

SERVICE DATE
NOV 27 1996

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	DOCKET NO. UW-951483
Complainant,)	
)	
v.)	
)	FOURTH SUPPLEMENTAL
ROSARIO UTILITIES, LLC,)	ORDER REJECTING PROPOSED
)	TARIFFS; AUTHORIZING
Respondent.)	REFILING
)	
.....)	

Proceeding: On Dec. 29, 1995, Rosario Utilities LLC ("Rosario" or "Company" in this order) filed with the Commission tariff revisions designed to effect a general rate increase of \$167,519,¹ for providing water to customers on Orcas Island, Washington. By order dated January 24, 1996, the Commission suspended the effective date of the tariff revisions pending investigation and hearing as to whether the proposed rates are fair, just, reasonable, and sufficient.

Interventions. The Commission received and granted Petitions for intervention from Orcas Highlands Association ("Highlands"), Vusario Maintenance Association ("Vusario"), and David and Terri Morrison. Highlands and Vusario combined their presentation and were collectively represented by one attorney. They are referred to in this order as Intervenors. The Morrisons did not participate as parties although David Morrison testified as a member of the public.

Hearings. Hearings were held on Orcas Island, Washington on August 15 and 16, 1996, and at Olympia, Washington on August 20, 1996, pursuant to due and proper notice to all interested persons, before C. Robert Wallis, administrative law judge.² The Company

¹The Company reduced its request to \$137,667 before presentations concluded.

²The matter was heard by an administrative law judge. On August 20, the parties waived an initial order to gain further time for negotiation, and agreed that the record would be submitted directly to the Commissioners for a Commission decision.

presented four witnesses³; the intervenors presented three,⁴ and the Commission Staff presented two witnesses.⁵ An evening hearing session was held on August 15, dedicated to receiving comment from members of the public, at which 14 persons offered testimony as members of the public. Parties presented briefs on October 1, 1996, and answering briefs on October 8, 1996.

APPEARANCES: The company was represented by Dan Donohoe, a principal in the operation and holder of a substantial financial interest in it. It was also represented by Frederick O. Frederickson, attorney, Seattle, in latter phases of the hearing and on brief, and by Chris Vierthaler, the company's Administrative Manager. Robert E. Lundgaard, attorney, represented Intervenor. Ann E. Rendahl and Jeffrey Goltz, assistant attorneys general, represented the Commission Staff.

COMMISSION: The Commission finds a gross revenue deficiency of \$6,721. It rejects all of the Company's proposed tariff revisions. It authorizes the Company to refile tariff revisions, consistent with this decision.

I. BACKGROUND:

For many years, this water utility was an integrated part of the Rosario Resort, a well-known facility on Orcas Island in the San Juan archipelago between Washington State's United States mainland shores and Canada's Vancouver Island. The Resort began securing and providing water for its own uses, and over the years agreed to provide service for others.

New owners⁶ recently took over the resort and are divesting the water company from the resort.⁷ The water utility is now operated on a stand-alone basis and must

³The Company witnesses were Christine Vierthaler, Administrative Manager; John C. Cavalli, Facilities Manager, Rosario Resort; Daniel S. Drahn, consulting engineer; and Dan Donahoe, representing the ownership.

⁴Intervenors' witnesses were Gunther Eschenbrenner, professional engineer; George Jenkins, President, Orcas Highlands Association; and James Bacon, accountant.

⁵Commission Staff witnesses were Al Jones, engineer, and Herta Fairbanks, accountant.

⁶As of the time of the concluding hearing, the property was being operated by the contract purchasers subject to confirmation of the sale by the bankruptcy court. For convenience, we will refer to the Donohoe interests, purchasers, as the "owners" of the property.

⁷The interrelationships among various corporations, partnerships, and management companies was explained on the record (see, Ex. 63 and TR. 308-310). For our purposes it is sufficient to say that Mr. Donohoe is a principal in both the resort and the water utility,

recover all costs. It has 148 residential customers,⁸ and it also serves two commercial customers: the resort and one 12-unit condominium that is operated as a guest facility (the Morrison property). The pattern of operations in past years was to secure a large sum from prospective customers to recognize costs of installation. Few of the customers are metered, and service has been on a flat rate basis.

When the Company filed for the increases requested here, it stated that the total requested increase was \$167,519. It proposed that the residential rates increase from \$20 to \$51.15 per month, and that the Morrison facility rate would rise from \$20 to \$929 per month. The magnitude of the proposed increases prompted great public interest.

Several interesting questions are posed in this proceeding. Some of the more financially significant include how to value the system for ratemaking purposes in the absence of accurate records; how to apportion usage in the absence of meter readings, and whether to allow recovery of certain of the company's attorneys' fees in rates in this case.

II. REGULATORY PRINCIPLES.

In carrying out its legislative direction, the Commission follows sets of principles that result from statutes, judicial decisions, rules, and Commission orders. It is essential that companies be allowed to recover the reasonable costs of providing service, or no one will be willing to enter the business, existing companies will not meet their costs of operation, and customers could find themselves without any service at all. Our purpose in reviewing rate proposals is to meet the legislative mandate that rates for regulated utilities be fair, just, reasonable, and sufficient.⁹

Statement of principles. The ultimate determination for the Commission is whether the rates and charges are fair, just, reasonable, and sufficient. These questions are answered by establishing the fair value of the Company's plant for ratemaking purposes; determining the proper rate of return permitted to the respondent on that property; determining the company's costs of providing service; determining whether additional revenues are needed in light of the Company's costs, and if there is a revenue deficiency, then determining how the additional revenues should be apportioned among the Company's ratepayers.

and that the water company limited liability corporation is a separate legal entity from the entity that is purchasing the resort.

⁸It serves approximately 148 residential customers near the resort; 8 residential customers through Vusario, and provides water to serve 77 residences and 8 additional lots through the Highlands development.

⁹RCW 80.28.010(1).

III. TEST YEAR.

The parties agree that the proper test year for examining the Company's results of operation is the year beginning October 1, 1994 and ending September 30, 1995.

The Company was not operating under its current management as a separate entity during that period. Some of the most vigorously contested issues on this record result in part from problems related to the transitions in ownership and acts or omissions of prior management. The chosen period is the latest period for which reasonably reliable information is available for review. No other period would be significantly better. The Commission accepts the period stated as the proper test period in this proceeding.

IV. RESULTS OF OPERATION.

The Company submitted its proposed results of operation for the test period, and Commission Staff and Intervenors both proposed adjustments to that proposal. We accept the parties' agreements and will address in this order only those elements that remained contested in the briefs.¹⁰

A. RA-1, RA-1 Test Year Revenue and appropriate "ERUs"

Commission Staff proposes to adjust the Company's proposed test year revenue figure for two changes. First is to reflect lower revenue from the Morrisons' condominium, to account for charges during the test year that exceeded the tariffed rate for service; second is to reapportion the revenues and include revenues attributable to the resort, through the use of "ERUs."

1. The Morrison Condominium. During the test period, the authorized tariff rate for service to the Morrison condominium was \$20.00 per month, per condominium unit, or \$240. The rate that the Company charged and collected during the test year was \$90 additional, for a total of \$330 per month. The adjustment is proper.

Question was raised as to whether the company must refund the excess collections. The answer to that is "yes"; a regulated company is not allowed to increase its tariffed rates without changing its tariff to allow the new rates.

2. Calculation of ERUs.

The Company does not at the present time meter most of its customers'

¹⁰For example, by the time of submission of answering briefs all parties accepted a single adjustment for insurance expense.

usage.¹¹ In the absence of metering, some means must be used to apportion responsibility for consumption (and therefore costs and revenues) among classes of water users and, especially, the relative water consumption by the Rosario Resort. One means to do this is through the use of Equivalent Residential Units or ERUs. ERUs have been developed by the Washington State Department of Health as a means of stating water usage by larger systems (e.g. hotels, schools, or commercial firms) on a standardized basis. An average residential usage equals one ERU, so a water system that uses twelve times that amount, for instance, will be assigned a value of 12 ERUs. The calculation is needed for this adjustment because during the test period the water utility was integrated with the resort and the resort did not bill itself for service.

Three very different proposals were made to determine the proper ratio of consumption for the resort. The Company proposes that the resort be assigned 69 ERU's; Intervenor propose 143 ERUs; and Commission Staff, 109 ERUs.

Company calculation. The Company completed a study in 1995 that it contends shows that the resort should be assigned 69 ERUs. It argues that this study should be adopted because it is the most recent study available, and therefore is the most accurate. This report was not approved by the Washington State Department of Health ("DOH").

Commission Staff calculation. The Commission Staff proposed to use 109 ERUs for the resort's consumption. That number is drawn from a report completed by the Company during 1994 that was submitted to and approved by the DOH. The Company argues that the 1994 Report was superseded by the more recent report that the Company prepared the following year; Commission Staff points out that during 1995 a number of resort rooms were out of service for remodeling and that the 1995 Report was not approved by DOH.

Intervenor's calculation. Intervenor note that the Commission Staff proposed report states that one ERU as used in Staff's calculation (and the DOH report) is 250 gallons per day. Intervenor have recorded actual usage at some metered residences on Orcas Island and state that the average of those metered usages, which are a small portion of the total residential units served by the system, is 169 gallons. They would recalculate the ERU at 180 gallons per day. Using that calculation, the resort's usage would be 143 ERUs and it would shoulder a higher portion of costs -- and rates -- than using the other calculations.

Discussion and decision. We adopt the Commission Staff's proposed use of the DOH-approved, 1994 report. Its approval, we believe, is significant and adds to the

¹¹If all customers were metered, this analysis would be unnecessary. The ERU analysis may change over time and is subject to revision in a future proceeding. Once meters are universal on the system, the analysis will no longer be needed.

credibility of its assumptions and its derivation. We reject the Company proposed figure because the out-of-service rooms during that study period render the report less likely to reflect future consumption relationships. In addition, the lack of DOH approval renders it less credible when an approved figure is available for a period nearly as recent. We reject the Intervenors' proposed figure because, although it might well be an accurate calculation using the number derived by the intervenors, that number is not shown to be appropriate for use. It is not an average of all system residences, but only some. Neither does it account for such necessary elements as leakage loss and water used to flush water lines.

Finally, we acknowledge that Intervenors suggested adding four ERUs because the 1994 study omitted four resort employee units. We decline to do that, and prefer to take the report in its entirety. We believe that, as a complete report, it gives the best available picture of usage relationships.

B. RA-2 Employee Compensation.

The purpose of this adjustment is to yield an accurate, allocated portrayal of the personnel costs reasonably required to run a system of the size and complexity of that which the Company operates.

During the test year, there were no Company employees because the system was operated as an integrated part of the Resort. The two employees now assigned to the water operation previously did some of the tasks needed to run the water utility; other resort employees also worked on the water system. Now the two employees -- assigned principally to office/management and maintenance/engineering, respectively -- have consolidated the work of several employees. There are no accurate time records from the test year, and the Company's time estimates are based on estimates of employees' past and present time commitments in running the operation.

Commission Staff proposes a figure that is based on its experience in reviewing the results of operation of similar companies. It suggests that once the changeover to a separate operation is complete, and the operation stabilizes in that format, its adjustment will more accurately represent the time required for company operation. Intervenors propose a slightly larger adjustment than Commission Staff, for a slightly smaller resulting salary expense.

We accept the Commission Staff proposed adjustment. It has the benefit of a broad base of experience. The Company's proposal is hampered by a the need to rely on estimates of prior-period labor or estimates of recent-period labor. In each case, there are drawbacks to using the company's proposal. As the operation gains experience as a separate entity and more accurate time records are kept, and as efficiencies become apparent through experience, the Company has the opportunity to develop more credible information.

C. RA-11 Payroll tax.

This adjustment is to reflect in payroll taxes the determination in RA-2 regarding employee expense. Here, we accept the Commission Staff adjustment, because it most accurately of the proposals reflects the tax expense upon the adjusted salaries. We find, however, as Intervenors suggest, that the Staff-proposed adjustment needs correction.

Staff's original payroll tax adjustment RA-11 must be revised to include only those costs incurred by the employer, and to exclude amounts required to be withheld from employees. A payroll tax rate of 16.45 % should be used. Payroll taxes include the employer's share of social security, state unemployment tax, federal unemployment tax and the employer's share of labor and industries.

Employers are required to withhold federal income tax and social security taxes from the employee's gross wages. The employer is also required to pay, along with the withheld amounts, an amount equal to the employee's share of withheld social security tax. Only this additional amount of social security tax is considered a payroll tax. The withheld amounts have already been recorded as part of the employee's gross salary.

D. PA-3, Legal expense.

The purpose of this adjustment¹² is to allow the Company to recover its legal expenses in prosecuting its rate proposal. Views on this adjustment vary widely.

Commission Staff initially opposed any allowance for attorneys' fees, contending that if the Company had been forthcoming and cooperative at the outset of discussions regarding the increase, it would have settled the proceeding and would have needed no rate case attorney fees at all. Intervenors also emphasize the Company's lack of cooperation and oppose any allowance of attorneys fees. On brief, the Staff acknowledged that attorney advice was appropriate for this proceeding and acceded to the amount that the Company requested, \$6,000..

After the case concluded, and after the opening briefs had been filed, and one day prior to the filing of answering briefs, the Company filed a motion to reopen the record to include then-current information regarding attorney expense.¹³ Intervenors oppose the motion. Commission Staff neither supports nor opposes the motion, but argues that only the amount of \$6,000, which it accepted on brief, should be authorized for recovery.

¹²In the Table in the Appendix to this order, this adjustment is shown as PA-4.

¹³The Company's brief, filed the following day, stated the updated legal expense figure as \$18,103 including Staff's proposed proforma rate case adjustment, or \$15,028 excluding that adjustment.

We deny the motion to reopen the record and deny the higher requested attorney fee amount.

First, it is highly unusual to reopen the record at the time the reply brief is filed. Here, although the parties acknowledged at the conclusion of the hearing sessions that additional attorney work might be required, there was no motion to allow presentation of the information at a later date. There is little opportunity for audit, for examination, or for other review of late-filed information. Such a motion should be granted only in the most emergent situation -- a circumstance that does not exist here. We rest our decision on procedural grounds.

Second, however, we note that conducting a major litigated rate case for a water utility is a financial black hole for all participants. The intervenors' attorney fees are likely substantial, and they are not recoverable in rates. The Commission's legal, professional, administrative, and decision costs are likely to be substantially higher than those sought by the Company, and are not recoverable in rates or from the regulatory fees paid by the Company. All parties are burdened with the costs of litigation.

A company is truly in a difficult position when faced with the choice of whether or not to hire an attorney for litigation. Here, we accept the evaluation of Commission Staff that, had the Company been forthcoming with information and cooperation at an early stage of discussions, litigation would have proved unnecessary. Allowing the entire fee as proper would in effect reward the Company for failure to cooperate, which would be unfair to ratepayers.

We accept the Company's request of \$6,000 for attorneys' rate case expense. The proper mode of recovery is to amortize the expense over the period between expected occurrences or a reasonable period. Even though we believe it unlikely that the company will face a similar expense within three years, we believe that three years is an appropriate period for amortization of the \$6,000 expense, and will authorize an adjustment of \$2,000 for rate case attorney expense.

We conclude by observing that the Commission has a strong policy favoring negotiation and voluntary settlement rather than litigation. In this order the Commission resolves many of the items of contest among the parties, and we expect that in a future rate increase request, it will not be necessary to litigate.

V. RATE BASE.

The "only" issue regarding rate base in this proceeding is how to calculate it -- a substantial issue and a substantial challenge for all of the parties. We discuss this element under Adjustment RA-12, Rate Base Adjustment.

All of the parties acknowledge that the Company does not have accurate

records of the depreciated value of the company's plant, because its totally unrelated predecessor failed to keep adequate records. All parties agree that it is essential to have a valuation of rate base for regulatory purposes. The parties' approaches differ substantially with respect to establishing a valuation, however.

Intervenors. The intervenors suggested that the proper method for establishing valuation of the utility company's plant in service is to look at the contract of sale under which the present interests are acquiring the resort and utility company properties. For purposes of the sales contract, the signatories valued the utility operations at \$65,000.

We reject that approach. As noted in the cross examination of the Company's witnesses, that valuation was established for purposes of the sale only. Intervenors contend that the sale represented the sale of assets only; we disagree. The sale was of an ongoing regulated utility business that provided service to the same customers before and after the sale. Precedent from other fields, for other purposes, is not persuasive as to any principle relevant to this decision.

In prior proceedings involving the sale of a utility, the Commission has used depreciated regulatory book value to determine a company's rate base. Here, the impossibility of that task does not excuse adopting the signatories' assigned valuation for purposes of sale. We are sure that the intervenors would disagree with that methodology if the buyer's and seller's agreed allocation as part of the resort sale had been \$650,000 rather than \$65,000. Accepting Intervenors' proposal would make utility ratepayers vulnerable to such manipulation through signatories' agreements at the time of sale, even if that allocation is proper for other purposes. It is not a proper means of valuation for ratemaking purposes.

Without accurate records and unable to use the parties' agreed valuation on sale, we must look for another means to derive a valuation that is fair to both the utility and to its customers. The Company makes a proposal, which Commission Staff supports, with modification.

Company. The Company hired the expertise of an engineer who examined the plant in place, estimated the cost to purchase and install it at the present time, reduced the cost by the use of deflation factors to the time of construction, then depreciated it to the present. The engineer, Mr. Drahn, testified about his methodology. Intervenors challenged his valuation, arguing that the few actual receipts are inconsistent with his estimates and that the present costs of materials on the open market are also inconsistent with his estimates. The Intervenors contend also that the whole valuation process should be rejected because the Company was assertedly not forthcoming in providing information that it did have in its possession, noting that certain water tank invoices were not provided until late in the proceeding.

Commission Staff. The Commission Staff engineer, Mr. Jones, independently reviewed and largely accepted Mr. Drahn's estimation of value as being sound from an

engineering standpoint. Based upon invoice evidence of the costs of two large assets, water tanks, Commission Staff proposes to reduce the valuation to reflect the invoice costs of those assets.

Discussion. Commission Staff proposes, and the Company accepts, a reduction in the estimated valuation to reflect the invoices for the tanks. The Intervenor argue that the difference between the engineer's cost estimate and the invoices of these two assets demonstrates a flaw in the methodology. They also argue that other estimates, such as for installation of pipes and mains, are invalid because the pipes and mains can be purchased today for less than the estimated valuation of those assets, and that together they cast substantial doubt on the estimated result.

Commission Staff argues against revising the pipe estimates, stating that estimates may take widely varying factors into account because they are estimates. Staff notes that the invoice for one of the tanks did not include costs of installation, and that pipe prices cited by intervenors also are shelf prices and not installed prices. Commission Staff urges that it is inherent in making estimates of this sort that, while a specific item may be technically incorrect, the process of estimating will balance estimates over the entire range of elements. We find this to be the case. Finally, we find the evidence of the Company and Commission Staff witnesses credible as to the validity of the processes and the nature of the individual items, in the context of the estimation process.

The Intervenor contend also that the whole valuation process should be rejected because the Company was assertedly not forthcoming in providing information that it did have in its possession, noting that the water tank invoices were not provided until late in the investigation. We reject this argument. We think that it is not productive at this point to explore parties' motives. There is evidence of poor prior record keeping. It is not inconsistent with that to find records in different places and to fail to understand the relevance or significance of records that are later discovered. There is no evidence of fraud or intentional falsification or withholding such as would appear to warrant sanctions or rejection of evidence. In making this assessment, we note that the Company did allow full access to its documents and did ultimately provide documents. We caution the company that we expect, once it has completed its transition, that there will be no more missing, late-appearing, or inaccurate evidence.

CIAC. Customer Contributions in Aid of Construction, or CIAC, reflect funds that customers have supplied for construction of facilities that serve them. Because the assets purchased with such funds are customer-supplied, it is not proper that they be included in the calculation of the investor-supplied rate base to earn customer-paid return. Companies are entitled only to a return on investor-supplied capital.

It is undisputed that the Company in the past required a substantial facilities fee before hooking up new customers. Its predecessor did not keep complete or accurate records. The Commission Staff relies in part on information regarding CIAC provided by

Intervenors. The company contends that CIAC credit should not be granted unless there is evidence that the prior owners of the ongoing operation actually spent on facilities the funds received from customers. Commission Staff responds that it is immaterial where the particular dollars went after collection as a facilities charge; the funds were demanded and received as a capital contribution and should be credited as such. Commission Staff's argument is persuasive. Treatment per books or in the till is different from regulatory treatment. Proper regulatory treatment would be to consider the payment as a capital contribution no matter what use was made of the funds or how the company reported the transaction for tax purposes.

The Commission accepts the Commission Staff estimate. The current ownership interests did purchase an ongoing utility operation. Ratepayers have provided capital funds to the company and are entitled to have those funds considered in rate base calculation. We accept the Commission Staff adjusted rate base figure because it is credibly supported in the record, because the challenges to it are flawed in ways we have identified, and because, in light of the Commission's expertise, we believe that it fairly and reasonably provides a realistic rate base for this company's operations.

VI. RATE OF RETURN.

The Commission Staff proposes a weighted capital cost of 12% based on an equity rate of 14%, a cost of debt of 10%, and a hypothetical capital structure containing 50% debt and 50% equity. The other parties accepted this calculation. It is reasonable for this company and it is accepted for purposes of this proceeding.

VII. REVENUE DEFICIENCY.

Comparing the Company's adjusted results of operation with the revenues required to fund those operations and meet the costs of providing service, including the cost of capital, we find a net income deficiency of \$5,414. Using the appropriate conversion factor of .8055 to account for the effects of taxes and other elements, we find that the Company has a gross revenue deficiency of \$6,721.

VIII. SPREAD OF RATES.

A. Service Connection Charge.¹⁴

The Company asks for an increase in its service connection charge, to increase the existing \$2500 fee by \$1600 as a facilities charge. Intervenors propose a connection

¹⁴To some extent this discussion may be moot, as the Washington State Department of Health imposed a moratorium on new hookups in December, 1995, pending development of additional source capacity.

charge of \$350, and Staff suggests \$240 based on its review of company costs. The \$240 includes the recovery of federal tax liability on collected revenue.

We accept the Commission Staff proposal. It allows the Company to recover the expenses it incurs in new connections, without a capital contribution. The Company proposal would unnecessarily require the ratepayers to become contributors of capital to the Company, but would not allow them the opportunity to earn a return on that investment. We accept Commission Staff's evaluation also that the Company's proposed fee exceeds the actual costs and the actual capital expenses related to connections. The Commission Staff proposal is more credible, it is more reasonably related to costs, and it is approved.

B. Rates for water consumption.

Proposals for rates vary substantially. The following table demonstrates the variance.

Rate Proposal \ Service	Flat residential service rate:	Resort rate:
Existing	\$20	\$975 ¹⁵
Company (original)	\$51.15	\$3,619
Company (revised)	\$35.73	\$2,520
Intervenors	\$15.16	\$2,268
Commission Staff	\$24.70	\$2,692

Bulk customers' rates. Consumers who are residents of Vusario and Orcas Highlands receive water on distribution systems that they have paid for and, through their Associations, pay to operate. The Company has no responsibility for the distribution of water once it reaches the Associations' mains. The Company bills for water consumption on a per-customer basis. The parties offer different evaluations of the rate differential that the Commission should adopt to reflect the Company's reduced financial responsibilities

The company proposes a 25% discount, contending that it more closely reflects proper ratemaking principles. Commission Staff argues that a \$5.85 per month credit to these bulk users bills will adequately reflect the costs of distribution. Intervenors urge that the Commission Staff figure is too low because Staff improperly divided costs

¹⁵During the test period, the water utility was integrated with the resort. No payment was made, but \$11,700 was shown as a collectible for the utility for the test period. It is not clear how that figure was derived between the utility operation and the resort.

among all potential customers in a development rather than the number of actual customers. Staff responds that the intervenor approach is incomplete in that it fails to recognize the company's costs in serving the bulk customers.

We accept the Commission Staff proposal. It is a cost-based calculation, and its derivation is preferable to the Company's approach. In the context of this proceeding the Commission Staff approach appropriately recognizes the Company's costs of providing service to the bulk customers, and is preferable to the Intervenor's suggestion.

Residential rates. Our calculations, based upon the information available of record, indicate that the following rates would yield the required revenues.

<u>Service</u>	<u>Price per Month</u>
Flat rate residential	\$23.05
Flat rate bulk	\$17.20
Metered residential ¹⁶	\$18.55 plus 75c/100cf/month over 400 cf
Metered bulk ¹⁷	\$12.70 plus 75c/100cf/month over 400 cf
Morrison condominium	\$276.00
Rosario Resort	\$2512 (109 ERUs @ \$23.05)

Metering. The Company has committed to a program by which all customers will be metered within a relatively short period. All parties agree that metering is necessary. The only disagreement is the speed with which full metering be accomplished.

Intervenors asked that the Commission order metering to be completed within 18 months. The Company opposed that direction, contending that it would not likely be able to secure financing for such a program and urging adoption of its own program, under which all customers will be metered no later than the year 2000. Commission Staff supports the Company proposal.

We accept the Company proposal. It would be pleasant to have all meters installed within 18 months, but it is not realistic. A small water company such as the

¹⁶Because average residential consumption is 1,000 cubic feet per month, and the basic metered rate includes 400 cf, the metered and bulk rates are priced to generate, on average, the same revenue.

¹⁷If measured through a master meter, the included consumption and excess would be multiplied by the number of customers.

respondent must be able to act reasonably and deliberately in planning and implementing its non-emergent expenditures. Here the wait will allow a reasonable and measured approach in a way that allows reasonable funding -- an approach that in the long run will benefit customers as well as the Company.

If any customer would prefer to purchase a meter in advance of the scheduled date, it may do so, as the Company points out.

IX. Public participation.

The evening hearing session on August 15 was set aside to receive testimony from members of the public. Fourteen persons testified. Some public witnesses were able to offer testimony containing factual evidence based on their expertise as long-time residents, homeowner association officers, or as persons with professional training and experience in relevant areas. Each of the witnesses expressed thoughtful comments that have been valuable in assessing public sentiment.

X. Conclusion.

We have carefully considered the evidence and the argument presented in this proceeding. Based on that evidence, and for the reasons set out in this Order, we have made our decisions. Attached to this Order as Appendix A are tables demonstrating the calculations that effect the decisions we have reached.

FINDINGS OF FACT

Having discussed in detail above, the oral and written evidence received concerning all relevant matters, and having stated findings and conclusions within that discussion, the Commission now makes the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings are incorporated herein by this reference.

1. The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, and transfers of public service companies, including water companies.

2. The respondent, Rosario Utilities LLC, is engaged in the business of furnishing water service in the State of Washington as a public service company.

3. On Dec. 29, 1995, Rosario Utilities LLC filed with the Commission, tariff revisions designed to effect a general rate increase of \$167,519, for providing water to customers on Orcas Island, Washington. The Commission suspended the tariff revisions by order of January 24, 1995 and instituted an investigation into the Company's operations.

4. The 12-month period ending September 30, 1995 is the proper period in which to examine the respondent's operations for ratemaking purposes.

5. Respondent's adjusted rate base for ratemaking purposes is valued at \$145,312.

6. The appropriate capital structure for Respondent for ratemaking purposes is 50% debt and 50% common equity.

7. An overall rate of return of 12 per cent on Respondent's adjusted rate base will maintain its credit and financial integrity and will allow it to acquire sufficient new capital at reasonable rates and terms to meet its service requirements.

8. Respondent's test year adjusted net operating income within the State of Washington is \$12,075, after taxes, under present rates.

9. A deficiency exists in adjusted test period gross annual income on respondent's water operation in the amount of \$6,771.

10. The tariff revisions that the Respondent filed in this proceeding would produce increased annual revenues that exceed the Company's revenue requirement that is found herein to be fair.

11. The Company's tariff filing should be entirely rejected. Respondent should be authorized to file tariff revisions that will produce additional annual revenue not exceeding \$6,771.

12. The rate design and rate spread proposals recommended by the Commission Staff, as adjusted herein to conform with the revenue deficiency we find, will fairly apportion the burden of the additional revenue requirement fairly among the Company's ratepayers and will result in rates that are fair, just, reasonable, and sufficient

Based on the findings of fact made above, the Commission makes and enters the following conclusions of law.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and the parties thereto.

2. Respondent's existing rates and charges for providing water service in the State of Washington are insufficient to yield reasonable compensation. Revisions to rates and charges made in accordance with this Order will yield a fair rate of return on respondent's rate base found proper in this Order and, if filed pursuant to the authorization

herein, will be fair, just, reasonable, and sufficient.

3. The tariffs under suspension in this Docket name rates and charges that are excessive. They should be rejected entirely.

4. The Company should be authorized to file tariffs consistent with the terms of this Order.

5. All motions made during this hearing that are consistent with this Order are granted. Those motions that are inconsistent herewith are denied.

Based on the foregoing findings of fact and conclusions of law, the Commission makes and enters the following:

O R D E R

THE COMMISSION ORDERS;

1. The tariff revisions filed on December 29, 1995 are entirely rejected.
2. Respondent is authorized to file tariff revisions in the form and the amount found to be proper in the body of this Order, to produce no more than the additional gross revenue found proper herein.
3. The filings authorized in this Order shall be filed within ten days after the date of this order, shall bear an effective date allowing the Commission at least four business days after they are filed to examine the filing. The filings shall reflect no retroactive rate treatment and shall bear the notation on each sheet, "By Authority of the Washington Utilities and Transportation Commission in Docket No. UW-951483."
4. Notice of the filings authorized in this order shall be posted, on or before the date filed with the Commission, at the Respondent's business office in Washington State. The notices shall state when the filing is to become effective and advise that a copy of the filing is available at that office. The notice shall remain posted until the Commission has acted on the filing.

5. All motions consistent with this order are granted and those inconsistent herewith are denied.

DATED at Olympia, Washington, and effective this 25th day of November 1996.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R. GILLS, Commissioner

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Rosario Utilities, LLC
Results of Operations for Rate-making Purposes
For the 12 Months ended September 30, 1995

NARUC CHART OF ACCOUNTS	TEST YEAR PER BOOKS	RESTATING ADJUSTMENTS	RESTATED LEVEL	PROFORMA ADJUSTMENTS	PROFORMA BEFORE PROPOSED RATES		EFFECT OF PROPOSED RATES		PROFORMA AFTER PROPOSED RATES		EFFECT OF COMMISSION RATES		PROFORMA AFTER COMMISSION RATES	
					RATES	RATES	RATES	RATES	RATES	RATES	RATES	RATES		
REVENUE														
460.0 Unmetered Sales	\$ 33,597	RA-1	\$ 1,923	\$ 35,520	\$	\$ 35,520	\$ 55,322	\$	\$ 90,842	\$	\$ 5,417	\$	\$	\$ 40,937
Rosario Homeowners (148)	\$ 3,960	RA-1	(1,080)	\$ 2,880	\$	\$ 2,880	\$ 8,272	\$	\$ 11,152	\$	\$ 439	\$	\$	\$ 3,319
Condo - Morrisons (12)	\$ 965	RA-1	21,355	\$ 22,320	\$	\$ 22,320	\$ 56,804	\$	\$ 79,124	\$	\$ (3,125)	\$	\$	\$ 19,195
Highlands/Vusario (93)	\$ 11,700	RA-1	14,460	\$ 26,160	\$	\$ 26,160	\$ 17,269	\$	\$ 43,429	\$	\$ 3,989	\$	\$	\$ 30,149
Rosario Resort (109)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
461.1 Metered Sales, Residential	-	-	-	-	-	-	-	-	-	-	-	-	-	-
461.2 Metered Sales, Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-	-
471.0 Miscellaneous Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
474.0 Other Water Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OPERATING REVENUE	\$50,222		\$36,658	\$86,880	\$0	\$86,880	\$137,667	\$0	\$224,547	\$6,721	\$0	\$0	\$93,601	
EXPENSES														
601 Salary Employees	\$59,438	RA-2	(\$31,900)	\$27,538	\$27,538	\$27,538	-	-	\$27,538	-	-	-	\$27,538	-
603 Salary Officers	-	RA-3	2,755	2,755	2,755	2,755	-	-	2,755	-	-	-	2,755	-
604 Employee Pension/Benefit	14,604	-	(7,776)	6,828	6,828	6,828	-	-	6,828	-	-	-	6,828	-
615 Purchased Power	4,835	-	(2,803)	2,032	2,032	2,032	-	-	2,032	-	-	-	2,032	-
618 Chemicals & Testing	4,690	-	(1,046)	3,644	3,644	3,644	-	-	3,644	-	-	-	3,644	-
620 Materials & Supplies	6,276	-	(6,276)	-	-	-	-	-	-	-	-	-	-	-
631 Contractual Engineer	-	-	-	-	1,000	1,000	-	-	1,000	-	-	-	1,000	-
632 Contractual Accounting	-	-	-	-	2,000	2,000	-	-	2,000	-	-	-	2,000	-
633 Contractual Legal	-	-	-	-	2,000	2,000	-	-	2,000	-	-	-	2,000	-
634 Contractual Management	-	-	-	-	2,000	2,000	-	-	2,000	-	-	-	2,000	-
635 Contractual Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
641 Rents / Affiliated	1,800	-	-	1,800	1,800	1,800	-	-	1,800	-	-	-	1,800	-
650 Transportation	3,927	RA-4	(3,404)	523	523	523	-	-	523	-	-	-	523	-
655 Insurance	7,236	RA-5	(4,982)	2,274	2,274	2,274	-	-	2,274	-	-	-	2,274	-
665 Regulatory, Fees	-	RA-6	124	124	124	124	275	13	399	13	-	-	137	-
666 Regulatory, Rate Case	-	-	-	-	1,025	1,025	-	-	1,025	-	-	-	1,025	-
670 Bad Debt Exp	-	-	-	-	-	-	-	-	-	-	-	-	-	-
675 Misc Expenses	3,537	RA-7	(2,687)	850	850	850	-	-	850	-	-	-	850	-
Office/Postage/Phone	-	-	-	-	8	8	-	-	8	-	-	-	8	-
675.10 Repairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
403 Depreciation net of Amortization	19,160	RA-8	(7,173)	11,987	11,987	11,987	-	-	11,987	-	-	-	11,987	-
408.10 Utility Excise Tax	2,526	RA-9	1,844	4,370	4,370	4,370	6,923	338	11,292	338	-	-	4,707	-
408.11 Property Tax	-	RA-10	304	304	321	321	-	-	321	-	-	-	321	-
408.12 Payroll Tax	16,296	RA-11	(11,766)	4,530	4,530	4,530	-	-	4,530	-	-	-	4,530	-
408.13 Other Tax & License	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OPERATING EXPENSE	\$144,345		(\$74,786)	\$69,559	\$6,050	\$75,609	\$7,198	\$0	\$82,807	\$351	\$0	\$0	\$75,960	
OPERATING INCOME BEFORE FIT	(\$94,123)			\$17,321		\$11,271			\$141,740				\$17,641	
409 Fed Income Tax @ 15%	(16,613)	-	104	104	(804)	(804)	-	-	18,766	-	-	-	152	-
OPERATING INCOME AFTER FIT	(\$77,510)			\$17,217	\$0	\$12,075	\$0	\$0	\$122,973	\$0	\$0	\$0	\$17,489	
101 Utility Plant in Service	\$346,480	RA-12	126,591	\$473,071	\$473,071	\$473,071	-	-	\$473,071	-	-	-	\$473,071	-
108 Accumulated Depreciation	(19,160)	RA-12	(168,516)	(187,676)	(187,676)	(187,676)	-	-	(187,676)	-	-	-	(187,676)	-
114 Acquisition Adjustment(s)	-	-	0	0	0	0	-	-	0	-	-	-	0	-
271 CIAC Plant in Service	-	RA-12	(170,000)	(170,000)	(170,000)	(170,000)	-	-	(170,000)	-	-	-	(170,000)	-
272 Accumulated Amortization	-	RA-12	29,917	29,917	29,917	29,917	-	-	29,917	-	-	-	29,917	-
NET RATE BASE	\$327,320		(182,008)	\$145,312	\$0	\$145,312	\$0	\$0	\$145,312	\$0	\$0	\$0	\$145,312	
RATE OF RETURN	-23.68%			11.85%		8.31%			84.63%				12.04%	
Customer Count	362		362	362	362	362			362				362	