

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

vs.

RAINIER VIEW WATER COMPANY,
INC.,

Respondent.

DOCKET NO. UW-041384

NARRATIVE SUPPORTING
SETTLEMENT AGREEMENT

I. INTRODUCTION

1 This Narrative Supporting Settlement Agreement (Narrative) is filed pursuant to WAC 480-07-740(2)(a) on behalf of the signatories to the Settlement Agreement filed in this docket. This Narrative summarizes the major terms of the Settlement Agreement, and it is not intended to modify any of the Settlement Agreement terms.

2 The signatories to the Settlement Agreement are Staff of the Washington Utilities and Transportation Commission (“Staff”) and Rainier View Water

Company, Inc., (Rainier View) (collectively, the “Parties”). Staff and Rainier View are the only parties in this docket.

3 The Parties do not intend to file documentation supporting the Settlement Agreement in addition to the Settlement Agreement and this Narrative. The Parties are willing to provide additional supporting documents should the Commission deem such documents necessary or appropriate.

4 The Parties urge the Commission to schedule proceedings to consider the Settlement Agreement as soon as practicable.

II. UNDERLYING DISPUTE

5 Rainier View filed a proposed conservation rate with the Commission on July 30, 2004. The proposed conservation rate would raise the charge for water usage over 3,000 cubic feet from \$0.85 per 100 cubic feet to \$5.00 per 100 cubic feet. The proposed conservation rate would be in effect each year from May 1 through September 30 and would apply to all of Rainier View’s customers. The Commission suspended operation of the tariff pending hearing to determine whether the proposed conservation rate resulted in fair, just, and reasonable rates.

III. OVERVIEW OF SETTLEMENT AGREEMENT

6 The Settlement Agreement consists of two documents: (1) the Settlement Agreement, which describes the terms of the Parties’ agreement, and (2)

Attachment A to the Settlement Agreement, which shows the calculations associated with the agreement.

7 The Parties agree that a conservation rate is needed to help curtail the excessive water usage of certain customers. High-volume usage over 3,000 cubic feet of water a month has caused Rainier View's peak day demand to dramatically increase from 800 gallons per day per customer (gpd/customer) to 1,000 gpd/customer.¹

8 Under the Settlement Agreement, the Parties agree that the proposed conservation rate should apply only to residential customers and should not apply to non-residential customers at this time.² Rainier View is currently working with its non-residential customers to reconfigure its Equivalent Residential Unit (ERU) allocation to more accurately reflect their actual usage because many of the non-residential customers use more than one ERU of water.³

9 Three thousand cubic feet of water is the appropriate threshold above which to apply the proposed conservation rate because it is consistent with Rainier View's target peak day demand.⁴ Peak day demand is approximately twice the average

¹ Settlement Agreement ¶2.4.

² Settlement Agreement ¶ 3.1.

³ Settlement Agreement ¶ 2.5.

⁴ Settlement Agreement ¶ 3.2.

day demand.⁵ Five dollars is a reasonable rate consistent to charges imposed in the region by other water companies for use above certain high-use thresholds.⁶

10 The Parties agree that Rainier View should set aside certain funds generated by the proposed conservation rate.⁷ Under the Settlement Agreement, Rainier View will set aside the excess revenue, which is the amount of actual revenue for the period that exceeds the amount Rainier View would have recognized had the conservation tariff not been in effect.⁸

11 To determine the excess revenue, the Parties have created a benchmark, which uses a three-year average of revenue from residential customers using more than 3,000 cubic feet of water per month during calendar years 2002, 2003, and 2004.⁹ Using revenue generated only from the residential customers using more than 3,000 cubic feet of water per month protects Rainier View from changes in revenue related only to the proposed conservation tariff.¹⁰ Using a three-year average mitigates yearly weather variances.¹¹ The calculation of the benchmark is described in Settlement ¶ 3.8. The calculation of excess revenue is described in

Settlement ¶¶ 3.9 through 3.11.

⁵ *Id.*

⁶ Settlement Agreement ¶ 3.3.

⁷ Settlement Agreement ¶3.5.

⁸ Settlement Agreement ¶ 3.6.

⁹ Settlement Agreement ¶¶ 3.7-3.8.

¹⁰ Settlement Agreement ¶ 3.7.

¹¹ Settlement Agreement ¶ 3.8.

Under the Settlement Agreement, a revenue floor is developed for Rainier View's operating revenue. The revenue floor protects Rainier View from decreased customer usage. If the amount of operating revenue generated from the proposed conservation rate is less than the revenue floor, Rainier View may, to the extent funds are available, recover the difference from the excess revenue.¹²

12 The Parties agree that the excess revenue generated from the proposed conservation rate will be recorded in a separate CIAC sub-account with an off-setting debit to revenue.¹³ The set-aside funds may be used only for the benefit of the ratepayers by supporting new water conservation programs and water sustainability goals.¹⁴ The Parties agree that Rainier View will not use the set-aside funds for ongoing conservation efforts, conservation efforts Rainier View took in the past, or Rainier View's daily operations.¹⁵ By requiring Rainier View to set the excess revenue aside and use the funds for specific purposes, the Commission would create a regulatory liability consistent with FASB 71, Paragraph 11(b).¹⁶

13 Under the Settlement Agreement, Rainier View's rate base will not be reduced by the CIAC generated by the proposed conservation rate for ratemaking

¹² Settlement Agreement ¶ 3.12.

¹³ Settlement Agreement ¶ 3.13.

¹⁴ Settlement Agreement ¶ 3.5.

¹⁵ *Id.*

¹⁶ Settlement Agreement ¶ 3.14.

purposes. Rainier View's rate base will be reduced by any amounts from the CIAC sub-account that are capitalized in its Total Plant in Service account.¹⁷

14 The effective date of the Settlement Agreement is the date the Commission enters an order fully accepting the Settlement Agreement. If the Commission accepts the Settlement Agreement upon conditions not proposed by the Parties, the effective date is five days after the date of the Commission's order if no Party files an objection to the conditions. If the Commission accepts the Settlement Agreement upon conditions not proposed by the Parties and a Party files a timely objection to the conditions, the Settlement Agreement is not effective.

IV. STATEMENT OF PARTIES' VIEW ABOUT WHY THE SETTLEMENT SATISFIES THEIR INTERESTS AND THE PUBLIC INTEREST

15 WAC 480-07-740(a) requires this Narrative to include a "statement of parties' views about why the proposal satisfies both their interests and the public interest." Each Party has contributed the following separate statements:

A. Statement by Commission Staff

16 Commission Staff believes the Settlement Agreement filed in this docket is a fair resolution of the issues presented. The Settlement agreement appropriately recognizes the need to reduce water usage to a reasonable level and provides

¹⁷ Settlement Agreement ¶ 3.15.

benefit to the ratepayer. The Settlement Agreement also applies the proposed conservation rate to the proper class of customers, but does not foreclose broader application should that become necessary.

17 The Settlement Agreement provides a mechanism to prevent Rainier View from receiving a windfall from the proposed conservation rate. Rainier View is required to use excess revenue produced by the proposed conservation rate to the benefit of its ratepayers by supporting new water conservation programs and water sustainability goals.¹⁸

18 In addition to requiring Rainier View to use the excess revenue for prescribed purposes, the Company is protected from an unnecessary reduction in revenue caused by the proposed conservation rate. The Settlement Agreement protects Rainier View through the revenue floor.¹⁹

19 The Settlement Agreement also advances the public interest by resolving this docket without the added expense and uncertainty associated with litigation. Staff recommends that the Commission accept the Settlement Agreement. Because Rainier View intends to engage in customer education prior to the proposed conservation rate going into effect in May 2005, Staff recommends the Commission address the Settlement Agreement as soon as practicable.

¹⁸ Settlement Agreement ¶ 3.5.

¹⁹ Settlement Agreement ¶ 3.12.

B. Statement by Rainier View

20 Rainier View supports the Settlement Agreement. Rainier View has actively been pursuing conservation efforts for the past several years. These conservation efforts include customer education as well as curtailment of use in certain instances. Rainier View has found those efforts to be unsuccessful in reducing overall usage to a satisfactory level. Therefore, Rainier View proposed the conservation tariff that is before the Commission. Rainier View appreciates and supports the concerns of Commission Staff that the tariff filing should not result in a windfall to Rainier View. This issue was recognized upfront by Rainier View. Rainier View proposed a solution that has been modified by Commission Staff. The modifications made by Commission Staff are acceptable to Rainier View.

21 Rainier View intends to engage in an extensive customer education program about the conservation tariff. This includes a notice to customer explaining what the charges would have been to the customer in 2004 had the conservation rate been in place. So that education can begin in a timely fashion, Rainier View respectfully requests that the Settlement Agreement be approved as soon as possible. Rainier View would like to begin an advertising campaign prior to the end of March, 2005.

V. SUMMARY OF LEGAL POINTS THAT BEAR ON THE SETTLEMENT

22 Under WAC 480-07-730(1), parties may file a full settlement, which is a settlement entered into by all parties of a proceeding that resolves all issues presented. The Commission has discretion to accept such a settlement, impose conditions on its acceptance, or reject such a settlement. WAC 480-07-750. The Settlement Agreement filed in this case represents the entire agreement among the Parties. The Parties recommend the Commission accept the Settlement Agreement in its entirety.

VI. CONCLUSION

23 The Parties strongly recommend the Commission adopt the Settlement Agreement filed in this docket. The Settlement Agreement fully resolves the issues presented in this docket in a manner that is consistent with the public interest.

DATED this 1st day of March 2005.

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