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8 **WASHINGTON UTILITIES AND TRANSPORTATION**  
9 **COMMISSION,**

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12 **COMPLAINANT,**

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14 **VS.**

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16 **ROCHE HARBOR WATER SYSTEM, INC.**

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18 **RESPONDENT.**  
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22 **DOCKET NO. UW-042132**  
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24  
25 **DIRECT TESTIMONY**

26  
27 **OF**

28  
29 **DAVID W. GIBBS**

30  
31 **ON BEHALF OF**

32  
33 **ROCHE HARBOR WATER SYSTEM, INC.**  
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35  
36 **June 7, 2005**  
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**Q. Please state your name, provide your business address and your title.**

A. I am David W. Gibbs. My business address is Roche Harbor Water System, Inc., 8484 Roche Harbor Road, Friday Harbor, Washington, 98250.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to explain the filing by Roche Harbor Water System in this docket.

**Q. What is the purpose of the filing?**

A. Roche Harbor Water System has filed for a new charge known as an Improvement Charge of \$3,000.00 per hookup for a standard size hookup and an increasing amount for larger connections. The Improvement Charge would be applicable to all new connections of the water system after it becomes effective. The tariff schedule is set out on Sheet No. W-5.1 filed in this proceeding.

**Q. What is the purpose of the Improvement Charge?**

A. The purpose is to provide the Company with a source of funds from which it can fund future improvements. The purpose of the future improvements will primarily be to benefit new customers or the expansion of the services to existing customers.

**Q. What do you mean by the expansion of services to existing customers?**

A. Roche Harbor Water System is owned by Roche Harbor Resort. It is anticipated that between eighty to ninety percent of the new capacity needed by the water company will be for service to Roche Harbor Resort.

1 **Q. By capacity do you mean additional sources of water?**

2 A. No. I mean improving the water system in ways that will allow it to serve  
3 additional connections.

4 **Q. What sort of improvements do you project are needed?**

5 A. Perhaps the best way to respond is by reference to a letter of December 23, 2004  
6 sent to Mr. Ward in response to an informal data request. In that letter, we explain  
7 the purpose for the filing and give a list of improvements we project will be needed.  
8 That letter and its attachments are Exhibit No. \_\_\_\_ (DWG-2). The Exhibit also  
9 explains the projected costs of the projects and the basis for calculating the level of  
10 the Improvement Charge.

11 **Q. The letter is submitted by Mr. Finnigan as the Company's attorney. Did you**  
12 **provide the information to Mr. Finnigan for the response?**

13 A. Yes.

14 **Q. Did the Company consider other alternatives to the filing of the Improvement**  
15 **Charge?**

16 A. Yes. The Company looked at providing the capital infusion from the owner, Roche  
17 Harbor Resort. It is probable that over time, Roche Harbor Resort, either through  
18 its own internally generated funds or through borrowings, could raise capital for a  
19 capital infusion into Roche Harbor Water System. However, as it has been  
20 explained to me, that would increase the Company's rate base, increase the  
21 Company's rates to existing customers and would provide a return on investment to  
22 the Company's owner, Roche Harbor Resort. Because of the situation that Roche

1 Harbor Resort and Roche Harbor Water System find themselves in, that was not  
2 viewed as a good solution.

3 **Q. Could you explain what you mean by the situation that Roche Harbor Resort**  
4 **and Roche Harbor Water System are in?**

5 A. As I have explained, Roche Harbor Resort is both the owner of Roche Harbor Water  
6 System and its largest customer. Obviously, Roche Harbor Resort is primarily  
7 concerned about its ability to function in the community as a resort, providing  
8 employment opportunities within the community and making a profit from its resort  
9 operations. Roche Harbor Resort does not want to appear to the community as  
10 though it is “double dipping” by making a profit both off its resort operations and  
11 extracting money from water customers for the benefit of the Resort. Certainly  
12 there is an interest that Roche Harbor Water System cover its cost of operation.  
13 However, there is no particular interest in having the Roche Harbor Water System  
14 be a profit center for the Resort.

15 **Q. Were these concerns discussed within the community?**

16 A. Most definitely. I held numerous discussions with the Water System’s customers  
17 over several months. I explained to them the options as I knew them and what that  
18 might mean to the customers. The idea of putting an Improvement Charge in place  
19 which would be a mechanism that would not result in increased rates for the  
20 existing customers, and which would require the Resort to pay for the bulk of the  
21 improvements through the Improvement Charge, was perceived by the customers to  
22 be a very beneficial means of proceeding.

1       **Q.    Have you considered any other alternatives?**

2       A.    Yes. Commission Staff proposed an option that would apply the charge to anything  
3           other than three-quarter inch connections, which is the basic connection size. After  
4           considering the suggestion, the Water System felt that suggestion was not  
5           acceptable.

6       **Q.    Why was it not acceptable?**

7       A.    As I mentioned earlier, most of the expected expansion of the Water System is  
8           going to come from the Resort. Most of the Resort's expansion is going to be what  
9           is called the Village. These will be three-quarter inch connections for single  
10          dwelling units. The dwelling units will be used for full time and seasonal occupied  
11          vacation homes. That means that accepting Staff's suggestion would defeat the  
12          very purpose of the filing -- that the Resort pay for its expansion in a way that does  
13          not affect the rates paid by existing customers.

14      **Q.    Does that complete your testimony at the present time?**

15      A.    Yes.

Law Office of  
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December 23, 2004

RECEIVED  
RECORDS MANAGEMENT  
DEC 23 PM 12:28  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

Jim Ward  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504-7250

Re: Docket No. UW-042132 – Roche Harbor Water System

Dear Jim:

This letter will respond to your data request dated December 9, 2004. Before getting into the specifics of the data requests themselves, some background information might be helpful.

As you are aware, Roche Harbor Water System is owned by Roche Harbor Resort. On the other hand, Roche Harbor Resort is the largest customer for Roche Harbor Water System. Roche Harbor Resort will become an even larger customer in the future. It is projected that eighty to ninety percent of the growth for the water system will come from Roche Harbor Resort. This leaves to a question of how to most fairly treat the other customers (the non-Resort customers) of Roche Harbor Water System.

In projecting out the improvements that will be needed for Roche Harbor Water System, there appear to be two basic ways to fund those improvements. One would be for Roche Harbor Resort to invest capital into the company in the form of equity. This would produce, overtime, a fairly large rate base. Having a large rate base would translate to significantly increased rates for all customers, including those that are outside the Resort.

Jim Ward  
December 23, 2004  
Page 2 of 4

Another way of funding the growth is to have the growth paid for by those that cause it, the ones needing new connections. As noted above, it is projected that between eighty and ninety percent of this growth will come from the Resort itself. If the growth is funded in this way, through contributions and aid of construction (CIAC), then rate base does not grow, and rates to non-Resort customers are not increased as a result of the funding of the development of growth.

These options were explained to consumers, and other interested parties (those holding lots for future development, to the extent known) by Roche Harbor Water System. There is overwhelming support to let growth pay for growth, recognizing that most of this growth will come from Roche Harbor Resort. Roche Harbor Resort wants to be a good neighbor to the rest of its community. By using CIAC, instead of investing equity, Roche Harbor Resort is not then accused of developing the water system in a way in which it is the primary beneficiary (both because the growth benefits Resort expansion and because other customers are financing that expansion in the form of higher rates and a return on investment to Roche Harbor Resort).

I know this mechanism does not fit neatly into traditional regulatory approaches. However, it is an approach that seems to fit the specific circumstances of Roche Harbor Water System. It is an approach that is supported by the customer base.

With that said, I will now turn to your data requests.

1. Please provide a copy of the Company's approved water system plan that list each of these items, as being required capital improvement projects. If they are not part of an approved plan, please provide a copy of the Department of Health letter requiring these capital improvements.

RESPONSE: A copy of Chapter 9 from the Water System Plan is attached. Please note that the Water System Plan is a projection only through 2006. The Company has taken a longer timeline look at what is going to be needed and has developed a Capital Improvement Plan that extends further into the future. You will also find enclosed several appendixes of financial information. The longer term Capital Improvement Plan is Appendix C.

Jim Ward  
December 23, 2004  
Page 3 of 4

2. Please provide the calculations and support documents for the proposed cost of each item. Please provide a timeline of when each project would be started and finished.

RESPONSE: The calculations for the Capital Improvement Plan were made by Mr. David Gibbs relying on his twenty years of experience in construction. He used the American Waterworks reference manuals and contractors install cost books reflecting costs that are in 2004 dollars. To the extent that projects are constructed in the future, the estimated cost would be increased by the increases of those costs, roughly at the rate of the CPI.

Roche Harbor Water System would like to move forward on these projects as soon as possible. The projects will be constructed in priority order as funds become available.

3. What customers were notified of this filing since this filing only applies to new customers?

RESPONSE: The existing customer base was notified of the similar filing under UW-042044. This produced quite a bit of confusion since the tariff applies to future customers, not current customers. Many calls were made to the Company and it was clarified that existing customers do not have to pay these proposed charges. In light of the customer confusion, no customer notice was sent with the second filing.

4. Please explain why the current graduated facilities charge (\$3,500, \$5,845, \$11,655, \$18,655, \$35,000 & \$58,450) would be inadequate to fund future improvements.

RESPONSE: Please see Appendix A. This information demonstrates that the existing graduated Facilities Charge is not projected to raise sufficient funds. There would be a shortfall of over \$900,000 from the current Facilities Charge. By approving the additional Improvement Charge, it is expected to generate approximately \$700,000. This still leaves a shortfall of more than \$200,000 which would be made up through some form of equity investment.

5. Please note that during the last rate filing in 2003 that the Company had negative rate base. To fund all future capital improvements with Contributions in Aid of Construction (CIAC) may not be in the best interest of the Company or



Jim Ward  
December 23, 2004  
Page 4 of 4

customers. Please provide an explanation as to why the Company should continue to fund capital improvements with CIAC and not investment.

RESPONSE: Please see the introductory comments set forth above. In addition, please see the response to Data Request No. 4, which points out that there is some equity investment projected under the Capital Improvement Plan.

Sincerely,



RICHARD A. FINNIGAN

RAF/lb  
Enclosures

cc: David Gibbs

## CHAPTER 9

### CAPITAL IMPROVEMENT PLAN

This chapter presents a Capital Improvement Plan in accordance with the requirements of WAC 246-290. Recommended water system improvements and associated cost and scheduling information are presented in the following sections according to the analyses, deficiencies, and recommendations identified in earlier chapters of the plan. Figure 9-1 provides a map of the proposed project locations. Scheduling and financing of these improvements is included in Chapter 10. All costs shown in this chapter are based upon similar projects constructed in Western Washington under public works bidding and contain engineering and administration and a 20 percent contingency. Detailed cost estimates for the capital improvement projects are included in Appendix L.

In the future other projects may arise that are not identified as part of the Water Company's CIP. Such projects may be deemed necessary for ensuring water quality, preserving emergency water supply, accommodating transportation improvements proposed by other agencies, or addressing unforeseen problems with the Water Company's water system. Due to budgetary constraints, the completion of these projects may require that the proposed completion date for the projects in the CIP be rescheduled. The Water Company retains the flexibility to reschedule proposed projects and to expand or reduce the scope of the proposed projects as best determined by the Water Company when new information becomes available for evaluation.

#### SOURCE

As indicated in Chapter 3, Roche Harbor Water Company is planning to replace the existing water treatment facility with a new facility to address inadequacies in the existing plant and to provide for anticipated growth. The new facility will contain redundant filtration capacity, corrosion control, and disinfection.

#### SO-1. WATER TREATMENT PLANT

Roche Harbor Water Company plans to construct a new water treatment plant to replace its existing plant. The new plant will be built adjacent to the existing plant and will incorporate upflow clarification and rapid sand filtration using two package units of 350 gpm each. The unit will also have equipment installed for disinfection and pH adjustment for corrosion control. The treatment plant will be housed in a new building next to the existing treatment facility. **Estimated Project Cost: \$1,115,000.**

## STORAGE

Roche Harbor Resort has planned to expand its resort facilities. As part of this expansion, the existing resort tank is scheduled for removal as part of a housing development. Roche Harbor Water Company intends to replace the existing resort reservoir with a new storage facility at the existing barn tank site. As part of this project, the 10,000 gallon Mausoleum Tank will be removed and its capacity will be incorporated into the new storage reservoir. The Mausoleum Tank has an overflow that is lower than the hydraulic grade of the system and it is thought that it provides water to the system only during periods of very low pressure. Consequently, it is thought to contain water that is stagnant for long periods and a possible water quality concern.

The storage required is dependent on several variables including, the fire flow requirement for the Resort complex. The Water Company is currently deficient in storage if a higher fire flow of 2,750 gpm for 2 hours is used for the fire suppression storage component. Existing information provided by the Water Company indicates a fire flow requirement of 1,000 gpm in the Resort complex with future development. This smaller fire suppression storage value reduces the total storage required.

The construction of the new treatment facility will reduce the equalization storage that is currently needed and may affect the disinfection contact volume. Disinfection contact may be built into the design of a new facility in the form of CT piping or alternative disinfection. The Engineering Report for the treatment plant will investigate this further. At minimum, the volume of the Resort and Mausoleum Tanks should be replaced. However, it is recommended that the storage requirements be reanalyzed after treatment plant construction to ensure that adequate storage is installed.

### **ST-1. Construction of a 150,000 Gallon Reservoir**

This reservoir will be constructed adjacent to the existing two Barn Tanks on the hill above the Water Treatment Plant. This project will replace the Resort Tank and the Mausoleum Tank, which are both scheduled for demolition as part of the resort expansion, the cost of which is not included in this estimate. The reservoir would be a concrete reservoir of similar construction to the two existing reservoirs. **Estimated Project Cost: \$222,000.**

## DISTRIBUTION SYSTEM

The distribution projects will provide the system with increased reliability, system pressures and fire flows. As indicated in Chapter 4, the Water Company is currently deficient in its capability to provide fireflow and in its ability to maintain 30 psi throughout the distribution system under peak day flows.

**D-1. Resort Area 8-Inch Loop**

This project will providing looping and additional fire flow to the Resort complex area. **Estimated Project Cost: \$55,000.**

**D-2. Pearl Island Waterline**

Currently, a three-inch waterline serves Pearl Island. The line has reached the end of its useful life and is in need of replacement. This project would include a four-inch HDPE waterline from the San Juan Island under water to Pearl Island. **Estimated Project Cost: \$102,000.**

**D-3. Barn Tank 12-Inch Waterline Improvements**

The existing 6-inch line feeding the water system from the Barn Tanks is undersized for high flow periods (fires, peak hour demands) and limits water service over the entire area. This project would upsize that line to a 12-inch line from the base of the tanks to the intersection with Roche Harbor Road. This project would also provide an 8-inch line from the Water Treatment Plant to the Barn Tanks to be used as a fill line. **Estimated Project Cost: \$200,000.**

**D-4. Roche Harbor Road 12-Inch Waterline Improvements**

In order to provide peak hour and fire flow demands, and continued service to the Resort, the waterline from the Water Treatment Plant, along Roche Harbor Road, to the Roche Harbor gates would be upsized from a 6-inch line to a 12-inch line. **Estimated Project Cost: \$230,000.**

**D-5. Roche Harbor Airport Waterline Improvements**

A hydrant located north of Roche Harbor Airport does not currently meet its fireflow requirement of 500 gpm. This project would replace the 6-inch waterline with an 8-inch waterline to improve available flow. **Estimated Project Cost: \$101,000.**

Table 9-1 provides a summary of the capital improvements and a timetable for their completion. Figure 9-1 shows the locations of the capital improvement projects.

*Gray & Osborne, Inc., Consulting Engineers*

Exhibit No. \_\_\_\_ (DWG-2)  
Page 8 of 11

**TABLE 9-1**

**Capital Improvement Project Costs and Schedule**

No.	Project	Estimated Cost	Estimated Construction Date
SO-1	Water Treatment Plant	\$1,115,000	2003
ST-1	Additional Barn Tank	\$ 222,000	2005
D-1	Resort Area 8-Inch	\$ 55,000	2004
D-2	Pearl Island Waterline	\$ 102,000	2004
D-3	Barn Tank 12-Inch	\$ 200,000	2004
D-4	Roche Harbor Rd. 12-Inch	\$ 230,000	2005
D-5	Airport 8-Inch Water Line	\$ 101,000	2006

**APPENDIX - A**

Roche Harbor Water System, Inc.  
8484 Roche Harbor Road  
Friday Harbor, Washington 98250

		Cost	Install	Facilities Charge	Improvement Charge
<b>Saturday, October 16, 2004</b>			\$ 1,500.00	\$ 3,500.00	\$ 3,000.00
U.T.C. worksheet	YEAR	Projected # Of hookups			
	2004	30	\$ 45,000.00	\$ 105,000.00	\$ 90,000.00
	2005	30	\$ 45,000.00	\$ 105,000.00	\$ 90,000.00
	2006	17	\$ 25,500.00	\$ 59,500.00	\$ 51,000.00
	2007	17	\$ 25,500.00	\$ 59,500.00	\$ 51,000.00
	2008	17	\$ 25,500.00	\$ 59,500.00	\$ 51,000.00
	2009	17	\$ 25,500.00	\$ 59,500.00	\$ 51,000.00
	2010	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2011	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2012	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2013	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2014	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2015	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2016	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2017	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2018	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2019	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2020	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2021	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2022	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2023	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
	2024	7	\$ 10,500.00	\$ 24,500.00	\$ 21,000.00
<b>Totals</b>		<b>233</b>	<b>\$ 349,500.00</b>	<b>\$ 815,500.00</b>	<b>\$ 699,000.00</b>

Total of f/c & improvement charges **\$ 1,514,500.00**

6 year Capital Projects-(2005-2008)  
still to complete see Appx-B

\$ 231,663.00

Capital Project-(2009-2014)  
still to complete see Appx-C

\$ 1,495,301.00

Shortfall from current Facilities Charge

\$ 911,464.00

**6-Year Capital Improvement Projects  
APPENDIX B**

Roche Harbor Water System, Inc.  
8484 Roche Harbor Road  
Friday Harbor, Washington 98250

Year Start 2003	End Year 2008	DONE	Actual Cost	Projected Cost	6 yr WSP-Jan 2003 Table 9-Capital Improvement	Est Year Complete
Water Treatment Plant		Yes	\$ 1,234,461.03		\$ 1,115,000.00	2003
Additional Barn Tank		No	\$ -	\$ 106,674.00	\$ 222,000.00	2005
Resort Area 8 inch Main		Yes	\$ 52,000.00		\$ 55,000.00	2004
Pearl Island Waterline		No	\$ -	\$ 97,464.00	\$ 102,000.00	2004
Barn Tank 12-Inch		Yes	\$ 173,365.60		\$ 200,000.00	2004
Roche Harbor road 12-Inch		Yes	\$ 86,682.78		\$ 230,000.00	2005
Airport Area 8-Inch		No		\$ 27,525.00	\$ 101,000.00	2006
<b>Total Dollars Needed</b>			<b>\$ 1,546,509.41</b>	<b>\$ 231,663.00</b>	<b>\$ 2,025,000.00</b>	

\*\*\* Resort Area 8 inch Main - Completed as part of Roche Harbor P.U.D.  
( Paid By Resort Customer Directly )

Funded via Facilities and Construction Charge UTC approved \$ 1,634,700.00 includes B&O Tax

**CAPITAL IMPROVEMENT PROJECTS BEYOND 6 YR PLAN  
APPENDIX - C**

Roche Harbor Water System, Inc.  
8484 Roche Harbor Road  
Friday Harbor, Washington 98250

Year Start 2009	End Year 2014		EST
	DONE	Cost	CONSTRUCTION DATE
Lake Impoundment Project	No	\$ 800,000.00	2009
Upgrade Mausoleum Water Tank	No	\$ 463,091.00	2010
Line Replacement Neil Bay	No	\$ 189,800.00	2012
Line Replacement Westcott Bay	No	\$ 21,900.00	2013
Davison Head Loop	No	\$ 20,510.00	2014
<b>Total Dollars Needed</b>		<b>\$ 1,495,301.00</b>	