

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

MARBELLO WATER COMPANY,

Respondent.

DOCKET NO. UW-040366

DECLARATION OF DANNY P.  
KERMODE IN SUPPORT OF  
MOTION TO DISMISS

I, Danny P. Kermode, declare under penalty of perjury under the laws of the State of Washington that I am over the age of 18, am competent to testify to the matters set forth below, and I have personal knowledge of those matters.

1. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst in the Water Section.

2. On April 21, 2004, Marbello filed financial information in compliance with the March 29, 2004 stipulation. At that time I began my investigation by requesting additional information which the Company responded to in a timely manner. I adjusted the provided financial information to reflect regulatory and rate

making accounting requirements such as the annualization of revenues and the recognition of contributions in aid of construction.

3. The Company-provided financial information, adjusted for regulatory and rate making purposes, formed the results of operations – regulatory basis and an average rate base for the year ended December 2003. I used these data in my analysis of the sufficiency of the Company's current rates.

4. The results of my analysis show that current rates produce annual revenues of \$73,574, which is \$1,594 (2.2%) greater than the \$71,980 revenue level my analysis indicates as the appropriate revenue level. The return on the total rate base of \$109,706 under current rates is 10.52%, whereas my analysis indicates an actual cost of capital of 9.29%.

5. The additional costs of litigation that the Company would incur defending an action by the Staff to reduce rates by \$1,594 (2.2%) makes this difference immaterial. Therefore, it is my opinion that the present rates are fair, just, reasonable and sufficient.

6. I do, however, have some remaining concerns about the Company's current rate design. The Company's current rate design collects 50% of its revenues from the usage rate (as compared with the base charge). This structure increases the vulnerability of the company to severe changes in cash flow due to changes in customer usage especially during the fall and winter months, which are typically

low usage months. I would recommend a rate design that recognizes in the usage rate the variable costs of providing water and the remaining, mainly fixed costs, in the base charge. Such a rate design would support a stable cash-flow while at the same time fairly charging those using water the cost to provide the water. Staff would support any effort by the Company to change its rate design to reduce its risk of cash flow.

I declare under penalty of perjury under the laws of Washington that the foregoing is true and correct.

DATED this 10<sup>th</sup> day of September, 2004, at Olympia, Washington.

---

DANNY P. KERMODE