

# Appendix A

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION  
COMMISSION,

Complainant,

Vs.

THOMAS WATER SERVICE, INC.  
Respondent

DOCKET UW-021667

SETTLEMENT AGREEMENT

BACKGROUND AND FACTS

1           On December 17, 2002, Thomas Water Service, Inc., (Thomas Water or Company)  
filed to increase its rates. Thomas Water serves approximately 67 customers along with  
an equestrian area north of Arlington, in Snohomish County.

2           The Company originally proposed an annual increase of \$49,010 (100%). The  
Company states that the increase is to help recover the expenses of Satellite  
Management services and capital cost recovery with return.

3           On January 29, 2003, the Commission heard this item and customer comments.  
The Commission took no action at that meeting, as the Company extended the effective  
date of the general rate filing to March 1, 2003. Subsequent to that meeting Commission  
Staff, Company representatives and Customers met to discuss the issues. Staff  
explained the Commission processes of rate setting, facilitated questions between the  
Customers and the Company, and answered questions about regulation.

4           Thomas Water received its last rate increase in January 1999. At that time,  
Thomas Water notified its customers that the rate represented approximately one-half  
of what the Company thought it could justify. The Company said it elected not to  
recover the cost of capital improvements the owners made to bring the water system  
into compliance with the requirements of the Washington State Department of Health  
and did not include a return on those investments.

5           According to its 1998 water system plan, Thomas Water owned two water systems: Meadow Ridge (67 customers) and Meadowbrook (14 customers), and the plan anticipated developing Ironwood Ranch (not developed, potential 143 customers). Since then, the Meadowbrook water system was sold to the customers (Docket No. UW-991327). Independent of Thomas Water and not subject to Commission jurisdiction, the Lockwood Foundation turned over the partially developed Ironwood Ranch (now called Kackman Creek) and the water system to the homeowner's association. Thomas Water now consists only of the Meadow Ridge water system.

6           On Staff's recommendation, the company filed for a surcharge to separate the water system plan cost in a monthly surcharge to expire in May 2004. The initial water system plan included the three water systems then owned by Thomas Water. Since that time, two of the water systems have been transferred to the homeowners of those water systems. The costs associated with the water system plan have been removed from this rate case.

7           On February 28, 2003, Thomas Water filed for a surcharge (Docket No. UW-030276) to recover the costs of the portion of the water system plan (WSP) attributable to the Meadow Ridge water system, the only remaining water system operated by Thomas Water. The WSP was required by the Washington State Department of Health and was completed in 1998. This filing proposed an annual increase of \$9,316 (19%), in the form of a surcharge effective April 1, 2003. The Company stated that the increase was to help recover the capital cost of the WSP plus Department of Revenue excise tax. This cost is recoverable over the useful life of the WSP, which is normally six years. Since the WSP was approved in May 1998, the useful life ends in May 2004, which will recover \$10,868.54 (including tax). The surcharge rate of \$11.59 per customer, per month, will expire May 31, 2004, or upon recovery of \$10,868.54 (including tax), whichever occurs first. This filing was approved by Commission Order dated March 26, 2003.

8           The Commission received a petition with 52 signatures and seven letters stating opposition to the increase. Customers stated the proposed increase is exorbitant and should not be allowed. Customers believe the Company has not operated prudently and it could look for more efficient methods to reduce costs. Customers state the financial contract for a certified water operator and meter reader (Snohomish County PUD); billing agent and consultant (Washington Water Service); and engineer, legal and accounting (Cheryl Henry & Assoc.) are extremely high. Customers are paying \$25.80 per month per customer for these services. Customers believe the Company contracted with the easiest and, perhaps, the most expensive service providers for their contracted services.

9 On February 26, 2003, the Commission suspended the filing. A prehearing conference was held on April 11, 2003. Since that time, Staff and the Company have negotiated a lower amount for the proposed increase, resulting in the rates listed below:

<u>Monthly Rate</u>	<u>Current</u>	<u>Proposed</u>	<u>Revised</u>
3/4 inch meter with zero allowance	\$ 40.00	\$ 62.50	\$47.00
Zero to 800 cubic feet, per 100 cubic feet	\$ 2.25	\$ 6.50	\$ 2.75
Over 800 cubic feet, per 100 cubic feet	\$ 3.25	\$ 8.60	\$ 4.35

#### TERMS OF AGREEMENT


- 10 1. Company and Staff agree to the revised rates detailed above and in paragraph 2 below. With these rates, the average customer bill for water service will be \$85.66 per month: \$74.07 per month for the base rate and usage, plus the \$11.59 surcharge referenced in paragraph 7 above. These rates will result in an increase in the Company's gross revenue of approximately \$11,000 per year.
- 11 2. Rate design: The base rate for metered service with a 3/4 inch meter will be set at \$47.00 per month, with no usage included. Rates for the first 800 cubic feet of water used per month will be set at \$2.75 per 100 cubic feet. For water usage in excess of 800 cubic feet per month, the rate will be \$4.35 per 100 cubic feet. Average usage is 917 cubic feet per month, and monthly bills will average \$74.07 per month, plus the \$11.59 surcharge, for a total of \$85.66.
- 12 3. The parties acknowledge that the procedural schedule for this case will be cancelled and that this Settlement Agreement will be scheduled for presentation to the Administrative Law Judge or the Commission. In addition, a public hearing will be scheduled, to inform interested members of the public of this Agreement. The parties intend that this matter will be resolved in order for the new rates to be effective on June 1, 2003.
- 13 4. The water rights and affiliated interest concerns raised in this case are considered resolved for the purposes of this case. Staff further agrees that, based upon the information Staff has at this time, it will not raise the affiliated transaction/water right issues and will not seek a complaint for those issues alone.
- 14 5. The parties agree that this settlement agreement shall in no way affect the authority of the Commission over rates, service, accounts, valuations, estimates, or

determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs or any valuation of property claimed or asserted.

- 15 6. The parties agree to support this settlement agreement before the Commission, whether at an Open Meeting or separately scheduled time, by testimony if necessary.

DATED this 8th day of May, 2003.

  
MARY M. TENNYSON  
Sr. Assistant Attorney General  
Counsel for Commission Staff

  
RICHARD A. FINNIGAN  
Attorney for  
Thomas Water Service, Inc.

# Appendix B

Thomas Water Service, Inc.  
Discussion on Settlement  
May 19, 2003

Discussion

Company information from its books and records is shown in column B. This is what the company spent for the test period of October 1, 2001, through September 30, 2002. Additional to this period, the company did spend and is entitled to recover the cost of the Water System Plan (WSP). This cost for the Meadow Ridge only portion was addressed in a prior filing and equals about \$8,870 per year or \$11.59 per month. This surcharge is due to expire May 31, 2004, when the company has recovered the cost of the current WSP.

The company did make adjustments to the test year to provide for a typical year of operating the water system. These adjustments are shown in columns C & D with the results in column E.

Company Adjustments

**Adjustments 1 & 5** were due to capitalizing the expense for pumphouse roof repair and recovery over 10 years.

**Adjustment 3** was to start recovery of the cost of the current water system plan.

**Adjustment 4** was due to recording only 11 months of rent expense in the test year.

**Adjustments 2, 6, & 7** are dependent on the proposed revenue the company originally was seeking in its rate case.

**Company settlement adjustment** to Contract Service-Billing was reduced by the company by \$2,231. This was accomplished by shifting to bi-monthly billing. This would translate to billings at twice any average shown.

In Staff's initial review of the filing, Staff determined column F to be appropriate. This column included the cost of the WSP as part of the rates as the company had filed. During discussions with the company and customers, Staff determined that the adjustments in column H&I were appropriate, resulting in the settlement accounting that is being presented in this case as shown in Column J. This settlement will allow the company to meet its operating cost and provide an opportunity to earn its return on investment.

Staff Adjustments

**Adjustment STF-1** is the additional revenue and revenue sensitive costs, needed by the company to meet the expenses and return for this settlement.

**Adjustment STF-2** is the separation of the Water system Plan into a surcharge. This was recommended by Staff and was approved (Docket UW-030276) by the Commission on March 26, 2003. This surcharge will expire May 31, 2004.

**Adjustment STF-3** Unsupported engineering cost, not part of the test year.

**Adjustment STF-4** Unsupported legal cost, not part of the test year.

The current rate base of the water company is approximately \$197,816 and with a return on investment of 10.20%, the allowed return (profit) would be approximately \$20,000.

Based on the settlement, Company and Staff agree to a revenue requirement of \$59,556 per year. In review of the current rate design, the company receives approximately 64% of its annual revenue from the basic charge of \$40 and approximately 36% of its annual revenue from the usage charge. The company moved to a zero allowance rate design when it filed its initial meter rate. To maintain the company at about the same percentages of revenue, Staff determined rates that would generate the same.

Rate Design Table

	Current	Percentage	Settlement	Percentage
Base	40.00	64%	47.00	63.5%
Usage	22.25	36%	27.07	36.5%
Average Total	62.25	100%	74.07	100%

Company and Staff propose the settlement agreement to the Commission for approval.

Attachment (1)



Thomas Water Service, Inc.

Docket No. UW-021667

Negotiated Results of Operation

Period ending September 30, 2002

Attachment (1)

A	B	C	D	E	F	G	H	I	J
OPERATING REVENUES	Company Year to Date	Company Adj #	Company Adjustments	Company Results of Rates	Staff Revised	Company Negotiated	Staff Adj #	Staff Counter	Staff Settlement
Misc Sales	48,556		48,010	97,566	52,556	67,057	STF-1		59,556
Misc Service Revenues	0			0	0	0			0
Water System Plan	0			0	8,870	8,870	STF-2		0
<b>Total Operating Revenues</b>	<b>48,556</b>			<b>97,566</b>	<b>61,526</b>	<b>75,927</b>		<b>2,130</b>	<b>59,556</b>
<b>OPERATING EXPENSES</b>									
Power Purchased	2,297				2,297	2,297			2,297
Chemicals and testing	329				329	329			329
Materials and Supplies	0				0	0			0
Contract Services-Engineering	3,097			3,097	0	3,097	STF-3	(1,750)	2,193
Contract Services-admin. Accounting	2,193				0	2,193			2,193
Contract Services-Legal	5,068			5,068	0	5,068	STF-4	(5,068)	0
Contract Services-PUD Op	4,779		(1,490)		0	3,289			3,290
Contract Services-PUD/WWS Billing	13,933			13,933	0	13,933			13,933
Insurance	4,565			4,565	1,856	1,856			1,856
Regulatory Commission Fee	49		49		74	76	STF-1	22	98
Regulatory Rate Case Exp	0			0	0	0			0
Bac Debt Expense	0			0	0	0			0
Water System Plan	1,408		10,811	10,811	6,870	6,870	STF-2		6,870
Office Rent	181		128		1,536	1,536			1,536
Misc Exp (Office, phone, postage)	181				181	181			181
<b>Total Operating Expense</b>	<b>37,858</b>			<b>47,396</b>	<b>24,790</b>	<b>40,493</b>			<b>24,907</b>
Depreciation-Amortization	7,090		149		7,239	7,239			7,239
<b>TAXES</b>									
Utility Excise Tax	2,353		3,228	5,581	2,648	3,817	STF-1	(623)	3,194
Other Tax and Licenses	499				499	499			499
<b>Total Taxes-Other than FIT</b>	<b>2,852</b>			<b>5,079</b>	<b>3,147</b>	<b>4,316</b>			<b>3,492</b>
Net Utility Operating Income before FIT	717		5,528	36,852	20,350	23,880			23,918
Federal Income Tax	0			5,528	0	3,582	STF-1	21	3,583
<b>Net Utility Operating Income</b>	<b>717</b>			<b>31,324</b>	<b>26,350</b>	<b>20,298</b>			<b>20,331</b>
<b>Total Expenses</b>	<b>47,839</b>			<b>60,714</b>	<b>35,176</b>	<b>52,047</b>			<b>35,638</b>
<b>NET INCOME</b>	<b>717</b>			<b>31,324</b>	<b>26,350</b>	<b>20,298</b>			<b>20,331</b>
Average monthly bill (67 customers)	\$62.25		\$121.35	\$78.52	\$94.44				
Utility Plant in Service	286,863								
Accumulated depreciation	(89,047)								
<b>Net Rate Base</b>	<b>197,816</b>								
									10.20%
									\$20,177

Surcharge WSP  
Final Monthly Average Bill  
Allowed Return on Investment

# Appendix C

## APPENDIX C

### GOVERNING STATUTES AND RULES

#### **RCW 80.01.040 General Powers and Duties of Commission.**

The utilities and transportation commission shall:

(3) Regulate in the public interest, as provided by the public service laws, the rates, services, facilities, and practices of all persons engaging within this state in the business of supplying any utility service or commodity to the public for compensation, and related activities; including, but not limited to, electrical companies . . .

#### **RCW 80.04.130 Suspension of tariff change . . .**

(1) Whenever any public service company shall file with the commission any schedule, classification, rule or regulation, the effect of which is to change any rate, charge, rental or toll theretofore charged, the commission shall have power, either upon its own motion or upon complaint, upon notice, to enter upon a hearing concerning such proposed change and the reasonableness and justness thereof, and pending such hearing and the decision thereon the commission may suspend the operation of such rate, charge, rental or toll for a period not exceeding ten months from the time the same would otherwise go into effect, and after a full hearing the commission may make such order in reference thereto as would be provided in a hearing initiated after the same had become effective. . . .

(2) At any hearing involving any change in any schedule, classification, rule or regulation the effect of which is to increase any rate, charge, rental or toll theretofore charged, the burden of proof to show that such increase is just and reasonable shall be upon the public service company.

**RCW 80.04.150 Remunerative rates cannot be changed without approval.**

Whenever the commission shall find, after hearing had upon its own motion or upon complaint as herein provided, that any rate, toll, rental or charge which has been the subject of complaint and inquiry is sufficiently remunerative to the public service company affected thereby, it may order that such rate, toll, rental or charge shall not be changed, altered, abrogated or discontinued, nor shall there be any change in the classification which will change or alter such rate, toll, rental or charge without first obtaining the consent of the commission authorizing such change to be made.

**80.28.010 Duties as to rates, services, and facilities . . .**

(1) All charges made, demanded or received by any gas company, electrical company or water company for gas, electricity or water, or for any service rendered or to be rendered in connection therewith, shall be just, fair, reasonable and sufficient.

(2) Every gas company, electrical company and water company shall furnish and supply such service, instrumentalities and facilities as shall be safe, adequate and efficient, and in all respects just and reasonable.

(3) All rules and regulations issued by any gas company, electrical company or water company, affecting or pertaining to the sale or distribution of its product, shall be just and reasonable. . . .

**80.28.020 Commission to fix just, reasonable, and compensatory rates.**

Whenever the commission shall find, after a hearing had upon its own motion, or upon complaint, that the rates or charges demanded, exacted, charged or collected by any gas company, electrical company or water company, for gas, electricity or water, or in connection therewith, or that the rules, regulations, practices or contracts affecting such rates or charges are unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates

or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order.

**80.28.090 Unreasonable preference prohibited.**

No gas company, electrical company or water company shall make or grant any undue or unreasonable preference or advantage to any person, corporation, or locality, or to any particular description of service in any respect whatsoever, or subject any particular person, corporation or locality or any particular description of service to any undue or unreasonable prejudice or disadvantage in any respect whatsoever.

**80.28.100 Rate discrimination prohibited--Exception.**

No gas company, electrical company or water company shall, directly or indirectly, or by any special rate, rebate, drawback or other device or method, charge, demand, collect or receive from any person or corporation a greater or less compensation for gas, electricity or water, or for any service rendered or to be rendered, or in connection therewith, except as authorized in this chapter, than it charges, demands, collects or receives from any other person or corporation for doing a like or contemporaneous service with respect thereto under the same or substantially similar circumstances or conditions.

Chapter 480-09 WAC governs the procedures by which our review is conducted. Most pertinent to our consideration here is WAC 480-09-466, which provides in relevant part:

The commission favors the voluntary settlement of disputes within its jurisdiction. It will approve settlements when doing so is lawful and when the result is appropriate and consistent with the public interest in light of all the information available to the commission. .

(2) Settlements. A settlement is an agreement among two or more parties to a proceeding to resolve one or more issues.

(a) The commission may exercise discretion whether to accept a proposed settlement for its review. If the commission accepts a settlement for review in an adjudication, the commission will schedule a time at a hearing session for parties to present the settlement and for the commissioners to inquire about it, unless the commission believes such a session to be unnecessary for it to exercise informed judgment upon the proposal.

(b) Partial settlement. An agreement of all parties on some issues may be presented as a partial settlement for commission review, and remaining matters may be litigated.

(c) Multiparty settlement. An agreement of some, but not all, parties on one or more issues may be offered as their position in the proceeding, with the evidentiary proof that they believe appropriate to support it, for commission review. Nonsettling parties may offer evidence and argument in opposition.

(d) Parties shall advise the commission when they have reached a partial or multiparty settlement and may suggest preferred procedural alternatives for review of the settlement. The commission will determine the appropriate procedure.