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December 20th, 2010

Mr. David Danner, Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Subject: Country Meadows East #2 Tariff Filing

Dear Mr. Danner:

The Country Meadows East #2 water system, WSID #62021B is requesting approval of the attached tariff prepared by its satellite management agency, Northwest Water Systems. The water system has operated at a loss for several years, and only remains solvent due to frequent large infusions of money from the owner. The system has not filed a new tariff in nearly 8 years, and thereby has not kept pace with inflation in fees or materials. Further, heavy system use has resulted in very high treatment costs to the water system over the past several years. All of these factors combined have resulted in the need for the system to adjust their tariffs to remain financially viable.

Filing Purpose

This rate filing has several purposes: (1) to increase revenues in order to meet the financial burden of operating the system, (2) to establish a tiered rate structure to encourage conservation and (3) to ensure that the users of the system are equitably charged for their use. The water system has significant quality issues that require treatment, the cost of which is proportional to the usage on the system; therefore it is very important that users are proportionally charged for their consumption.

System History

The community was developed by Horizons West Development and served by 4 Group B water systems. The developer used loans from Olympic Coast Investments, owned by Robert Hoss. The developer defaulted on the loans and two of the water systems became the property of Olympic Coast Investments. During the course of this process, and the years that followed, most of the water system documentation was not provided to Olympic Coast Investments. At an unknown point in time, the original systems "2" and "4" were intertied and reclassified as a community Group A system.

Because of the poor documentation the system has only recently discovered 6 additional houses on the system, increasing the paying base from 8 homes to 14. This discovery was made during a routine water service disruption to install service meters. This documentation problem extends to nearly every part of the water system, and consequently much of the utility plant cannot be used as rate base. Only that hardware for which there is a clear record of purchase and installation is included in the depreciation schedule. All known active users are included for rate setting, although only those users who have had reliable service meter data were used in determining the tiered rates.

The system was managed for much of the past 10 years by Helens Pump. The water system recently contracted with Northwest Water Systems as their satellite management agency. Financial records were provided by Christina Williams of Olympic Coast Investments.

Impact on system users

All metered water service connections will be billed on a tiered basis according to the attached tariff. One home is currently uninhabited, and should water service be requested before meter installation can be completed, a tariff for flat rate service is included. The new tariff will result in a very large increase in system rates, and relatively high overall system rates. This is the unfortunate consequence of a number of factors: (1) The water system has a small subscriber base, with only 14 customers to pay the fixed costs of operating the system, (2) The system has relatively high sampling costs because of its unmixed wells (3) Water from the sources must undergo treatment utilizing salt, which has resulted high historical costs to the water system, and (4) The system has been unmetered historically and several of the users have very high usage, which has increased treatment and other operational costs. The overall system revenues must increase by 96.3%; therefore, the rates charged to the individual customers will be increased by this amount. Only residential service is discussed because there are no business, wholesale or other types of connections on this system.

The resulting increase in revenue will likely be somewhat lower than what is calculated. Once a tiered price model is imposed, the users are likely to reduce their consumption considerably. Many of the users exceed 1,000 gpd through the summer, and several exceed 3,000 gpd. Once these very heavy users either reign in their consumption, or begin paying their fair portion of the cost of the system the overall increase in revenue will likely be more modest. Several customers with lower use will see much more modest rate increases and will be rewarded for their conservative use of the water system. It is likely the rates will require amendment within the next 18 months.

Included Documentation

Attached with this filing are the proposed Tariff pages marked WN-U2, which are to completely replace the existing tariff. Also attached are the work papers as required in WAC 480-07-530(4) with a cover sheet that describes where necessary the calculations used in the work papers. Also attached is the "General Rate Case Workbook (small).xlsx" provided by WUTC to construct the work papers. The attachments "Invoices – Capital Projects.pdf" and "Invoices – Operations" are included showing the source information used to complete the workbook. The file "Tariff Impact.pdf" shows the user by user, billing by billing impact that the proposed rate structure would have once implemented, based on last service meter data from the past year.

Any additional request for information should be directed to me, Jester Purtteman, at the number above, or at jester@nwwatersystems.com, thank you.

Sincerely

Jester Purtteman, E.I.T.
Northwest Water Systems

Attached:

- Proposed Tariff
- Customer Notice
- Work Papers
 - Revenue Impact Calculation
 - Balance Sheet
 - Revenues and Expenses
 - Depreciation Schedule
 - Income Statement
 - Usage Data and Analysis
- Tariff Impact breakdown