WASHINGTON WATER SERVICE COMPANY

December 29, 2015

Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

RE: Rulemaking to Consider Adoption of Rules Relating to Water Companies, Docket UW-143295

Mr. King:

I applaud the Commission in its efforts to look outside the box in assisting small water systems and their financial viability. I appreciate the opportunity to comment and have outlined mine below.

1. **Marginal Investment Approach (Restructured Investment).** I understand that this method has been successfully used in other states such as Pennsylvania, with historical rate making as a "Distribution System Improvement Charge". I see that there is a down side for small companies that are not growing. They have no rate base, no funds to invest, nor has the water system established enough credit to obtain loans for improvements.

2. **Operating Ratio Rate Setting.** This method is also used in California (Rate of Margin) for small water companies. Small companies have the option of setting rates based on cost of service or operating ratios. If the company has a small rate base, operating ratios typically produce higher rates. I see this as the most viable option for small companies, however, if not monitored closely, may be something that keeps non-involved owners in the water business allowing them to continue to pull funds out of the water system for their own benefit.

3. **Inflation Adjustment Filing.** This has appeared to work well in states such as New Mexico, and may be a benefit for larger utilities, especially if capital could also be added or used in place of an inflation adjustment, to allow a quicker process outside a formal rate filing to recover on a water systems investment. I think would help to encourage water utilities to invest in their systems: Whereby, if a water company had a current (past 3-5 years) rate filling where rate base and depreciation had been set, they could at the beginning of each year, submit a budget of capital improvements that either were approved by DOH or were in a DOH approved Water System Plan, for completion in the upcoming year. Then at the end of the budgeted year, they would submit the engineers' certification with actual cost of the project with an explanation to the commission for any variation of costs over that would allow the utility to adjust rates based the addition of the newly installed plant less depreciation. This would be submitted along with a revised rate sheet and copy of the com-

mission approved 30-day customer notice showing the effective date of the new rate after 30 days.

4. **Contributions in Aid of Construction (Advances for Construction).** I feel this is an option that is already available to water systems, via a contract. It seems to work well for water systems in areas with growth potential and an option we used during the mid 1980's and into the 1990's when CIAC was taxable to utilities. It provides a method to capitalize new plant and if coupled with a "Ready to Serve" charge, eliminates the risk to rate payers paying for plant that does not benefit them ,or that are slow to build out. Provides a potential benefit to developers & future homeowners, by reducing development costs. One issue that needs to be watched close is the interest that is paid on the financed debt to the developer.

Sincerely,

Michael P. Ireland
President

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