essentially what the Company had done
13 originally was taken the total cost of Utility
14 Management Services and allocated it based on the
15 functions or allocated it based on the number of
16 customers. In some cases, either one of those was not
17 correct. For instance, allocating the cost of UMS staff
18 based on the number of customers would not be
19 appropriate. Basing it on the amount of time recorded
20 spent on each water system would be more appropriate.
21 That is what we mean by standard cost. So we didn't
22 take just a simple single factor. And in some cases in
23 reviewing this, it was determined that some costs would
24 not be allocated to the regulated customers but held by
25 Utility Management Services for work it does to

0059

1 non-regulated systems.

2 Q. Now when you say standard, are you then
3 differentiating that from some other term that you might
4 use, versus direct costs?

5 A. Direct costs might be another term, yes.

6 MS. TENNYSON: Or if I might, Your Honor,
7 actual time. I mean that Paragraph 11 does reflect the
8 absence of accurate or complete timesheets and that the
9 Company, UMS, and Staff would like to move towards
10 allocating the costs using actual timesheet data so that
11 each system that UMS performs work for, there can be a
12 direct charge rather than estimating how many hours have
13 been spent on that system.

14 Q. So standard could mean estimated in that
15 sense based on the discussion by Ms. Tennyson?

16 A. Yes.

17 Q. Okay. And what exactly, I mean you may have
18 already said that, but what are your exact concerns with
19 using the estimated, it doesn't exactly quantify what
20 should be allocated?

21 A. Right. In one case what was done for the
22 field technicians was essentially a time and motion
23 study was performed as to what amount of time it should
24 take a person to do certain jobs on a water system.
25 However, not all water systems are constructed the same.

0060

1 Some water systems may take longer time than the
2 standard, and some may take less time than the standard.
3 But what was used initially was a model or a time and
4 motion study to derive what should be standard costing.
5 What we're proposing in the future to be used is actual
6 timesheets, which would give us direct cost or direct
7 time for a water system.

8 Q. So what happens after May 1st, 2004?

9 A. Essentially in going through the analysis,
10 the Company recognized that they didn't have the best of
11 information to do this work with, and they have started
12 to keep those accurate timesheets. However, they don't
13 have a full year of timesheets yet. They have
14 approximately nine months. To give the Company time to
15 get a full year and then to analyze that information, it
16 was established that May 1st would be essentially the
17 date at which we would stop using the current model that
18 we have and go with the revised one, which would use
19 better information, direct timesheets and costing.

20 Q. So after May 1, does that mean the Company
21 plans to come back for a rate adjustment or simply Staff
22 and the Company will review those and see what needs to
23 occur?

24 A. Essentially what it means is after May 1 we
25 would expect a new model that uses direct hours for its

0061

1 cost, not the model we have agreed to in the Timberline
2 Village case, which uses a portion of standard cost or
3 estimated cost and a portion of some direct cost.

4 Q. But there is no intention at this point to
5 come back to the Commission to make adjustments based on
6 the actual direct cost allocation?

7 A. Not to my knowledge at this point.

8 Q. Okay. I'm going to now ask some questions
9 about the contract with UMS. It's not directly
10 addressed in the settlement agreement, but did you
11 review the UMS contract in the course of your review of
12 the Company's rate filing?

13 A. I did a cursory review of the report that
14 they submit, which is actually a copy of the contract,
15 yes.

16 Q. Okay. And was that contract approved by the
17 Commission?

18 A. The affiliated interest contracts are not
19 approved by the Commission. They are only a form that
20 the Company uses to report, which is required by the
21 Commission. Rates are set based on the cost found
22 appropriate at the time of a rate case, not based on a
23 copy of the contract used as a report form.

24 Q. So there was no contract, no UMS contract
25 filed with the Commission, no UMS contract with

0062

1 Timberline or other water companies filed with the
2 Commission?

3 A. Well, there is a copy of the contract, yes,
4 used for reporting purposes.

5 Q. Okay. But you're saying it did not require
6 Commission approval?

7 A. No, it did not.

8 Q. Okay, thank you.

9 And can you restate most likely for the
10 record why you think the adjustments and allocations to
11 the affiliated and regulated water companies based on
12 the Company's and Staff's adjusted allocation model is
13 fair, just, and reasonable?

14 A. Essentially in working with the Company, we
15 have found these settlement costs to be the appropriate
16 costs as best we could with the data and the information
17 we had. There are costs to run the water system, there
18 are costs to provide the service. These adjustments we
19 have made and these revised rates we have come up with
20 appropriately meets those costs to allow the Company to
21 earn its appropriate revenue requirement.

22 Q. In looking at the rate of return, which is in
23 Paragraph 13 of Exhibit 1, Ms. Tennyson asked you a few
24 questions about what was discussed in Paragraph 13. Can
25 you explain what the third party debt reference is for?

0063

1 A. In this case here what we have is affiliated
2 interest debt where Mr. Harrington has loaned money to
3 Timberline Village Water Company. In talking about the
4 cost of capital, we did use the prime plus 200 basis
5 points to establish what that cost would be in this case
6 for him loaning money to the Company. Had the Company
7 gone to an actual third party bank and received that
8 money, that loan, we would have used whatever the bank
9 would have established as the appropriate interest rate.

10 Q. Thank you.

11 Okay, if you will turn to Paragraph 14 of
12 Exhibit 1, the first sentence states that the settlement
13 agreement results in a revenue increase of \$32,181 with
14 a 69.94% increase in annual revenue. If you will look
15 at the results of operation under column A, the capital
16 letters operating revenue, and go all the way over to
17 column I, what I am referring to as column I, revised
18 rates, it appears to say \$33,839, which seems to be
19 different, and I'm wondering if there's a reason for
20 that differential.

21 A. Yes. When we looked at this, we looked at
22 the overall revenue necessary for the Company. In
23 setting the rates, we looked at what rates would be
24 generated by that. What you're seeing under the revised
25 rates also includes the taxes, which were not part of

0064

1 our revenue requirement calculation, but they're added
2 on after the fact. So when you look at that operating
3 revenue of \$33,839, it's simply a summary of what is
4 above that, not actually what the amount of revenue
5 needed in a rate increase would be.

6 Q. So the \$27,900 from unmetered sales and the
7 \$4,076 for ready to serve would total the \$32,181?

8 A. That and additional revenue generated by
9 ancillary charges of \$195, and I also believe it
10 included the \$848 of pro forma revenue from new
11 customers coming on.

12 Q. And in column I, I'm just seeing those
13 figures, but in the column J you're saying that the
14 total revenue for the Company, not just the increase,
15 but the total revenue would include the metered sales as
16 well as the --

17 A. Yes.

18 Q. -- ready to serve and utility tax and other
19 ancillary charges?

20 A. Yes.

21 Q. Okay. The other discrepancy that I needed
22 your help with was the \$4,076 figure for ready to serve
23 on Exhibit 2. And on Exhibit 3 if you look at the box
24 with the not straight lines but hatched lines, it
25 appears to say RTS and you go under the column this

0065

1 case, \$4,079. Now I just wanted to know if there was a
2 reason for that discrepancy?

3 A. I would say rounding errors within Excel and
4 how it calculates on one sheet to what it calculates on
5 the second sheet.

6 Q. And I will accept that.

7 Okay, and now if you could just state for me
8 just so that I am sure what the, based on Exhibits 2 and
9 3, what the settlement rates are. And maybe I will
10 just, I will give you a title of the charge and you can
11 explain to me what it is and where I might find it on
12 those two. The unmetered service per month under the
13 settlement is now?

14 A. The total of the unmetered service under
15 column J, Exhibit 2, is \$70,914. The metered rates
16 proposed based on the additional customers is \$848.
17 Ready to serve revenue on an annual basis would be
18 \$4,076, on Exhibit 2, \$4,079 on Exhibit 3. There's also
19 \$195 of ancillary charges on an annual basis.

20 Q. And those are the service connection, late
21 payment, account setup, NSF charge, et cetera?

22 A. It would not include the service connection.
23 That is not part of the revenue calculation. That is
24 essentially a cost reimbursement to the Company to
25 install a meter. That is not shown anywhere on any of

0066

1 these sheets.

2 Q. Okay, thank you. But in terms of the rate
3 per month that the customers will see, if you look at
4 Exhibit 3 on the box on the upper left, it says, ready
5 to serve \$7.55 and flat rate \$27.60. Is that what rate
6 the customers would see, not including tax, per month?

7 A. Yes.

8 Q. Okay.

9 A. And if I can go on in that same column, that
10 same box, a metered customer would see a base rate of
11 \$22.80 plus any usage they would have. And in my
12 calculations, we used an average of 400 cubic feet, so
13 they would see a bill of approximately \$27.60.

14 Q. And where do you -- oh, I see. So in that
15 column, you reflect \$4.80 for 400 cubic feet of use?

16 A. Yes.

17 Q. So the base rate is \$22.80 for a meter, but
18 the experience that you think the customers will -- the
19 experience to the customer is \$27.60 using 400 cubic
20 feet?

21 A. Yes.

22 Q. Which would be the same as the flat rate?

23 A. Yes, assuming they're the same type of user
24 of water.

25 Q. And did you adjust the proposed rates, the

0067

1 rates that were proposed in the Company's filing for the
2 1 inch, 1 1/2 inch, and 2 inch metered service; is that
3 what is reflected in the box in the lower left-hand
4 side?

5 A. What is reflected in the box is my
6 calculation of what those rates would be, yes.

7 Q. And when you mean your calculation, does the
8 settlement agreement anticipate that the Company would
9 use the I might say the X factor that's discussed in
10 that box as the basis for calculating the rate?

11 A. The settlement discussion did not have
12 anything about oversized meters or larger than
13 residential rate design. I don't believe this company
14 filed for anything other than a 3/4 inch residential
15 meter. My spreadsheet calculates this out as part of
16 what it does. I don't have the filing in front of me,
17 but I don't recall that they filed for anything other
18 than a 3/4 inch service.

19 JUDGE RENDAHL: Let's be off the record for a
20 moment.

21 (Discussion off the record.)

22 BY JUDGE RENDAHL:

23 Q. I have handed Mr. Ward a copy of the
24 Company's filing where it did indicate rates proposed
25 for larger than residential rate design. And I guess I

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1 will ask the question again, did Staff -- are the rates
2 for the larger than residential rate design listed in
3 Exhibit 3 intended to be a part of the settlement?

4 A. At this point I will have to defer that to
5 the Company. This is the rate design that Staff would
6 use based on its X factor based on its 3/4 inch
7 residential service.

8 Q. When you state this, you mean on Exhibit 3?

9 A. Yes, on Exhibit 3.

10 Q. Okay. And I think what I will do is I will
11 have Mr. Harrington appear as a witness separately, so
12 we will defer this question at this point to
13 Mr. Harrington, and I will move on to my next question
14 for you.

15 And I'm almost done for those of you who
16 wanted to know how long we're going to be going.

17 Aside from the larger than residential rate
18 design that we were just discussing, leaving that issue
19 aside, why are the rates that are proposed in the
20 settlement agreement in the public interest and fair,
21 just, and reasonable?

22 A. In working with the Company and the
23 information we had, Staff and the Company have agreed
24 that these are the appropriate rates that would generate
25 what we have found to be the appropriate costs to

0069

1 provide the service.

2 Q. In terms of the facilities charge, I think
3 you adequately answered Ms. Tennyson's question about
4 why it was not recommended to be included in the
5 settlement.

6 I think my last question to you, if you look
7 at Exhibit 3 in the upper right-hand column or upper
8 right-hand area, there is no box around it, but I think
9 you testified earlier that the calculations in the
10 left-hand side box, the calculations that appear in the
11 left-hand side box are based on the columns on the
12 right-hand side; is that correct?

13 A. The columns on the left-hand side generate
14 the columns on the right-hand side.

15 Q. Okay, and can you maybe walk through the
16 base, zero usage metered rate base of \$22.80 and how
17 that flows through to the right just for my edification?

18 A. In looking at the \$22.80 as a meter base in
19 the box called residential rate design, if we had 20
20 customers at the metered base, that would generate
21 approximately \$456 of monthly cash flow. On an annual
22 basis, that would generate \$5,472. Moving down,
23 assuming we had the same 20 metered customers, if they
24 were using approximately 400 cubic feet per month
25 generating \$4.80 per month per customer of revenue, that

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1 would equate to an overage per month of approximately
2 \$96 or on an average basis or an annual basis \$1,152.
3 So from the metered customers on an annual cash flow
4 basis, we should be able to generate \$6,624.

5 Q. Okay.

6 A. Then moving down a little further, we go
7 through the same thing with a ready to serve, \$7.55, 45
8 customers, carried out to an annual basis of \$4,079.
9 Flat rated customer at \$27.60, 197 flat customers,
10 carries out to an annual basis of \$65,246.

11 Q. And your intent at this point was to reach a
12 revenue that matched the operating revenue in column J
13 or as close to that?

14 A. The required operating revenue, yes, absent
15 any taxes since that is an add-on factor.

16 Q. Okay. And I misspoke, I do have one other
17 question, it has to do with the ready to serve charge
18 and the reduction from the original proposed rate to the
19 \$7.55 rate. Can you explain the basis for that
20 reduction?

21 A. Essentially what we had here was two
22 operating principles that were opposite of each other.
23 What the Company used to calculate their ready to serve
24 rate was their proposed metered base rate less some
25 cost, and what Staff used was some fixed cost directly

0071

1 associated with ready to serve type customers. So Staff
2 came from the bottom up, Company came from the top down.
3 Staff used only what it considered to be appropriate
4 costs for a ready to serve customer, Company used what
5 they considered to be removed costs to establish the
6 ready to serve customer rate.

7 JUDGE RENDAHL: Thank you. Okay, with that,
8 I think my questions are done for you, Mr. Ward.

9 Is there any redirect for Mr. Ward?

10 MS. TENNYSON: Just a couple of points to
11 make sure that we have the record clear.

12

13 R E D I R E C T E X A M I N A T I O N

14 BY MS. TENNYSON:

15 Q. When we were discussing the, in response to
16 my questions and to the Judge's questions, when we were
17 discussing the metered rate, if a customer who has a
18 meter and is being charged the metered rate uses more
19 than 400 cubic feet, would they pay more than you have
20 calculated on this sheet?

21 A. Yes, they would.

22 Q. If they use less than 400 cubic feet, would
23 they pay less than the average?

24 A. Yes, they would.

25 Q. Do you have at this point a clear report from

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1 the Company what their actual experience has been for
2 metered rate customers?

3 A. No, we do not.

4 Q. What happens if the average usage for metered
5 customers is 800 cubic feet?

6 A. The Company would generate more revenue than
7 what has been used as part of the calculations in the
8 revenue requirement. In other words, they would make
9 more money than we had calculated.

10 Q. Are there costs associated with the Company
11 providing that water?

12 A. Yes, there would be. There would be higher
13 electricity costs for pumping it, there may be higher
14 maintenance and operation costs associated with that,
15 replacement of equipment. Costs would go up somewhat
16 with increased revenue.

17 Q. Okay. When you referred to Exhibit 3 in
18 response to the Judge's questions and she asked you
19 about the right-hand column and how the residential rate
20 design carried across, and I noticed that you have a
21 column titled share for the metered rates, and you have
22 82.61% for the base rate and 17.39% for the usage rate,
23 and what are those percentages meant to reflect?

24 A. They're simply meant to reflect of the
25 metered customers what share of the revenue is being

0073

1 generated by the base rate and what share is being
2 generated by the usage or overage rate.

3 MS. TENNYSON: Thank you, I have nothing
4 further.

5 JUDGE RENDAHL: Ms. Malanca.

6 MS. MALANCA: Yes.

7

8 R E C R O S S - E X A M I N A T I O N

9 BY MS. MALANCA:

10 Q. Mr. Ward, I would like to go back to
11 Paragraph 12 and pursue a line of questioning that the
12 Judge was entertaining with you. After May 1, 2004,
13 when this was being reviewed with the Association,
14 Paragraph 12, there was an assumption certainly on my
15 part that the structure, the settlement structure in
16 place, could absorb the assignment of direct costs which
17 would be available after the timesheets had been tallied
18 and analyzed after a year. So in response to
19 questioning by the Judge, it sounded as though there
20 could be further negotiations necessary to plug these
21 direct actual costs into a new model. I think you
22 referred to a new model would have to be created, or
23 would it be created and could it be created just by
24 using the complete information that is not available
25 now?

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1 A. To answer your question, I don't know. I
2 think we could use the existing model removing some of
3 the allocated costs that we have removed from this
4 model. But to see the information that they have
5 proposed and how that would affect this model, I don't
6 know at this point.

7 Q. My question, Mr. Ward, is not the impact on
8 potential rates, but just the use of the current model
9 as it's been negotiated and its ability to accept actual
10 times and figures versus the standard or estimated, and
11 you can't -- you don't -- you don't feel you can answer
12 that question if you have actuals instead of what's been
13 used, standard or estimated, however you want to term
14 those?

15 A. I think most of the model would remain as it
16 is, but without seeing those timesheets and what
17 timesheets are being kept, I don't know the impact.

18 Q. Does that response reflect more the nature of
19 the record keeping versus the result of and the actual
20 data that would be available if that's accurate and
21 properly done?

22 A. I think it would -- both.

23 Q. If there are more negotiations, because of
24 the intervention by the Association, would we be
25 included in those negotiations, or would this be a new

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1 filing?

2 A. I will defer that question to my attorney.

3 MS. TENNYSON: Perhaps I could ask Mr. Ward a
4 follow-up question that might clarify this.

5 JUDGE RENDAHL: Thank you.

6

7 R E D I R E C T E X A M I N A T I O N

8 BY MS. TENNYSON:

9 Q. Mr. Ward, if a review of the Company's actual
10 time records after May 1st, 2004, shows that there
11 should be a different allocation of costs, would you
12 expect the Company to file a new rate case?

13 A. That I believe would depend on the water
14 company under review for that. This is the first
15 company to use this form of the model. The Company, or
16 the Company, Mr. Harrington currently has six regulated
17 water systems, water companies. I don't know what the
18 result would be on each of the individual companies with
19 a revised model using more accurate information.

20 Q. Okay. Referring to Paragraph 12, as
21 Ms. Malanca has just referred you to, indicates the
22 Company and Staff have agreed that UMS would need to
23 assign direct costs using timesheet information instead
24 of estimates. If the estimates that are reflected in
25 this agreement show that there should be a, you know, a

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1 major change in the allocation, does this, does the
2 agreement reflect that they would -- the Commission --
3 the UMS would need to do a different allocation and
4 essentially revise the model?

5 A. Yes, I believe it does.

6 MS. TENNYSON: I don't believe that we have
7 actually offered the exhibits, and I would like to do so
8 so we can be sure that they are in the record.

9 JUDGE RENDAHL: Thank you.

10 Is there any objection to the exhibits being
11 admitted?

12 MR. HARRINGTON: None.

13 MS. MALANCA: No objection, I have follow up.

14 JUDGE RENDAHL: Please go ahead.

15 MS. MALANCA: Okay, I had a couple questions,
16 I had one left.

17

18 R E C R O S S - E X A M I N A T I O N

19 BY MS. MALANCA:

20 Q. As far as the affiliated company contract, I
21 will just state to you that I -- it's my understanding
22 that the statute, state statute, requires that the
23 affiliated companies file and I thought it required
24 approval of the Commission of the contracts, the service
25 contracts, the operational service contracts, and I am

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1 also aware and I have seen copies of what have been
2 filed by Timberline Village. Do you know if those are
3 on forms that are supplied, the filing is on forms
4 supplied by the Commission?

5 A. No, they are not on forms supplied by the
6 Commission. They are in answer to question form that
7 the Commission has.

8 Q. On an annual basis and sent out --

9 A. On an annual basis.

10 Q. -- to the companies?

11 A. Yes.

12 Q. And that --

13 A. As part.

14 MS. MALANCA: Thank you. That's my question.

15 JUDGE RENDAHL: Ms. Tennyson or

16 Mr. Harrington, do you have any further follow up for
17 this witness?

18 MR. HARRINGTON: No.

19 JUDGE RENDAHL: Okay, at this point,

20 Mr. Ward, you are excused.

21 Let's be off the record for a moment.

22 (Discussion off the record.)

23 (Recess taken.)

24 JUDGE RENDAHL: In case it was not clear on
25 the record before we took our break, I have admitted

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1 Exhibits 1, 2, and 3 as there were no objections from
2 the parties.

3 We're now turning to a statement by the
4 Company. I won't indicate it's necessarily a testimony.
5 I guess it could be testimony from the Company. Would
6 you wish it to be testimony rather than a statement?

7 MR. HARRINGTON: Either, it doesn't make any
8 difference to me.

9 JUDGE RENDAHL: Okay, well, why don't we
10 swear you in just in case.

11 MR. HARRINGTON: Okay.

12 JUDGE RENDAHL: I guess you gave your
13 appearance.

14 MR. HARRINGTON: Right.

15 JUDGE RENDAHL: So that would suffice as your
16 name and address, and if you would raise your right
17 hand, please.

18 (Witness Stephen L. Harrington sworn.)

19

20 JUDGE RENDAHL: Please go ahead and make
21 whatever statement you wish to make about the settlement
22 and about the larger than residential meter issue.

23

24

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1 Whereupon,

2 STEPHEN L. HARRINGTON,

3 having been first duly sworn, was called as a witness

4 herein and was examined and testified as follows:

5

6 MR. HARRINGTON: First thing I think is
7 important to get out is that the Department of Health
8 endeavored about ten years ago to try to improve the
9 quality of water service in smaller community water
10 systems, in other words, anything other than a city or
11 town delivery of water. And one of the means that they
12 chose to use is a satellite management agency process
13 where someone that meets and is licensed by the
14 Department of Health meets their standards and passes
15 their licensing tests and keeps up their license by
16 attending continuing education unit classes is deemed
17 eligible to manage and operate community water systems.
18 And in that, what they were looking to do is also try to
19 consolidate that management under a fewer number of
20 people so that they had more direct control, if you
21 will, over the public health side of the operation of
22 water systems.

23 And as the former director of the Thurston
24 County Health Department I was very familiar with this
25 law when it was put into place, and we set up Utility

0080

1 Management Services to provide the professional
2 operation and management services that we have talked
3 about, and it provides it to our six regulated companies
4 and --

5 (Bridge line interruption.)

6 JUDGE RENDAHL: That beep is just someone
7 joining us on the conference bridge.

8 MR. HARRINGTON: And the UMS provides that
9 services to the six regulated companies, including
10 Timberline Village. And so we operate Utility
11 Management Services to make sure that we can give the
12 highest level of service as is deemed appropriate
13 through the Department of Health standards.

14 The other thing I wanted to make clear is
15 that there is no management salary in the utility
16 management rate that's charged to the regulated
17 companies.

18 Those are the two points that I wanted to
19 make about UMS. The model that we have worked on has
20 been one that's been kind of a work in progress for the
21 last several years to attempt to make it easier for the
22 Company and the Staff to evaluate the costs that are
23 appropriate for UMS as it provides services to the six
24 regulated companies. And I think we're getting very
25 close to a more perfect model. And when we have the

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1 timesheet information, it will be much more accurate.

2 Regarding Timberline Village, I just wanted
3 to mention that we have no metered rate customers. The
4 rate that we have for flat rate is \$27.60, and the
5 proposal that we filed, the filing for the tariff on
6 March 26th, had four different rates for larger than
7 residential services. Our 3/4 inch service was filed at
8 \$32.50. That's the general rate which has now been
9 through settlement agreed to at \$27.60 or actually
10 \$22.80 for the metered rate. The 1 inch service was
11 filed at \$54.27, the 1 1/2 inch service was filed at
12 \$108.22, and the 2 inch service was filed at \$173.22.
13 And those numbers are different than what appears in
14 Exhibit 3 under the larger than residential rate design.

15 The discussions during the settlement were
16 silent on the larger than residential rate design. The
17 numbers kind of fell out I think according to the
18 spreadsheet that Staff has prepared much like the column
19 on the right in Exhibit 3 where it mentions a rate
20 called pool rate. There is a pool at Timberline
21 Village, but we do not have anywhere in our tariff
22 filing a pool rate. So I think this spreadsheet was
23 embellished in some fashion to maybe address some
24 questions or concerns or issues that may have been
25 raised by customers at Timberline Village.

0082

1 The proposal for a facilities charge was made
2 because we have identified our service area, we have
3 identified the area our water rights serves, and there
4 are properties immediately adjacent to Timberline
5 Village that have made inquiries to us about connection
6 to the water system. And the reason that we proposed
7 the facilities charge is so that the costs that would be
8 involved in making the system capable of handling the
9 additional requested services would be paid by those new
10 customers that would want to hook up to the Timberline
11 Village system. All the other customers have been
12 paying on an ongoing basis for the operation of the
13 water system, and the facilities charge would help the
14 existing customers.

15 Let's see, is there anything else that I want
16 to bring up? I don't think so.

17 JUDGE RENDAHL: Okay.

18 Ms. Malanca or I guess Ms. Tennyson, do you
19 have questions for Mr. Harrington?

20 MS. TENNYSON: (Shaking head.)

21 JUDGE RENDAHL: No.

22 Ms. Malanca, do you have questions?

23 MS. MALANCA: No.

24 JUDGE RENDAHL: Okay.

25

0083

1 E X A M I N A T I O N

2 BY JUDGE RENDAHL:

3 Q. Mr. Harrington, just going back to the
4 discussion of the larger than residential rates, I
5 understand from Mr. Ward's comments as well that that
6 was not something that was discussed during the
7 settlement. Is it your understanding that the rates as
8 proposed are what will go into tariff or that there will
9 be no inclusion in the tariff for larger than
10 residential meter size?

11 A. It's our preference and understanding that it
12 would be at the rates proposed in the initial filing.

13 Q. Have you, during the settlement discussions,
14 were the calculations set forth in Exhibit 3, was that a
15 part of the settlement discussion, or was this developed
16 purely for filing the settlement? Maybe that's a
17 question for Mr. Ward. I mean had you seen this prior
18 to the settlement being filed?

19 A. We had seen this prior to the settlement, and
20 kind of the theory that I was operating under is that if
21 it hadn't been addressed that it was acceptable.

22 JUDGE RENDAHL: Okay.

23 Are there any other questions?

24 MS. TENNYSON: I do have some follow-up
25 questions.

0084

1 BY JUDGE RENDAHL:

2 Q. Mr. Harrington, I think, has a continuation
3 of his statement.

4 A. I think I just wanted to make one additional
5 comment. There's two, maybe three potential
6 connections, and two of those three are not in operation
7 or in business at this time and haven't been for all of
8 this year and a good portion of last year, one being the
9 restaurant, the other one being the motel.

10 Q. Now are those proposed businesses that are
11 not constructed yet or --

12 A. They're constructed and just closed. The
13 economy I don't think was capable of supporting the
14 facilities that are there.

15 Q. And do those facilities, the motel and the
16 restaurant, do those have larger than residential?

17 A. I believe they have a 1 inch line going to
18 the restaurant and a 2 inch line going to the motel.

19 Q. And then you mentioned a third potential
20 connection, is that a proposed construction?

21 A. Well, no, it's actually the pool, and my hope
22 is that we'll continue along the lines. Many of the
23 neighbors that are heavily involved in the pool wanted
24 to see no charge for the water provided at the pool.
25 The potential charge for the pool would be the same rate

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1 as is currently charged for a residential connection on
2 a flat rate basis. They do have a meter installed in
3 the service that provides water for the filling and
4 maintenance of the pool and also for the showers and the
5 dressing room. And then there are a few other customers
6 that would just as soon not see the community
7 association, well, how do I phrase this, well, the pool
8 not get off scott free.

9 MR. HARRINGTON: Is that fair?

10 MS. MALANCA: Mm-hm.

11 MR. HARRINGTON: Okay.

12 BY JUDGE RENDAHL:

13 Q. Just to clarify, the pool, is that a
14 residential connection so a 3/4 inch size pipe?

15 A. You know, I put that in myself and I'm trying
16 to remember. I think it might be a 1 inch.

17 Q. But at this point in the way the rates have
18 been calculated for purposes of settlement, there's no
19 separate rate for the pool, and that the --

20 A. I don't believe the pool is being charged at
21 all.

22 JUDGE RENDAHL: Thank you. Do you have any
23 further statement or comment?

24 MR. HARRINGTON: No, thank you.

25 JUDGE RENDAHL: Okay, Ms. Tennyson.

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2

C R O S S - E X A M I N A T I O N

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BY MS. TENNYSON:

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8

Q. Mr. Harrington, you have raised the question of the larger than residential rate design, and I believe I heard you just indicate that you thought that the tariff filing you would do would be based on what you originally filed. Is that --

9

A. For the larger minimum monthly rate, right.

10

11

12

Q. When you did your filing of Schedule Number 6 with a metered rate service, what did you base your 1 inch service rate on?

13

A. We based it --

14

15

16

Q. Excuse me a minute. You had a 3/4 inch service in that at \$32.50 which we're now at the metered base rate of \$22.80.

17

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A. Correct. The whole point was we had our own X factor, if you will, as to how we determined what capacity should be in place. I think Mr. Ward adequately explained the viewpoint that's been used in the past between the UTC and the Department of Health. And if need be, the Company is certainly willing to just go with the rates that are on the Exhibit 3 for purposes of facilitating and not having this become a sticking point, if you will.

0087

1 Q. Okay. As Mr. Eckhardt next to me actually
2 did some quick calculations, it appears that if we --
3 looking at your calculation of the rates included for
4 the larger services in your Schedule Number 6 as filed
5 that you actually used a 1.67 factor, and Mr. Ward used
6 1.7 for the 1 inch meter. And you used 3.32, whereas he
7 used 3.30 for the 1 1/2 inch meter. For the 2 inch
8 meter that you used 5.32, he used 5.30. Which is
9 they're virtually identical, they're very, you know,
10 obviously a couple of decimal points off.

11 A. Yeah, I think the difference is making the
12 assumption of how much consumption might occur, but I
13 could be wrong on that. I just looked at our filing 2
14 inch service as \$173.22, and I look at the base for the
15 larger than residential here, and it says \$120.84. That
16 difference of about \$53 seems to be more than a
17 difference of 5.32 versus 5.3, but that's just --

18 Q. But wasn't your calculation based on a base
19 of the 3/4 inch meter rate of \$32.50?

20 A. Yes, it was.

21 Q. Which is much larger than the \$22 --

22 A. Correct.

23 Q. Okay. You also in your statement you made
24 reference to the facility charge. Now you have signed
25 an agreement that includes zero dollars for the facility

0088

1 charge. By your testimony today, are you saying you've
2 changed your mind and you don't agree with that?

3 A. No, I just want it to be on the record,
4 because even though I made a point of it during the
5 settlement agreement, I wanted to get that point on the
6 record that, in fact, we had been approached by several
7 property owners immediately adjacent to the Timberline
8 Village area to provide them with water, and we thought
9 it was very appropriate that the existing customers
10 benefit as a result of a facilities charge to be charged
11 by those folks to be connected to the system.

12 MS. TENNYSON: Okay, thank you.

13 JUDGE RENDAHL: Ms. Tennyson, do you have
14 further questions?

15 MS. TENNYSON: I don't believe so, thank you.

16 JUDGE RENDAHL: Okay.

17 Ms. Malanca, do you have any questions for
18 Mr. Harrington?

19 MS. MALANCA: No.

20 JUDGE RENDAHL: Okay.

21 So at this point I guess what I would request
22 the parties to do on the issue of the larger than
23 residential rates, unless Mr. Harrington at this point
24 you're, you know, since your concession to what's in
25 Exhibit 3 is correct, I would expect a letter from the

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1 parties clarifying this point.

2 MR. HARRINGTON: We're prepared just to
3 accept what's in Exhibit 3. We don't want to protract
4 the process. Make it easier for you to meet your
5 vacation schedule and our need to get on with it.

6 JUDGE RENDAHL: Okay.

7 MR. HARRINGTON: Please.

8 JUDGE RENDAHL: Thank you, thank you for that
9 clarification.

10 Okay, with that, you're excused as a witness.

11 And, Ms. Malanca, do you have a statement you
12 would like to make --

13 MS. MALANCA: No, I don't.

14 JUDGE RENDAHL: -- on behalf of the
15 Association?

16 MS. MALANCA: No.

17 JUDGE RENDAHL: With that, I think our formal
18 portion of the hearing is concluded, and we have gone
19 into what was the question and answer session, but
20 there's nobody here. So let's be off the record, we
21 will be adjourned, the formal portion of this hearing is
22 adjourned, and we will be off the record, thank you.

23 (Hearing adjourned at 5:15 p.m.)

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