

Exhibit ___ (DPK-3)
Docket No. UW-051444
Witness: Danny P. Kermode

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**KAYAK ESTATES WATER, LLC.
Respondent.**

DOCKET NO. UW-051444

**EXHIBIT TO
TESTIMONY OF**

Danny P. Kermode

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

RE: KAYAK ESTATES WATER, LLC., GENERAL RATE CASE

Staff Analysis

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Kayak Estates Water, LLC
Results of Operations for the Test Year Ended December 31, 2004

Exhibit __ (DPK-3)
Docket No. UW-051444
SCHEDULE 1.1

Line No.	(A) Description	(B) Source	(C) Results As filed Company	(D) Total Restating Adjustments	(E) Restated Results	(F) Total Pro Forma Adjustments	(G) Pro Forma Results	(H) Proposed Rates	(I) Results at Proposed Rates	(J) Staff Rates	(K) Results at Staff Rates
		company filing	Source: Sch 1.2	(C) + (D)	Source: Sch 1.3	(E) + (F)		(G) + (H)		(G) + (J)	
3	Operating Revenue										
6	Metered Water Revenue		135,217	(8,992)	126,225	-	126,225	31,561	157,786	15,214	141,439
7	Ready to Serve			2,700	2,700	-	2,700		2,700		2,700
8	Flat Rate			1,800	1,800	-	1,800		1,800		1,800
9	Other Revenue			4,492	4,492	-	4,492		4,492		4,492
10		Ln 6 thru Ln 8	135,217	-	135,217	-	135,217	31,561	166,778	15,214	150,431
11	Operating & Maintenance Expenses										
14	Admin/Billing/Collection	79000	20,952	-	20,952	-	20,952		20,952		20,952
15	Repairs and Maintenance	80000	18,836	(7,409)	11,427	-	11,427		11,427		11,427
16	Meter Reading	73500	11,189	(5,189)	6,000	-	6,000		6,000		6,000
17	Utility / Power	84500	10,593	-	10,593	-	10,593		10,593		10,593
18	Management Fee (consulting)	64000	8,000	(8,000)	-	-	-		-		-
19	Chemicals / Flushing	86000	7,548	-	7,548	-	7,548		7,548		7,548
20	Testing Expense	82000	7,274	-	7,274	-	7,274		7,274		7,274
21	Utility Excise Tax	76500	5,858	942	6,800	-	6,800	1,587	8,387	765	7,565
22	Location (locate)	80000	3,650	(90)	3,560	-	3,560		3,560		3,560
23	Professional Fees		2,885	-	2,885	-	2,885		2,885		2,885
24	Insurance	70000	2,319	-	2,319	-	2,319		2,319		2,319
25	PUD Testing		1,355	-	1,355	-	1,355		1,355		1,355
26	DOH Fees		835	(122)	713	-	713		713		713
27	Licenses		725	-	725	-	725		725		725
28	Telephone	81000	375	-	375	-	375		375		375
29	Postage		372	-	372	-	372		372		372
30	Bank Fees		75	-	75	-	75		75		75
31	Depreciation Expense		35,718	258	35,976	-	35,976		35,976		35,976
32	Amort of CIAC	75500		(20,323)	(20,323)	-	(20,323)		(20,323)		(20,323)
33	Bad Debt		-	-	-	-	-		-		-
34	Rate Case Expense		-	-	-	1,000	1,000		1,000		1,000
35	WUTC Regulatory Fee			220	220	-	220	63	284	30	251
36			168								
41	Total Operating Expenses	Ln 14 thru Ln 35	138,727	(39,713)	98,847	1,000	99,847	1,650	101,497	796	100,642
43	Operating Income before interest and taxes	Ln 10 - Ln 41	(3,510)	39,713	36,370	(1,000)	35,370		65,281		49,789
46	(Partnership) Income Tax Expense	Sch 5.1	-	-	-	-	-	1,007	1,007	-	-
47	Net Operating Income	Ln 44 - Ln 46	(3,510)	39,713	36,370	(1,000)	35,370	(1,007)	64,275	-	49,789
49	Rate Base										
51	Plant in Service	Sch 3.1	1,800,610	1,063	1,801,673	-	1,801,673		1,801,673		1,801,673
52	Acc. Depreciation	Sch 3.1	(1,100,172)	584	(1,099,588)	-	(1,099,588)		(1,099,588)		(1,099,588)
53	Net Plant in Service	Ln 51 + Ln 52	700,438	1,647	702,085	-	702,085		702,085		702,085
55	Net CIAC	Sch 2.2	(154,001)	0	(154,001)	-	(154,001)		(154,001)		(154,001)
58	Rate Base	Ln 53 + Ln 55	546,437	1,648	548,084	-	548,084		548,084		548,084
60	Return on Rate Base	Ln 47 / Ln 58	(0.6%)		6.6%		6.5%		11.7%		9.08%

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Summary of Restating Adjustments

Line No.		Total Restating Adjustments	R-1 Depreciation Expense	R-2 CIAC True-up	R-3 Consulting Fees	R-4 Restate Maint Expense	R-5 Adjust Location Exp
3	Operating Revenue						
4	Source						
5	Metered Water Revenue	(8,992)					
6	Ready to Serve	2,700					
7	Flat Rate	1,800					
8	Other Revenue	4,492					
10	Ln 5 thru Ln 7	-	-	-	-	-	-
11	Operating & Maintenance Expenses						
13	account number						
14	Admin/Billing/Collection 79000	-					
15	Repairs and Maintenance 80000	(7,409)				(7,409)	
16	Meter Reading 73500	(5,189)					
17	Utility / Power 84500	-					
18	Management Fee (consul) 64000	(8,000)			(8,000)		
19	Chemicals / Flushing 86000	-					
20	Testing Expense 82000	-					
21	Utility Excise Tax 70000	942					
22	Location (locate) 73500	(90)					(90)
23	Professional Fees 82000	-					
24	Insurance 76500	-					
25	PUD Testing 80000	-					
26	DOH Fees	(122)					
27	Licenses 70000	-					
28	Telephone	-					
29	Postage	-					
30	Bank Fees	-					
31	Depreciation Expense 81000	258	224			53	
32	Amort of CIAC	(20,323)		(20,323)			
33	Bad Debt	-					
34	Rate Case Expense	-					
35	WUTC Regulatory Fee 75500	220					
44	Total Operating Expense Ln 14 thru Ln 35	(39,713)	224	(20,323)	(8,000)	(7,356)	(90)
46	Operating Income						
47	before interest and taxes Ln 10 - Ln 44	39,713	(224)	20,323	8,000	7,356	90
48	Income Tax Expense						
49	(Restated Effective Rate) Sch 5.1	-	-	-	-	-	-
50	Net Operating Income Ln 47 - Ln 49	39,713	(224)	20,323	8,000	7,356	90
52	Rate Base						
54	Plant in Service	1,063				3,704	
55	Acc. Depreciation	584				(53)	
56	Net Plant in Service Ln 54 + Ln 55	1,647				3,651	
58	Net CIAC Sch 2.2	0		0			
61	Rate Base Ln 56+(Ln 58 thru Ln 60)	1,648	-	0	-	3,651	-

Line No.		R-6		R-7	R-8		R-9	R-10		R-11	
		Water System	Plan - future	Adjust	Reduce	Meter Reading	Reclassify UTC	Fees	Public Utility	Tax	Reclassify
		Revenue									
3	Operating Revenue	Source									
5	Metered Water Revenue										(8,992)
6	Ready to Serve										2,700
7	Flat Rate										1,800
8	Other Revenue										4,492
10		Ln 5 thru Ln 7									
11	Operating & Maintenance Expenses										
13		account number									
14	Admin/Billing/Collection	79000									
15	Repairs and Maintenance	80000									
16	Meter Reading	73500				(5,189)					
17	Utility / Power	84500									
18	Management Fee (consul	64000									
19	Chemicals / Flushing	86000									
20	Testing Expense	82000									
21	Utility Excise Tax	70000							942		
22	Location (locate)	73500									
23	Professional Fees	82000									
24	Insurance	76500									
25	PUD Testing	80000									
26	DOH Fees							(122)			
27	Licenses	70000									
28	Telephone										
29	Postage										
30	Bank Fees										
31	Depreciation Expense	81000		(19)							
32	Amort of CIAC										
33	Bad Debt										
34	Rate Case Expense										
35	WUTC Regulatory Fee	75500						220			
44	Total Operating Expense	Ln 14 thru Ln 35		(19)		(5,189)		98	942		-
46	Operating Income										
47	before interest and taxes	Ln 10 - Ln 44		19				(98)	(942)		-
48	Income Tax Expense										
49	(Restated Effective Rate)	Sch 5.1		-		-		-	-		-
50	Net Operating Income	Ln 47 - Ln 49		19		-		(98)	(942)		-
52	Rate Base										
54	Plant in Service			(2,641)							
55	Acc. Depreciation					637					
56	Net Plant in Service	Ln 54 + Ln 55		(2,641)		637		-	-		-
58	Net CIAC	Sch 2.2									
61	Rate Base	Ln 56+(Ln 58 thru Ln 60)		(2,641)		637		-	-		-

Summary of Pro Forma Adjustments

Line No.			Total Pro Forma Adjustments	P-1 Rate Case Expense	P-2	P-3	P-4	P-5
1								
2								
3	Operating Revenue	Source						
4			-					
5	Metered Water Revenue		-					
6	Ready to Serve		-					
7	Flat Rate		-					
8	Other Revenue		-					
9								
10		Ln 4 thru Ln 9	-	-	-	-	-	-
11	Operating & Maintenance Expenses							
12			-					
13			-					
14	Admin/Billing/Collection	79,000	-					
15	Repairs and Maintenance	80000	-					
16	Meter Reading	73500	-					
17	Utility / Power	84500	-					
18	Management Fee (consulting)	64000	-					
19	Chemicals / Flushing	86000	-					
20	Testing Expense	82000	-					
21	Insurance	70000	-					
22	Meter Reading	73500	-					
23	Testing Expense	82000	-					
24	Utility Excise Tax	76500	-					
25	Location (locate)	80000	-					
26	Professional Fees		-					
27	Insurance	70000	-					
28	PUD Testing		-					
29	DOH Fees		-					
30	Licenses		-					
31	Telephone	81000	-					
32	Postage		-					
33	Bank Fees		-					
34	Depreciation Expense		-					
35	Amort of CIAC	75500	-					
36	Bad Debt		-					
37	Rate Case Expense		1,000	1,000				
38			-					
39			-					
40			-					
41			-					
42			-					
43			-					
44	Total Operating Expenses	Ln 14 thru Ln 35	1,000	1,000	-	-	-	-
45								
46	Operating Income							
47	before interest and taxes	Ln 10 - Ln 44	(1,000)	(1,000)	-	-	-	-
48	Income Tax Expense							
49	(Pro Forma Effective Rate)	Sch 5.1	-	-	-	-	-	-
50	Net Operating Income	Ln 47 - Ln 49	(1,000)	(1,000)	-	-	-	-
51								
52	Rate Base							
53								
54	Plant in Service	Sch 3.1	-					
55	Acc. Depreciation	Sch 3.1	-					
56	Net Plant in Service	Ln 54 + Ln 55	-	-	-	-	-	-
57								
58	Net CIAC	Sch 2.2	-					
59								
60								
61	Rate Base	Ln 56+(Ln 58 thru Ln60)	-	-	-	-	-	-
62								
63								
64								
65								

Average Rate Base

Line
 No.

1	(A)	(C)	(C)	(D)	
2		Average	Total	Pro Forma	
3	<u>Description</u>	<u>Per Books</u>	<u>Staff Adjustments</u>	<u>Rate Base</u>	<u>Source</u>
4				(C)+(D)	
5					
6	Plant in Service	1,800,610	1,063	1,801,673	
7	Sch 3.1 Ln 22				
8					
9	Less Acc. Depreciation	(1,100,172)	584	(1,099,588)	Sch 3.2 Ln 17
10	Net Plant in Service	<u>700,438</u>	<u>1,647</u>	<u>702,085</u>	ln 6 + ln 9
11					
12	<u>Less:</u>				
13	CIAC	470,221		470,221	Sch 2.2 (B) Ln 28
14	Acc Amortization	(316,220)		(316,220)	Sch 2.2 (C) Ln 28
15	Net CIAC	<u>154,001</u>	<u>-</u>	<u>154,001</u>	Ln 13 + Ln 14
16	Average Rate Base	<u><u>546,437</u></u>	<u><u>1,647</u></u>	<u><u>548,084</u></u>	Ln 10 - Ln 15
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					

Schedule of Contributions in Aid of Construction

Line No.	(A) Year	(B) Total CIAC	(C) Acc Amort	(D) Net CIAC Amortization	(E)	(F) Percent Amortized
1						
2	1983					
3	1984	17,416	15,807	1,609	753	90.76%
4	1985	27,634	23,887	3,747	1,194	86.44%
5	1986	38,819	31,878	6,941	1,678	82.12%
6	1987	96,404	74,999	21,405	4,167	77.80%
7	1988	48,511	35,643	12,868	2,097	73.47%
8	1989	79,600	55,045	24,555	3,440	69.15%
9	1990	52,800	34,230	18,570	2,282	64.83%
10	1991	48,183	29,155	19,028	2,082	60.51%
11	1992					
12	1993					
13	1994	12,354	5,873	6,481	534	47.54%
14	1995					
15	1996	3,500	1,361	2,139	151	38.90%
16	1997	14,000	4,841	9,159	605	34.58%
17	1998	31,000	9,379	21,621	1,340	30.25%
18	1999					
19	2000					
20	2001					
21	2002					
22	2003					
23	2004					
24	Total 2004	470,221	322,098	148,123	20,323	68.50%
25						
26	Total 2003	470,221	310,342	159,879	20,323	66.00%
27						
28	Average	470,221	316,220	154,001	20,323	32.75%
29						
30						
31	Amortization Rate	4.32%				
32	Amortization Period	23 years				
33						
34						
35						

**Schedule of Plant in Service
 Before Staff Adjustments**

Line No.	(A) Description	(B) Source	(C) 2003	(D) 2004	(E) Change	(F) Average
1						
2						
3	Organization - Intangible					
4	Land & Land Rights					
5	Structures & Improvements		6,536	6,536	0	6,536
6	Wells & Springs		78,319	78,319	0	78,319
7	Power Generation		45,367	45,367	0	45,367
8	Pumps and Pumping Equipment		161,499	161,499	0	161,499
9	Water Treatment Equipment					
10	Distribution Reservoirs & Standpipe		158,690	158,690	0	158,690
11	T&D Mains		1,274,813	1,292,885	18,072	1,283,849
12	Services					
13	Meters & Meter Installation		62,141	70,558	8,417	66,350
14	Hydrants					
15	Office Furn & Equipment					
16	Transportation Equipment					
17	Tools & Shop Equipment					
18	Power Operated Equipment					
19	Communication Equipment					
20	Other Misc. Equipment					
21						
22	Total Plant in Service	Ln 3 thru Ln 20	1,787,365	1,813,854	26,489	1,800,610
23						
24	Accumulated Depreciation	Sch 3.2 Ln 17	(1,081,564)	(1,117,506)	(35,942)	(1,099,535)
25						
26	Net Plant In Service	Ln 22 - Ln 24	705,801	696,348	(9,453)	701,075
27						
28						
29						
30						
31						
32						
33						
34						

Line No.	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Description	Average Asset Cost	Life (years)	Test year Depr. Expense	Accum. Depr. 12/31/2003	Accum. Depr. 12/31/2004	Average Accum. Depr.	
6	Structures & Improvements	6,536	40	163	5,036	5,199	5,118	
7	Wells & Springs	78,319	35	2,238	61,749	63,987	62,868	
8	Power Generation ⁽¹⁾	45,367	20	2,268	26,758	29,026	27,892	
9	Pumps and Pumping Equipment	161,499	20	8,075	90,545	98,620	94,582	
11	Distribution Reservoirs & Standpipe	158,690	60	2,645	115,670	118,315	116,992	
12	T&D Mains	1,283,849	70	18,341	775,630	793,971	784,800	
14	Meters & Meter Installation	66,350	30	2,212	6,176	8,388	7,282	
17		<u>1,800,610</u>		<u>35,942</u>	<u>1,081,564</u>	<u>1,117,506</u>	<u>1,099,535</u>	
19	Workpaper Source:	05-013	05-013	computed	general ledger	computed	computed	

⁽¹⁾ Company Exhibit ___ (RK-4) shows 48 years whereas Staff recommended life is 20 years

Line

No.

Year End - Capital Structure

Line No.	Source	Equity	Cost	Percent of Total	Weighted Cost
1					
2					
3					
4	Sch 4.4	Proprietary Capital	77,978		
5	Sch 4.4	Retained Earnings	10,702		
6	Ln 4 + Ln 5		<u>88,680</u>	12.00%	<u>16.69%</u>
7					
8					
9		Debt			
10	Sch 4.2 Ln 7	Long term Debt	442,705	8.50%	83.31%
11	Ln 6 + Ln 10	Total	<u>531,385</u>		<u>100.00%</u>
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					

**Weighted Cost of Debt
 Long Term Debt at Year End**

Line
 No.
 1
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 3
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 7
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 9
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 12
 13
 14
 15
 16
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 32
 33

(A)	(B)	(C)	(D)	(E)
<u>Description</u>	<u>Balance</u>	<u>Cost</u>	<u>Percent of Total</u>	<u>Weighted Cost</u>
Long Term Debt	(1) 207,091	8.50%	46.78%	3.98%
	(1) 235,614	8.50%	53.22%	4.52%
As of 12/31/2004	<u>442,705</u>		<u>100.00%</u>	<u>8.50%</u>

(1) Source: WP 05-012

Pro Forma Debt Adjustment

Line No.	(A)	(B)	(C)	(D)
1				
2	Source	Description	Amount	
3				
4	Sch 2.1 Ln 16	Pro Forma Rate Base	548,084	
5	Input	Added CWIP	-	
6	Ln 4 + Ln 5	Total Rate Base w/ CWIP	<u>548,084</u>	
7				
8				
9	Sch 4.1 Ln 10	Weighted Cost of Debt	<u>7.08%</u>	
10	Ln 6 * Ln 9	Pro Forma Interest Expense	<u>38,812</u>	38,812
11				
12	Input	Interest Expense Per Books	<u>36,408</u>	
13				
14	Ln 10 - Ln 12	Adjustment to Interest Expense	<u>2,404</u>	
15				
16				
17				
18				
19				
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24				
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33				

Line
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Adjustment to CIAC and Retained Earnings
As of December 31, 2004

	Company	Adjustment	Staff
	<u>2004</u>		<u>2004</u>
Contributions in Aid of Construcion	470,221		470,221
Less: Amortization	(312,093)	(10,005)	(322,098)
Net CIAC	<u>158,128</u>	<u>(10,005)</u>	<u>148,123</u>
Proprietary Capital	77,978		77,978
Retained Earnings	697	10,005	10,702
Total Equity	<u>78,675</u>	<u>10,005</u>	<u>88,680</u>
Accounts Payable	72,556		72,556
Long-Term Debt	442,705		442,705
Long-term Debt	<u>515,261</u>		<u>515,261</u>
Total	<u>752,064</u>	-	<u>752,064</u>

Federal Income Taxes
 LLC TAXED AS A PARTNERSHIP

Line No.	(A) Source	(B) Description	(C) Results As filed Company	(D) Total Restating Adjustments	(E) Restated Results	(F) Total Pro Forma Adjustments	(G) Pro Forma Results	(H) Results at Proposed Rates	(I) Results at Staff Rates
1	Sch 1.1 Ln 44	Operating Income	(3,510)	39,713	36,370	(1,000)	35,370	65,281	49,789
2		Other Income	-	-	-	-	-	-	-
3	Sch 4.3	Interest Expense	(36,408)	-	(36,408)	(2,404)	(38,812)	(38,812)	(38,812)
4		Other FIT Deductions	-	-	-	-	-	-	-
5		Standard Deduction	(10,000)	-	(10,000)	-	(10,000)	(10,000)	(10,000)
6		Two Exemptions	(6,400)	-	(6,400)	(6,400)	(6,400)	(6,400)	(6,400)
7		Taxable Income	(56,318)	39,713	(16,438)	(3,404)	(19,842)	10,069	(5,424)
8	Computed	Income Tax Expense	-	5,227	-	-	-	1,007	-
9	Ln 12/Ln 10	Effective Income Tax Rate	0.00%	13.16%	0.00%	0.00%	0.00%	10.00%	0.00%

Schedule for Net-to-Gross Conversion Factor

Line
 No.
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Net-To-Gross Conversion Factor Computation			
		<u>Source</u>	
	Revenues		1.00000
	WUTC Regulatory Fee	input	0.00200
	Utility B&O Tax	input	0.05029
	Uncollectables	input	0.00000
	Total Revenue Sensitive Items	Ln8 thru Ln 10	<u>0.05229</u>
	Effective Income Tax Rate	Sch 5.1 Ln 14	<u>0.00000</u>
	Total adjustments	Ln 11 + Ln 12	<u>0.05229</u>
	Revenue Conversion Factor	1-(Ln 13/ Ln 6)	<u>0.94771</u>

**Schedule for Net-to-Gross Conversion Factor
 Revenue Requirement Computation**

Line
 No.
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	Source	For Pro Forma Results
Total Pro Forma Average Rate Base	Sch 2.1 ln 16	548,084
Weighted Cost of Capital	Sch 4.1	9.08%
Operating Income Requirement	ln 3 * ln 2	<u>49,788</u>
Pro Forma Net Operating Income (Loss)	Sch 1.1	35,370
Operating Income Deficiency	Sch 1.1	14,418
Revenue Conversion Factor	ln 30	<u>0.94771</u>
Additional Revenue Requirement	ln 7 / ln 9	<u>15,214</u>