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STATE OF WASH.  
UTIL. AND TRANS.  
COMMISSION

BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

TIMBERLINE VILLAGE WATER CO.,  
INC.,

Respondents.

DOCKET NO. UW-030410

SETTLEMENT AGREEMENT

**BACKGROUND**

1 Timberline Village Water Company, Inc., (Timberline Village) is a water company and is a public service company subject to the jurisdiction of the Washington Utilities and Transportation Commission (Commission). The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, affiliated interest transactions, and transfers of public service companies, including water companies. *RCW 80.01.040; Chapter 80.04 RCW; Chapter 80.08 RCW, Chapter 80.12 RCW, Chapter 80.16 RCW, and Chapter 80.28 RCW.*

2 On March 26, 2003, Timberline Village filed with the Commission revisions to its currently effective Tariff WN U-1, designated as:

Third Revised Sheet No. 2 canceling Substitute Second Revised Sheet No. 2;

First Revised Sheet No. 9 canceling Original Sheet No. 9;

First Revised Sheet No. 20 canceling Original Sheet No. 20;

Third Revised Sheet No. 22 canceling Second Revised Sheet No. 22;  
First Revised Sheet No. 30 canceling Original Sheet No. 30; and  
Original Sheets No. 34, 35, 36, and 37.  
The stated effective date is May 1, 2003.

- 3 This filing includes a general rate case in the amount of \$57,109 (119%), including an increase in the connection charge, several new ancillary charges, and a new facilities charge of \$1,850. Timberline Village serves approximately 213 customers east of Packwood and is located in east Lewis County.
  
- 4 The filing would increase charges and rates for water service provided by Timberline Village. This matter was brought before the Commission at its regularly scheduled meeting on April 30, 2003. Because Timberline Village had not demonstrated that the increases would result in rates that are fair, just and reasonable, and the proposed increases might injuriously affect the rights and interests of the public, the Commission suspended the tariff filing and determined to hold public hearings if necessary to determine whether the proposed increases are fair, just and reasonable.
  
- 5 Timberline Village has contracted with Utility Management Services (UMS) to operate and maintain the water system, including repairs and customer billings. UMS is an affiliated interest, as defined in RCW 80.16, of Timberline Village, and of five other regulated water companies for which it performs services. Timberline Village has proposed a model for allocating UMS' costs of operations and services to all of the affiliated, regulated water companies, and has requested that the Commission approve the model for all affiliated, regulated water companies for this case and future rate cases.

## TERMS OF SETTLEMENT AGREEMENT

### I. Revenue Requirement for Timberline Village.

6 The revenue requirement for Timberline Village will consist of five separate components as follows:

- A) Operating Costs, Excluding Officer Salary, UMS Property and Liability (General and Umbrella) Insurance, and UMS Costs
- B) Officer Salary
- C) UMS Property and Liability (General and Umbrella) Insurance
- D) UMS Costs
- E) Return on Rate Base

#### A. Timberline Village Costs, Excluding Officer Salary, UMS Property and Liability (General and Umbrella) Insurance, and UMS Costs

7 Costs for Timberline Village have been determined using standard regulatory accounting, using a historical 12-month test period with actual per-book numbers, restating adjustments to reflect only in-period costs, and pro forma adjustments to reflect known and measurable changes to the test period costs.

#### B. Officer Salary

8 Staff and Mr. Harrington agree that the total Officer Salary (salary, 20% benefits, and associated taxes), will be allocated to each of the affiliated, regulated water companies on a proportional basis, using the number of customers served by each affiliated, regulated water company.

#### C. UMS Property and Liability (General and Umbrella) Insurance

9 UMS' insurance policy consists of insurance coverage for Automobiles, Property, and Liability (General and Umbrella). The Automobile insurance premium is included in the General and Administrative category of UMS Costs and allocated as set forth in D (3)(c). A portion of the Property insurance premium is allocated to UMS using the ratio of

UMS Net Assets to Total Net Assets (3.44%). This amount is included in the General and Administrative category of UMS Costs and allocated as set forth in D (3)(c). The remaining cost for Property insurance is allocated directly to the affiliated, regulated water companies using customer count. The Liability (General and Umbrella) insurance premium is allocated directly to the six affiliated, regulated water companies, the non-regulated SMA functions and Other Work Recovery using customer count. Staff and UMS agreed to use 63 customers for "Other Work Recovery."

#### **D. UMS Costs**

10 UMS performs the following activities or services:

- Satellite Management Agency (SMA) Services (Operating, Maintenance and Billing service) to six affiliated, regulated water companies:
  - H & R Waterworks, Inc.
  - Meadows Water System, LLC
  - Quail Run Water Company
  - Tall Timber Water Systems, LLC
  - Timberline Village Water Co., Inc.
  - WACOWA (The Water Company of Washington, LLC)
- Satellite Management Agency Services (SMA) to non-regulated water companies;
- Construction services to both affiliated and non-affiliated, regulated and non-regulated water companies, and to non-water companies; and
- Other services.

1. UMS Total Cost will be determined using standard regulatory accounting using a historical 12-month test period with actual per-book numbers, restating adjustments to reflect only in-period costs, and pro forma adjustments to reflect known and measurable changes. Because Officer Salary is treated separately in I (B), restating adjustments remove salary, benefits, and associated taxes for Stephen L. Harrington. Because UMS Insurance is treated separately in I(C), restating adjustments remove the cost of the insurance premiums for UMS Property and Liability (General and Liability). This accounting analysis

determines how much customers of affiliated, regulated water companies will pay for UMS services, not what UMS can charge for services provided to non-regulated entities.

2. UMS Functional Costs. UMS has identified four separate work functions: Meter Reading/Testing, Technical Field Support, Administrative, and General Management. UMS currently operates with one Meter Reader/Tester, three Technical Field Support personnel, and four Administrative and three General Management personnel. UMS separates its Total Costs into the four different work functions.

3. UMS allocation factors. UMS proposes to use the following allocation factors:

- a) Meter Reading/Testing function. UMS used actual time sheets for the month of January 2003 to assign "Direct Hours" to the various affiliated, regulated water companies and other UMS activities. UMS allocates all costs for this function using "Direct Hours."
- b) Technical Field Support function. Because UMS does not have accurate employee time sheet information for the calendar 2002 test period, UMS used a standard cost method that identified work tasks, conducted time and motion studies, and estimated frequency to perform each work task to calculate the estimated annual "Direct Hours" and allocates all costs for this function on that basis.
- c) Administrative and General Management – First, a portion (7.0%) of the Total Administrative and General Management costs are allocated to the UMS "Other Work Recovery" activity. The balance is allocated to the remaining activities using the number of customers.

11 Although Staff has strong concerns about using standard costs as allocation factors, Staff agrees with UMS that in the absence of accurate time sheets, this process will produce reasonable results for the short term. However, UMS has said that it would prefer using accurate time sheet data, that UMS has begun requiring its employees to maintain accurate time sheets, and now has about nine months of accurate time sheet

SETTLEMENT AGREEMENT - 5

data. To allow UMS additional time to improve the time sheet accuracy, collect data, and analyze the data, Staff believes that it would be reasonable to allow UMS to use this process to allocate UMS Costs for the purpose of setting rates for this case and for other affiliated, regulated water companies until May 1, 2004.

- 12 UMS and Staff agree that UMS can use the allocation factors set forth above to allocate UMS Costs to affiliated, regulated water companies until May 1, 2004. UMS and Staff agree that, after May 1, 2004, UMS will need to assign direct costs using time sheet information instead of the estimated allocation factors generated by UMS's proposed model.

**E) Rate of Return**

- 13 Staff and Timberline Village agree that the overall rate of return will be 7.04%, calculated on \$83,178 Rate Base, 12% Rate of Return on Equity, actual cost of 3<sup>rd</sup> party debt, 6.75% (prime plus 200 basis points) on owner held debt, and actual capital structure.

**F) Revenue Requirement And Rates**

- 14 This Settlement Agreement results in a revenue increase of \$32,181 (69.94%) in annual revenue. *See* Attachment A, Results of Operations Statement for Timberline Village, which is incorporated into this Settlement Agreement by this reference. Rates are as follows:

	<u>Current</u>	<u>Proposed</u>	<u>Settlement</u>
Ready to Serve	none	\$15.62	\$7.55
Flat Rate	\$16.80	\$34.19	\$27.60
Metered Rate			
Base Charge (zero usage)	none	\$32.50	\$22.80
Usage: 1 – 400 cu. ft.	none	.012/cu.ft	\$.012/cu. ft.

>400 cu. ft.            none            .0175/cu.ft   .0175/cu. ft.  
 Plus B & O tax at 5.029%

	<u>Current</u>	<u>Proposed</u>	<u>Settlement</u>
Late charge	none	\$3.50	\$3.50
New Account fee	none	\$15.00	\$15.00
NSF fee	none	\$25.00	\$15.00
Service Connection Fee	\$200	\$550.00	\$550.00
Facilities Charge	none	\$1,850.00	none
Special Meter Read	none	\$25.00	\$25.00

No other ancillary charges included in Timberline Village’s original rate filing will be changed.

**II. Application to Affiliated Regulated Water Companies.**

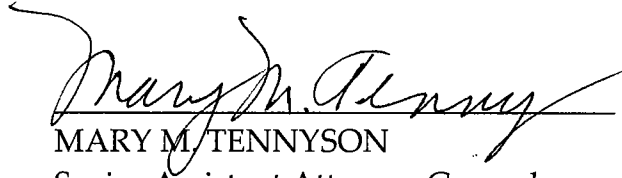
15 To simplify the rate-setting process and ensure that rates at each of the affiliated, regulated water companies reflect the appropriate costs for Officer Salary and UMS Services, Staff and Mr. Harrington agree that the appropriate “UMS Total Cost,” as described in Section I (D)(1), will be apportioned according to the cost allocation model described in Sections I(C), I (D)(2), and I (D) 3, and that the appropriate “Officer Salary” will be apportioned as described in Section I (B). Staff and Mr. Harrington further agree that the results will flow through to each of the regulated water companies affiliated with UMS and appropriate tariff changes filed with the Commission.

**III. Effective date of new rates.**

16 The parties agree to pursue presentation of this Settlement Agreement in order to allow the revised rates to become effective on September 1, 2003. All parties agree that the agreements reached in resolution of this case, the adjustments allowed in this case, and the filing in this case do not constitute precedent for these companies or any other company in terms of methodology or allowance of adjustments. By entering into this Settlement Agreement, neither Staff nor Timberline Village intends the items agreed upon to be binding on either party in future proceedings. However, Mr. Harrington and Staff intend to use the same methodology to set rates for affiliated, regulated water

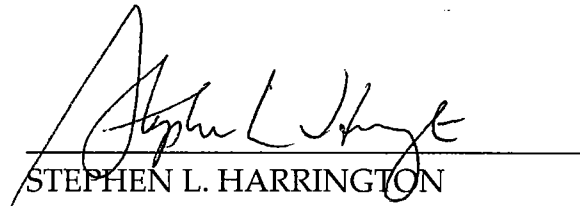
companies until May 1, 2004. If the Commission rejects this Settlement Agreement, each party reserves the right to take different positions at hearing.

SIGNED this 8<sup>th</sup> day of August, 2003.



MARY M. TENNYSON  
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Washington Utilities and  
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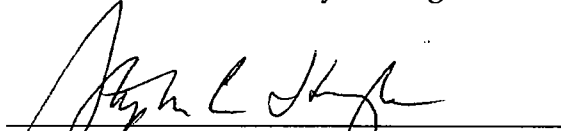
SIGNED this 8<sup>th</sup> day of August, 2003.



STEPHEN L. HARRINGTON  
PRESIDENT  
TIMBERLINE VILLAGE WATER CO., INC.

By signing this agreement, Utility Management Services is not agreeing that it is a public service company subject to the regulation of the Washington Utilities and Transportation Commission.

SIGNED this 8<sup>th</sup> day of August, 2003.



STEPHEN L. HARRINGTON  
PRESIDENT  
UTILITY MANAGEMENT SERVICES



**Timberline Village Water Company, Inc.**  
Final Settlement UW-030410

**RESULTS OF OPERATION STATEMENT**  
for 12 MONTHS ENDED 12/31/02

Attachment 1

COMPANY 12/31/02	RESTATE ADJ	PER BOOK ADJ	PROFORMA ADJ	PROFORMA BEFORE	PROPOSED RATES	PROPOSED PERIOD	REVISED RATES	REVISED PERIOD
<b>REVENUES</b>								
Unmetered Sales	45,167	45,167 P3	(2,163)	43,004 P1	45,251	88,255 S1	27,910	70,914
Metered Sales, Residential		0 P2	848	848		848		848
Ready to Serve		0			8,400	8,400 S1	4,076	4,076
Utility Tax - State		0 P3	2,163	2,163 P1	2,698	4,861 S1	1,853	4,016
Other Income, Ancillary Charges	3,199	3,199 P4	(3,199)	0 P1	195	195		195
<b>OPERATING REVENUE</b>	<b>\$48,366</b>	<b>\$48,366</b>	<b>(\$2,351)</b>	<b>\$46,015</b>	<b>\$56,544</b>	<b>\$102,559</b>	<b>\$33,839</b>	<b>\$80,049</b>
					116.59%	18.32%	69.94%	7.04%
						\$34.22		\$27.56
<b>EXPENSES</b>								
Salary Employees	\$17.67	\$17.67		\$16.84				0
Salary Officers	13,800	13,800 P5	3,780	17,580		17,580 P5a	(5,205)	8,595
Employee Pension/Benefit	0	0 P6	3,516	3,516		3,516 P6a	1,719	1,719
Purchased Power	5,511	5,511		5,511		5,511		5,511
Chemicals	0	0		0		0		0
Material & Supplies	3,038 R5	336		336		336		336
Contractual Engineer	0	0 P7		0		0		0
Contractual Accounting	0	0 P8	850	850		850		850
Contractual Legal	138	138		138		138		138
Contractual Ops/Mgmt/SMA	23,153	23,153 P9	1,447	24,600		24,600 P9a	3,451	26,604
Testing	572	572		572		572		572
Rents / Building, Property	0	0		0		0		0
Transportation	149 R4	(149)		0		0		0
Insurance	1,608 R8	(292)	760	2,076		2,076 P10a	994	3,070
Regulatory, Fees / Rate Case	270	270		270 P1	49	319 S1	59	329
Bad Debt	405 R4	(354)		50		50		50
Travel/ Education/ Bank/ CCR	286	286		286		286		286
Office/ Postage / Phone	1,656	1,656		1,656		1,656		1,656
Repairs	13,797 R6	(4,944)	8,853	8,853		8,853		8,853
Depreciation	6,743 R1	390	306	7,439 P11		7,439 P11a	928	8,367
Utility Excise Tax	2,107 R2	164		2,271 P1		2,271 P1	1,745	4,016
Property Tax	571	571		571		571		571
Payroll Tax	2,511 R3	(600)		1,911		1,911 P5	(704)	1,207
Other Tax & License	425	425		425		425		425
<b>OPERATING EXPENSES</b>	<b>\$76,740</b>	<b>\$68,252</b>	<b>\$10,659</b>	<b>\$78,911</b>	<b>\$3,905</b>	<b>\$82,816</b>	<b>\$2,988</b>	<b>\$73,156</b>
<b>OPERATING INCOME</b>	<b>(28,374)</b>	<b>8,488</b>	<b>(13,010)</b>	<b>(32,895)</b>	<b>52,639</b>	<b>19,743</b>	<b>30,851</b>	<b>6,894</b>
Interest Expense	0	0		0		0		0
Fed Income Tax - 15%	0	0		0		0		0
<b>TOTAL EXPENSE</b>	<b>76,740</b>	<b>68,252</b>		<b>78,911</b>	<b>2,962</b>	<b>2,962 S1</b>	<b>1,034</b>	<b>1,034</b>
<b>INCOME (LOSS)</b>	<b>(\$28,374)</b>	<b>(\$19,886)</b>	<b>(\$13,010)</b>	<b>(\$32,895)</b>	<b>\$49,677</b>	<b>\$16,782</b>	<b>\$29,817</b>	<b>\$5,860</b>
<b>NET OPERATING INCOME</b>	<b>(\$28,374)</b>	<b>(\$19,886)</b>	<b>(\$32,895)</b>	<b>(\$32,895)</b>		<b>\$16,782</b>		<b>\$5,860</b>
<b>BEYO</b>								
UTIL PLANT IN SERV	155,567 R5,6	163,213	(30,917)	132,296		132,296 P12	(8,439)	123,857
ACCUM DEPRECIATION	(52,018) R1	(39,322)	3,566	(35,756)		(35,756)		(35,756)
ACQUISITION ADJUSTMENT	0	0		0		0		0
CIAC PLANT IN SERV	(3,723) R1	(6,123)	1,200	(4,923)		(4,923)		(4,923)
ACCUM AMORTIZATION	0	0		0		0		0
<b>NET RATE BASE</b>	<b>\$99,826</b>	<b>\$117,768</b>	<b>(\$26,151)</b>	<b>\$91,617</b>	<b>\$0</b>	<b>\$91,617</b>	<b>(\$8,439)</b>	<b>\$83,178</b>
<b>RATE OF RETURN %</b>	<b>-28.42%</b>	<b>-16.89%</b>	<b>4.0</b>	<b>-35.91%</b>		<b>18.32%</b>		<b>7.04%</b>
Customer Count	213	213		217		217		217

