

Agenda Date: November 26, 2008
Item Number: A1

Docket: UW-081226
Company Name: Suncadia Water Company, LLC

Staff: Gene Eckhardt, Assistant Director of Water and Transportation
Jim Ward, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendations

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Suncadia Water Company, LLC;
2. Allow the revised rates filed November 5, 2008, to become effective December 1, 2008;
3. Apply deferred accounting treatment to the variable portion of the purchased water component of the usage rate and require the company to reconcile and “true up” customer usage charges after a period of twelve months, as set forth in Attachment D to staff’s memorandum;
4. Grant an exemption from the provisions of WAC 480-110-375(3) to allow the company to not read meters when they are covered with snow and ice, require the company to bill customers for only the base meter charge each month that the company does not read meters, and require the company to bill customers for the usage charge over the same number of months that the company does not read the meters; and
5. Require the company to file a new rate case no later than May 1, 2010, using time sheet data to assign operating and maintenance costs directly and actual customer water usage data to design multiple block usage rates.

Background

This memo discusses changes and updates from staff’s October 30, 2008, memorandum.

On July 3, 2008, Suncadia Water Company, LLC (Suncadia Water or company) filed with the commission tariff revisions that would generate \$603,141 (499 percent) in additional annual revenue. Suncadia Water currently charges ready-to-serve customers \$10.00 per month and all water customers, residential and commercial, \$35.00 for unlimited water service. The proposed tariff will change all service to metered rates. This is the company’s first general rate increase since becoming regulated on May 15, 2008.

The water system serves a master planned resort consisting of single family homes, multi-family condominiums, a restaurant, a lodge and two golf courses, located near the City of Cle Elum (Cle Elum) in Kittitas County. The entire development is planned to serve 3,409 total equivalent residential units (ERUs). Suncadia currently serves 125 mixed-use customers, representing 436.6 ERUs (12.8 percent of the planned ERUs), and 608 ready-to-serve customers, representing 608 ERUs (17.8 percent of the planned ERUs). Suncadia Water provides potable water for domestic use through one water system and provides irrigation water using a totally separate water system.

Staff believes that Suncadia Water has demonstrated that it needs additional revenue and current rates are not fair, just, reasonable or sufficient. Using the company’s demonstrated revenue requirement, the company has lost approximately \$294,586 during the five months since the

company filed its proposed increase. The company also advised staff that it has incurred over \$110,000 in rate case costs that are not currently included in this rate case. Staff believes further losses are not in the public interest and, should the commission decide not to approve the company's revised rates, staff recommends that the commission implement deferred accounting treatment to prevent additional harm to the company.

In staff's experience with regulating water companies, rate setting and design evolves through distinct stages: (1) flat rates that are not cost based, (2) flat rates that are cost based, (3) meters that include a usage amount in the base charge with a single usage block, (4) meters with no usage in the base charge and single usage block, and, finally, (5) meters with no usage in the base charge and multiple usage blocks. One of the reasons that the rate design evolves over time is that each change requires more and better data. One of the problems in setting rates for Suncadia Water is the company has no data for assigning maintenance and operating costs (the company began using timesheets on November 1, 2008), and has incomplete data for construction costs – a common problem with water systems that often remains unresolved.

Suncadia Water is currently in the first stage of rate design, as its \$35.00 flat rate is not cost based. In this case, staff believes that Suncadia Water has used reasonable allocation methods to demonstrate an annual revenue requirement for equivalent residential units of \$411,349, or \$78.74 per month per residential unit. Staff believes that rate would be fair, just, reasonable and sufficient.

Instead, the company proposes a stage 4 rate design that uses meters, with no usage in the base charge and a single usage block. This requires more and better data. Staff believes the company has provided reasonable justification using its cost-of-service model and allocation methods that, taken as a whole, provide reasonable results, both in terms of revenue requirement and rates. Staff proposes conditions that will provide more accurate data to improve the cost assignments and set multiple-block usage rates. These conditions include time sheets to provide accurate data for direct assignment instead of allocation (the company started using time sheets on November 1, 2008), a true-up of the water usage charge after twelve months, and a new rate case no later than May 1, 2010. Although not perfect, staff believes the company's proposal is reasonable and a significant improvement over the \$78.74 flat rate scenario. However, staff also believes that further delay to perfect an imperfect situation is not warranted.

The customers propose a stage 5 rate design that uses meters, no usage in the base charge and multiple usage blocks. Staff does not believe there is sufficient data at this time to implement that rate structure.

New Issues

Developer Contract to Build Water Treatment Facilities. The Developer, the City of Cle Elum (Cle Elum) and the Town of South Cle Elum (South Cle Elum), contracted to build a Regional Water Supply System to treat and deliver water to the parties pursuant to the "Water Supply System Project Development Agreement," dated June 19, 2001. The facilities pump water from the Yakima River, treat, store, and deliver the water to Suncadia Water's potable distribution

system, Cle Elum and South Cle Elum. For non-potable water, the facilities pump water from the Yakima River and deliver the water to Suncadia Water's irrigation distribution system.

Cle Elum and South Cle Elum prepared a joint Regional Water Supply System plan, estimated to cost \$4,268,823. Subsequently, the Developer asked Cle Elum to provide water service to its development. The cities agreed, but required the Developer to pay all costs that exceeded the original \$4,268,823 estimate. The original total estimated cost was \$13,556,000: \$4,268,823 (31 percent) from the cities and \$9,287,177 (69 percent) from the Developer. Additional costs for legal and engineering costs, taxes and the Cle Elum river diversion increased total costs to \$16,557,251, and the Developer's share to \$12,937,105. In addition to the original water treatment plant cost schedule, the developer constructed a water reservoir and transmission line from the new water treatment plant to the reservoir for \$2,320,146, and paid \$1,300,000 for future costs to add water treatment capacity. The Developer contributed all facilities to Cle Elum.

Summary of the Developer's Water Treatment Facilities Costs

River intake, transmission lines and water treatment	\$12,937,105
Zone 3 water reservoir and transmission lines	2,320,146
Future Water Supply System capacity improvements	<u>1,300,000</u>
Total Cost to Developer	\$16,557,251

Staff believes the contract appears reasonable.

Purchase Price For Water. Suncadia Water purchases all of its water from Cle Elum pursuant to an "Agreement Relating to Water Delivery to Mountainstar Resort between Cle Elum and Trendwest Resorts, Inc., Trendwest Investments, Inc., and Mountainstar Resort Resources, Inc.," dated June 19, 2001. That agreement defines how Cle Elum will set the rates it charges.

Cle Elum sells water to both Suncadia Water and South Cle Elum. Staff has reviewed Cle Elum's rate setting methodology that sets a fixed (base) rate for each party and a single variable (usage) rate for all parties. Cle Elum incurs fixed (base) operating costs for salaries and supplies, and has established a plant replacement account. Variable (usage) costs include electrical power for pumping and chemicals for treatment. Cle Elum allocates the costs using each party's projected annual water use as a percent of the total projected annual water use. Staff has reviewed the costs and allocation method, and believes they are reasonable.

Commission Jurisdiction Over the Irrigation Water System. Staff reviewed the question of whether the irrigation water service provided to the golf courses (which, for the time being remain under the ownership of the developer Suncadia, LLC) are subject to the Commission's jurisdiction, with rates provided in tariff. Staff believes the answer is yes.

The definition of "water company" does not restrict or limit the types of customers or uses of water. The definition expressly includes systems used not only for residential or "municipal" purposes, but also for "irrigation" or "other beneficial uses for hire."¹ As long as the other

¹ The RCW 80.04.010 definition of "water company" (the term for the entity to which Commission regulation applies) includes every person or entity owning a water system for hire

requirements for commission jurisdiction have been met (e.g., more than 100 customers or \$471 or more in revenue per customer per year, as adjusted by the commission for inflation), then all customers, including commercial, agricultural, or other, are entitled to the benefits of commission regulation.

Although the golf courses currently remain the property of the water company's parent entity, Suncadia, LLC, the statutes do not exempt from commission regulation the rates at which a water company provides water to a parent or other affiliated entity. Although the commission does not regulate the rates at which homeowners' associations provide service to their own members on the theory that such service is not "for hire," that logic does not necessarily apply to a developer who intends to develop property for eventual sale to a third party.

Finally, the rates for the residential customers of Suncadia Water Company, LLC, will be the same regardless of whether the irrigation water rates for golf courses are under tariff. The company's service costs will either be allocated between classes of customers (potable and irrigation water customers), or between regulated and unregulated service. The allocation would be the same in either case. Consequently, the rates paid by potable water customers would be the same in either case.

Changes to proposed rates in response to customer questions

In response to customer comments, the company reviewed its allocation of plant between the potable water system and the irrigation water system. The company filed revised rates on November 5, 2008, to change the base rate and usage rates follows.

Change to Base Rate. A major pumping station, known as UC6, includes a building, pumps, controls and an emergency electrical generator. The building and other items were not previously allocated. The company has reviewed and revised the UC6 allocations, which shifted cost from the potable water system to the irrigation water system. This will result in a \$.94 decrease in the potable water system rates: the base charge decreases from \$42.73 to \$41.79, and the ready-to-serve rate decreases from \$20.79 to \$19.85.

Change to Water Usage Rate. After reviewing the water usage data, the company proposed to use 2007 water purchased from Cle Elum to calculate the usage charge for all potable water customers. The result lowers the usage rate from \$2.65 per 1,000 gallons to \$2.52 per 1,000 gallons.

in this state. "Water system," in turn, means "all real estate, easements, fixtures, personal property, dams, dikes, head gates, weirs, canals, reservoirs, flumes or other structures or appliances operated, owned, used or to be used for or in connection with or to facilitate the supply, storage, distribution, sale, furnishing, diversion, carriage, apportionment or measurement of water for power, irrigation, reclamation, manufacturing, municipal, domestic or other beneficial uses for hire."

Unresolved customer issues

Customers do not agree with the company's assignment of capital costs between the potable water system and the irrigation water system, including allocation of shared construction costs.

Staff reviewed the company's direct assignments and allocations and believes they are reasonable.

Customers do not agree with the company's allocation of maintenance and operating expenses between the potable water system and the irrigation water system. They also ask for a true-up of maintenance and operating costs.

Staff believes that, for this case only, the company's proposed allocations are reasonable. The company has no data to assign direct costs. The allocations are made using the operator's estimate of time required to operate each system. The company began using timesheets on November 1, 2008, and, for the next rate case, will have twelve months of data to assign costs directly.

Customers advocate a lower base rate and a higher usage rate to encourage conservation.

Staff disagrees. The proposed rate design generates 64 percent of total revenue from the base charges and 36 percent of total revenue from the usage charge. The company will bill customers only the base rate during the months the company does not read meters.

Staff considers cash flow in developing a rate design. Flat rates generate a constant revenue stream each month. Metered rates generate high revenue during the high water usage summer months and low revenues during the low water usage winter months. Providing sufficient cash flow to cover company operating expenses during the winter months depends upon the rate design and the timing of changing from flat to metered rates.

If new metered rates become effective in the spring, consistent with staff's recommendation that the company file a rate case in spring 2010, the company will capture the high revenue from the summer months that, with proper budgeting, will provide sufficient cash to pay operating expenses during the low revenue, winter months. If new metered rates become effective after summer, such as this docket, the company will depend upon winter month revenues to pay operating costs. If the revenue is not sufficient to pay operating expenses, the company will need to provide working capital (debt or equity) to pay operating expenses.

Staff's review of the company's financial records shows that the company will incur approximately \$40,351 cash operating expenses (does not include non-cash expense for depreciation and return) during the winter months. Base charges only will generate approximately \$40,929 revenue per month. The company will receive monthly cash income of approximately \$578.

The customers suggest decreasing the base charge and increasing the usage charge. Decreasing the base charge will decrease the revenue the company will receive during winter months when it bills only the base charge. Estimated water usage provides the balance between base charge revenues and operating cash requirements. For this rate case, we do not have sufficient data to estimate winter water usage with any degree of reliability. A true-up would reallocate all of the revenue shortage based on actual usage, which could be substantial if there are significant numbers of people who do not use their homes during the winter months. Sufficient data will be available to make informed decisions regarding these issues during the next rate case. Also, if the next rate case becomes effective prior to the summer months, the company will have sufficient revenues to cover winter cash operating expenses.

Staff believes the revised rate design is a reasonable starting point because any misalignment between cash operating expenses and revenue during the winter months will be corrected or eliminated with the company's next rate case in 2010. Staff recommends that the commission not lower the base charge and not increase the usage charge.

Customers believe that staff was not responsive to their questions.

Staff believes we responded to all customer comments in a timely manner. See Attachment B for a summary of staff's responses to one customer who submitted multiple questions. Staff is unable to answer some questions regarding technical or audit issues until the audit is complete, so some questions remained unanswered for months. In addition, not all customers have seen all the comments and responses. Staff from different divisions are reviewing the customer comment process, how staff responds to those comments, and how to make that information more readily available to all customers.

Customers also expressed frustration with accessing information that the company filed. There were multiple changes to a very complex ratemaking model that were not clearly identified and the commission's poorly designed Web site resulted in customers not knowing what information was available and how to access that information.

Staff acknowledges that our Web site design caused problems and that staff failed to communicate clearly to customers regarding what information is available and how to access that information. Staff is working to correct these problems. However, staff believes that customers have had sufficient information to review and comment on this filing and believes that further delay in implementing rates is not warranted. If the commission decides to not allow rates to become effective at this time, staff recommends that the commission implement deferred accounting treatment to allow the company to recover its operating expenses going forward.

Summary

After further review and discussions with the company and customers, staff and the company have agreed to a new rate proposal. Based on the company's review of the assets and re-allocation of some assets from the potable water system to the irrigation water system, staff agrees with the updated allocation and resulting rate reduction to the rates for the potable water system.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff believes that Suncadia Water's proposed methodologies, as adjusted by staff and agreed to by the company, taken as a whole, provide reasonable results, both in terms of revenue requirement and rates. Staff's review shows that the expenses are reasonable and required as part of the company's operations. Additional customer comments do not change staff's opinion that the company's financial information supports the revised revenue requirement and the revised rates and charges are fair, just, reasonable and sufficient.

Staff recommends that the commission:

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Suncadia Water Company, LLC;
2. Allow the revised rates filed November 5, 2008, to become effective December 1, 2008;
3. Apply deferred accounting treatment to the variable portion of the purchased water component of the usage rate and require the company to reconcile and "true up" customer usage charges after a period of twelve months, as set forth in Attachment D to staff's memorandum;
4. Grant an exemption from the provisions of WAC 480-110-375(3) to allow the company to not read meters when they are covered with snow and ice, require the company to bill customers for only the base meter charge each month that the company does not read meters, and require the company to bill customers for the usage charge over the same number of months that the company did not read the meters; and
5. Require the company to file a new rate case no later than May 1, 2010, using time sheet data to assign operating and maintenance costs directly and actual customer water usage data to design multiple block usage rates.

ATTACHMENT A
Rate Comparison

Ancillary Charge	Current Rate	Proposed Rate
Reconnection	N/A	\$40.00 Per Hour
Service Visit	N/A	\$30.00
Late Payment	N/A	2 % or \$5.00
Account Set-up	N/A	\$30.00
NSF Charge	N/A	\$10.00
Hydrant Meter Deposit	N/A	\$500.00
Repair / Damage	N/A	\$40.00 Per Hour

Monthly Rate	Current Rate	Proposed Rate	First Revised Rate	Second Revised Rate
<u>Residential</u>				
Ready To Serve	\$10.00	\$10.00	\$20.79	\$19.85
Un-metered Service	\$35.00	N/A	N/A	N/A
Base Charge 1 Inch Meter	N/A	\$43.86	\$42.73	\$41.79
Residential Usage All usage above zero	N/A	N/A	\$2.65 Per 1,000 Gallons	\$2.52 Per 1,000 Gallons
Residential Usage 0 – 7,000 Gallons	N/A	\$1.59 Per 1,000 Gallons	N/A	N/A
7,001 – 14,000 Gallons	N/A	\$3.18 Per 1,000 Gallons	N/A	N/A
>14,000 Gallons	N/A	\$6.36 Per 1,000 Gallons	N/A	N/A

<u>Non-Residential</u>				
Base Charge 2 Inch Meter	N/A	\$140.35	\$136.74	\$133.73
Base Charge 3 Inch Meter	N/A	\$280.70	\$256.38	\$250.74
Base Charge 4 Inch Meter	N/A	\$438.60	\$427.30	\$417.90
Non-residential – All Usage	N/A	\$2.54 Per 1,000 Gallons	\$2.65 Per 1,000 Gallons	\$2.52 Per 1,000 Gallons

<u>Suncadia Lodge</u>				
The Lodge at Suncadia (mixed use)	N/A	\$9,746.58	\$9,494.61	\$9,285.74
Lodge Fire Protection	N/A	\$137.97	\$171.20	\$171.20
Non-residential – all usage	N/A	\$2.54 Per 1,000 Gallons	\$2.65 Per 1,000 Gallons	\$2.52 Per 1,000 Gallons

ATTACHMENT A
Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	First Revised Rate	Second Revised Rate
<u>Fire Protection</u>				
Fire Protection Fee 1 Inch	N/A	\$5.43	\$5.35	\$5.35
Fire Protection Fee 2 Inch	N/A	\$17.38	\$17.12	\$17.12
Fire Protection Fee 4 Inch	N/A	\$54.30	\$53.50	\$53.50
Fire Protection Fee 6 Inch	N/A	\$108.60	\$107.00	\$107.00

<u>Potable Irrigation</u>				
Base Charge 1.5 Inch Meter	N/A	\$80.28	\$78.12	\$76.24
Base Charge 2 Inch Meter	N/A	\$128.45	\$124.99	\$121.98
Base Charge 3 Inch Meter	N/A	\$256.90	\$234.36	\$228.72
Potable Irrigation – All Usage	N/A	\$2.54 Per 1,000 Gallons	\$2.65 Per 1,000 Gallons	\$2.52 Per 1,000 Gallons

<u>Golf Course Irrigation</u>				
Base Charge 6 Inch Meter Non-Potable Irrigation	N/A	\$3,220.77	\$3,220.77	\$3,321.40
Non-Potable Irrigation – All Usage	N/A	\$.36 Per 1,000 Gallons	\$.36 Per 1,000 Gallons	\$.36 Per 1,000 Gallons

ATTACHMENT B
Staff Responsiveness to Customer Comments

A customer commented that staff had not been responsive to customer questions. Consumer Protection staff reviewed the comments received from and found the following:

On June 4, 2008, a customer submitted a list of 16 questions for staff's information and response.

On June 9, 2008, staff provided this customer staff's response to 13 of the 16 questions.

On June 10, 2008, this customer submitted two additional questions. And on June 10, 2008, staff responded to this customer's two additional questions with a clarifying informational letter.

On July 9, 2008, staff sent the customer an email stating staff's analysis was not yet complete, and consequently, answers to questions 5 and 13 were unavailable until staff's analysis was complete. However, staff did then provide this customer the answer to question 14.

On October 24, 2008, one customer submitted a letter to the commission questioning staff's failing to respond to the questions submitted for staff's information and response. Up until that time staff had responded to every question from every customer except questions 5 and 13 submitted on June 4, 2008, which could not be provided until staff completed its analysis of the company's records.

On October 29, 2008, because staff's analysis of the company's records had finally concluded and staff's response to questions 5 and 13 were now available, Staff provided each of the 46 customers who had commented on this filing to that point, staff's response to each of the 16 questions submitted for staff's information and response on June 4, 2008.

The commission received a total of 49 customer comments. Staff's summary of those customer comments and its response are set forth in Attachment B to staff's October 30, 2008, memorandum. After the October 30, 2008, open meeting, staff, met with company and customer representatives. Customers filed additional comments on November 17, 2008, attached to staff's November 26, 2008, memorandum as Attachment C, with staff's responses.

The commission received the following comments and questions from customers on November 17, 2008. Staff's responses are identified and contained in boxes. Each response is numbered starting with 32, which is a continuation from staff's October 30, 2008, open meeting memorandum.

Questions relating to Suncadia Water tariff Docket No. UW-081226 – 11/17/2008

In reviewing the materials relating to Suncadia Water Company's request to the WUTC in Docket No. UW-081226 and having had follow-up discussions with Suncadia Water and WUTC staff, residential owners at Suncadia have the following questions and comments related to this filing:

It is disappointing to have this filing based on so little data given that Suncadia Water has had fewer than 200 customers (meters) and only a handful of staff that required time records. Suncadia said in their July 2008 documentation that "meter readings are now being taken for all accounts connected to the water system, both residential and commercial." This does not appear to be the case. That information should have been required to be provided to the WUTC staff and water system customers. This lack of diligence and follow-up by Suncadia Water and their lack of response to customer inquiries has led to the adversarial relationship that has come to light as part of this filing.

Staff's Response 32. Staff understands that customers are frustrated and confused regarding the company not reading meters when the company notified customers that it would start reading meters. However, staff believes this is not an issue for this rate case because, even if the meter readings were available, staff would not use them for any purpose in the rate case. Staff needs twelve months of meter readings, during the test period, to correctly set multiple block usage rates. That information will be available for the company's next rate filing. Four months of meter readings taken outside of the test period do not provide adequate data to set any usage rates.

BASE RATE

The residential customers of Suncadia Water believe that the base rates as filed in the updated model on 11/4/08 are close, but the following points should be considered before these rates are approved:

- The maintenance staff costs have been disproportionately applied to the operating expenses of the potable water system versus the irrigation water system. The irrigation water system is only used by the Developer, an affiliated interest. If the maintenance staff costs are allowed to be applied at the proposed rate, we would request a "true up" after Suncadia Water has a year of time records.

Staff's Response 33. (Note – this is the same issue that appears on page 1 of Attachment B to staff's October 30, 2008, open meeting memo.) Staff's response has not changed and we

continue to believe that the allocation method used by the company is reasonable for this case. The company began using timesheets November 1, 2008, so it will have data to assign costs directly in the next rate case. Staff recommends that the commission not require a "true-up" on maintenance costs.

Staff Response 2 - page 1 of Attachment B to staff's October 30, 2008, open meeting memorandum. Staff has reviewed the company's allocation of maintenance staff operating costs between the two water systems and believes they are reasonable for this case. The company allocated maintenance staff expenses, net of ancillary charge revenues, based upon experience. The company does not have time records or other written documentation. The company began using timesheets November 1, 2008, so it will have data to assign costs directly in the next rate case. The company reviewed its maintenance staff work load and assigned amounts to potable water service, fire protection service, irrigation water service, and ready-to-serve class customers. Within the potable water class and irrigation class, the company allocated 50 percent to the base charge and 50 percent to the usage charge. The overall maintenance staff cost is about 71 percent to potable water and 29 percent to irrigation.

- Residential customers recommend that operating expenses be applied at 40% to the base rate as opposed to the 50% as it is currently. Since there is a "true up" on the variable water costs at the end of a year's time, the net revenue to the water company would be the same and high usage customers would pay proportionately more. This would be a good first step toward a conservation rate and we believe more equitable since the affiliated interest is the largest user of water.

Staff's Response 34. We understand the customer's desire to move cost from the base rate to the usage rate. Staff also agrees that shifting costs from the base charge to the usage charge will increase the usage rate and encourage conservation. Staff also agrees to review that rate design issue in the company's next rate case when we have better data on costs and customer usage. However, staff believes there is not sufficient data to make that change in this case. The current rate design generates 53.1 percent from the base rate and 46.9 percent from the usage rate. The base rate revenue percentage is consistent with the rate designs developed for other regulated companies, which vary between 40 percent base and 80 percent base.

Staff agrees with the customers that the "true-up" at the end of the year will ensure that the net annual revenue for Suncadia would be the same. However, staff is concerned that Suncadia receive sufficient cash flow during the winter months when Suncadia, unlike all other companies, will charge customers only the base rate for the months that it does not read meters because they are covered with snow and ice.

- Please validate that the CIAC and depreciation for the irrigation system have no bearing on the CIAC and depreciation for the potable water system.

Staff's Response 35. Yes.

1. According to the filing, the two maintenance staff are assigned to work on irrigation system 80% of the time during the 5.5 months of high water usage. This makes sense given that the irrigation system has 80% of the pump capacity and using "raw" water requires additional maintenance on filters and other system components. The current allocation of maintenance staff costs are that the remaining 6.5 months are paid for 100% by the potable "side." While the irrigation side of the system is not being used during those 6.5 months and the potable water system is, there does not seem to be sufficient work during the 3 to 4 "winter" months when the entire system is covered with snow that would require 100% of 2 maintenance staff to accomplish. With 80% of the pump capacity on the irrigation side, it would seem that the winter months would be used to maintain that kind of equipment. The net result of the current allocation is that the potable water system is paying for 56% of the maintenance staff costs. A more equitable allocation of maintenance staff costs would seem to be no more than 60% potable and 40% irrigation during the "winter" months.

Staff's Response 36. This is the same comment previously submitted by customers set forth in Attachment B to staff's October 30, 2008, open meeting memorandum, at page 19, No. 2. Staff's response has not changed and we continue to believe that the allocation method used by the company is reasonable for this case. The company began using timesheets November 1, 2008, so it will have data to assign costs directly in the next rate case.

Staff Response 2 - page 1 of Attachment B to staff's October 30, 2008, open meeting memorandum. Staff has reviewed the company's allocation of maintenance staff operating costs between the two water systems and believes they are reasonable for this case. The company allocated maintenance staff expenses, net of ancillary charge revenues, based upon experience. The company does not have time records or other written documentation. Although the company has committed to maintaining timesheets in the future, it has not yet begun doing so. The company reviewed its maintenance staff work load and assigned amounts to potable water service, fire protection service, irrigation water service, and ready-to-serve class customers. Within the potable water class and irrigation class, the company allocated 50 percent to the base charge and 50 percent to the usage charge. The overall maintenance staff cost is about 71 percent to potable water and 29 percent to irrigation.

2. Since the proposed rate does not include a conservation rate because of the lack of data, we would prefer to see more of the operational costs on the consumption rate. Since there is a "true up" at the end of the year, the net effect to income is zero. Most of the ERUs are residential properties and most of the usage is the commercial properties. We believe that this

gets the rates more in line in this interim period while data is being gathered.

Staff's Response 37. See Staff's Response 34.

3. Please validate that the CIAC and depreciation applied to the irrigation system are at the sole discretion of the developer and have no bearing on these values for the potable water system. Hypothetically, could the developer have had 100% of the irrigation system be CIAC with no impact on the CIAC for the potable water system?

Staff's Response 38. Yes.

Allocation of costs between irrigation and domestic systems

We would like to see the WUTC staff analysis that shows that not only was 93% of the total cost of the water system materials were purchased to install the potable water system, but also the construction verification that common corridors were appropriately allocated and that the construction costs were properly allocated in those same proportions. Since the affiliated interest is a benefactor for costs not being allocated correctly, this seems to require additional scrutiny to insure fairness. From the site maps recently provided you can see that the potable and irrigation systems both cross the river to the "Tumble Creek" area of the property together and share nearly 2 miles of common access areas. If the systems were installed separately, we would like to see that validation included as part of the filing.

Staff's Response 39. Staff reviewed the "Copy of Utility Company Fixed Assets Transfer – 2/7/2008" and Attachment 5 to the company's Tariff Model. These documents list utility assets, date placed in service, original cost and on Attachment 5 the depreciation amount associated with each asset. Staff reviewed the cost of the potable water and irrigation water systems. Along with the asset cost, the company recorded contribution in aid of construction cost (CIAC) for both water systems. Staff believes the cost, categories and CIAC amounts to be reasonable.

Staff reviewed the water utility construction cost of common corridors. The allocation of common cost that was shared by other utilities was based on a percentage of direct material cost for each utility in the common corridor. Staff believes the allocation method used is reasonable for shared cost in common corridors.

CONSUMPTION RATE

The residential customers of Suncadia Water generally agree with the consumption rates as filed with the following comments:

- The maintenance staff costs being disproportionately applied to the operating expenses of the potable water system versus the irrigation water system would impact the potable consumption rates, as well. If the maintenance staff costs are allowed to be applied at the

proposed rate, we would request a "true up" after Suncadia Water has a year of time records.

Staff's Response 40. See Staff's Response 33 and 36.

- Residential customers recommend that operating expenses be applied at 60% to the consumption rate as opposed to the 50% as it is currently. Since there is a "true up" on the variable water costs at the end of a year's time, the net revenue to the water company would be the same and high usage customers would pay proportionately more. This would be a good first step toward a conservation rate.

Staff's Response 41. See Staff's Response 34.

GENERAL CONCERNS

The affiliated interests of Suncadia Water and the Developer are such that we are not confident that we can rely on fair and equitable delineation of the potable and irrigation system costs and treatments. We understand the limits of the WUTC in setting rates, but we hope that the WUTC will impress upon Suncadia Water the need to provide records and reporting at a level of detail that will not cause its customers to have to scrutinize their operation and allocations so closely. We would also prefer to see the potable and irrigation systems operations separated as much as possible to avoid these kinds of conflicts.

Staff's Response 42. Staff agrees.

Suncadia Water was unable to account for over 83% of the potable water used in 2007. That is troubling information when rates are being set based on the information provided about costs and allocation of other resources within this water system during that same period. We hope that Suncadia Water will be held to a much higher standard for their next filing in 2010.

Staff's Response 43. Staff recommends the commission require the company to file a rate case no later than May 1, 2010, using employee timesheets to assign costs directly and actual usage by customer.

CONCLUSIONS

Based on the information contained in the filing and related information we now understand the basis on which Suncadia Water has justified and applied these costs to this rate. We request that the WUTC consider our recommendations above. We continue to believe that the current rates as filed benefit the Developer's commercial properties to the detriment of the residential owners.

We would encourage the WUTC to hold Suncadia Water and other water companies to a higher standard for making the information contained in their filing clearer and more understandable to their customers. Their information should clearly show the breakdown of base and consumption costs by capital costs, operations costs, and resource costs. 5 MB multi-worksheet spreadsheets are not adequate. The residential customers of Suncadia Water have spent several hundred hours trying to make sense of the 4 different tariff models and information that has been filed with the WUTC since last May. We also encourage the WUTC to make access to all of the information related to a rate case available at a single location on the website. We did not find out that significant information related to this rate case had been posted on the WUTC website 5 months prior. This was not a consumer oversight, but unacceptably poor website design.

Staff's Response 44. Staff has begun work within the commission to make it easier and clearer for customers to access information. Staff will also consider ways to make the rate setting process and information more easily understandable and accessible to customers.

We respectfully request a response to our recommendations with justifications well in advance of the hearing on November 26, 2008, so that we can be prepared to comment further if necessary.

Thank you for your consideration.

ATTACHMENT D
Water Usage "True-up"

After reading meters for a period of twelve months, Suncadia Water will reconcile the difference between projected water usage and actual water usage for both the potable water system and the irrigation water system. An amount due or refund will be calculated the following month for the reconciled "true-up" amount. If there is a refund or amount due, the adjustment will be spread over the following twelve months unless the customer or company elects to pay it all at once.

Procedure

1. The company will read meters for a twelve-month period.
2. After twelve months of meter readings are collected, the company will compare the actual total metered usage with the 73,023,000 gallons per year that was projected as total metered usage in setting rates.
3. Similarly, the company will compare the actual variable charge for potable water paid to the City of Cle Elum for this period with the \$35,887 variable cost of purchased water that was used to set rates.
4. The annual revenue requirement applicable to the consumption charge will be adjusted up or down, based on the difference in the variable cost of purchased water.
5. This adjusted annual revenue requirement figure will then be divided by the actual total metered usage for the previous twelve months, to yield an adjusted consumption charge for the previous twelve months.
6. The difference between the adjusted consumption charge and the consumption charge of \$2.65 per 1000 gallons included in the approved tariff will then be multiplied by each customer's actual usage for the previous twelve months, to yield a total dollar amount of the refund or amount due for each customer.
7. In the billing statement following the completion of the twelve-month period, the company will notify each customer of the refund or amount due. Unless a customer elects to pay the amount due all at once, or the company elects to pay the refund all at once, the company shall incorporate one-twelfth of the required adjustment into each of the following twelve monthly bills.

See page 18 for a numerical example.

ATTACHMENT D
Water Usage "True-up"

Example

Consumption Rate Calculation in Approved Tariff - 73,023,000

Revenue requirements applicable to consumption rate:			
Variable cost of water purchased from Cle Elum	\$	35,887	
Other revenue requirements applicable to consumption rate	\$	157,934	
Total revenue requirement applicable to consumption rate			\$ 193,821
Projected 2008 metered consumption (1,000 gallons)			÷ 73,023
Consumption rate (per 1,000 gallons)			\$ 2.65

Example True-Up Calculations after 12 Months

Example #1: Usage higher than projected - 83,000,000

Assumed actual variable cost of water purchased from Cle Elum	\$	40,790	
Other revenue requirements applicable to consumption rate	\$	157,934	
Total revenue requirement applicable to consumption rate			\$ 198,724
Assumed actual metered consumption (1,000 gallons)			÷ 83,000
Adjusted consumption rate (per 1000 gallons)			\$ 2.39
			÷ 12
Adjustment per 1,000 gallons			\$ (0.26)

Applied to a single customer:

Assumed actual consumption during previous 12 months (1,000 gallons)			80.70
Adjustment per 1,000 gallons	x \$	(0.26)	
Amount of total adjustment required			\$ (20.64)
			÷ 12
Amount added/(subtracted) from bill each of the next 12 months			\$ (1.72)

Example #2: Usage less than projected - 63,000,000

Assumed actual variable cost of water purchased from Cle Elum	\$	30,961	
Other revenue requirements applicable to consumption rate	\$	157,934	
Total revenue requirement applicable to consumption rate			\$ 188,895
Assumed actual metered consumption (1,000 gallons)			÷ 63,000
Adjusted consumption rate			\$ 3.00
			÷ 12
Adjustment per 1,000 gallons			\$ 0.35

Applied to a single customer:

Assumed actual consumption during previous 12 months			80.70
Adjustment per 1,000 gallons	x \$	0.35	
Amount of total adjustment required			\$ 28.11
			÷ 12
Amount added/(subtracted) from bill each of the next 12 months			\$ 2.34