

**Exhibit No. \_\_\_\_ (JW-1T)  
Docket UW-100642  
Witness: Jim Ward**

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**Deer Meadows Company, Incorporated,**

**Respondent.**

**DOCKET UW-100642**

**TESTIMONY OF**

**JIM WARD**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**IN SUPPORT OF SETTLEMENT AGREEMENT**

**September 14, 2010**

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1 I. INTRODUCTION

2  
3 **Q. Please state your name and business address.**

4 A. My name is Jim Ward. My business address is 1300 South Evergreen Park Drive  
5 SW, Olympia, Washington, 98504-7250. My email address is Jward@utc.wa.gov.

6  
7 **Q. By whom are you employed and in what capacity?**

8 A. I am employed by the Washington Utilities and Transportation Commission (the  
9 Commission or UTC) as a Regulatory Analyst.

10  
11 **Q. How long have you been employed by the Commission?**

12 A. I have been employed by the Commission since August 1989.

13  
14 **Q. Please describe your relevant background and professional qualifications.**

15 A. I graduated from Saint Martin's College in Lacey, Washington, in 1989, with a  
16 Bachelor of Arts in Accounting and Finance. In 1995, I received a Master's degree  
17 in Human Resource Management from Chapman College. While employed at the  
18 Commission, I have attended several seminars and training sessions, such as the  
19 Tenth Annual Western Utility Rate Seminar in 1991, co-sponsored by the California  
20 Public Service Commission, the Division of Continuing Education, University of  
21 Utah and the National Association of Regulatory Utility Commissioners (NARUC)  
22 Water Committee. In 1990, I became certified by the Department of Health as a  
23 Water Distribution Manager I. In August 2000, I completed the Financial

1 Management: Cost of Service Rate-Making class sponsored by American Water  
2 Works Association. In June 2003, I completed the Utility Finance & Accounting  
3 Seminar presented by Financial Accounting Institute.

4 I have participated in the development of UTC rules, prepared detailed  
5 statistical studies for use by commissioners and other UTC employees and examined  
6 utility reports for compliance with UTC regulations. I have also reviewed numerous  
7 rate filings and presented UTC Staff's analysis and recommendations regarding  
8 those filings at open UTC open public meetings. I have also testified in nine  
9 hearings before the Commission on water company rate cases.

UW-071885 Iliad Water Services, Incorporated General rate increase	UW-070944 Rosario Utilities, LLC General rate increase	UW-060343 Iliad Water Services, Incorporated General rate increase
UW-042132 Roche Harbor Water System Capital improvement charge increase	UW-001929 Meadows Water System LLC General rate increase	UW-001928 Quail Run Water Company General rate increase
UW-010877 Rainier View Water Company General rate increase	UW-980072 American Water Resources, Incorporated General rate increase	UW-091050, 091051 Burton Water Company, Inc. General rate increase

10  
11  
12 **II. SCOPE OF TESTIMONY**

13  
14 **Q. What is the scope of your testimony?**

15 A. I explain the terms of the Settlement Agreement and provide Commission Staff's  
16 overall support for the Settlement Agreement regarding the tariff filing by Deer  
17 Meadows Company, Incorporated (Deer Meadows or Company): Docket UW-  
18 100642.

1 **Q. What is the nature of Docket UW-100642?**

2 A. Docket UW-100642 is a general rate case filing. Additionally, the Company filing  
3 involves several miscellaneous tariff items usually categorized as non-recurring  
4 charges. I explain each item in detail later in my testimony.

5  
6 **III. COMMISSION'S SETTLEMENT APPROVAL STANDARD**

7  
8 **Q. What is the Commission's settlement approval standard?**

9 A. The Commission's settlement approval standard is whether the proposed settlement  
10 is "consistent with the public interest." (WAC 480-07-750(1)). In addition, it must  
11 be lawful for the Commission to approve the settlement, and the settlement terms  
12 must be supported by the record. *Id.*

13  
14 **Q. Does the Settlement Agreement satisfy that standard and the other  
15 requirements of the rule?**

16 A. Yes, for the reasons stated in my testimony.

17  
18 **IV. STAFF'S REVIEW OF DEER MEADOWS'S RATE FILING**

19  
20 **Q. Please describe Deer Meadows's tariff filing in Docket UW-100642.**

21 A. Docket UW-100642 is a general rate case filing. It involves tariff revisions filed by  
22 Deer Meadows that would change the Company's currently effective Tariff WN-U1

1 to affect a general rate increase for water service.<sup>1</sup> Deer Meadows serves 357  
2 customers in and around Deer Meadows, northwest of Davenport in Lincoln County.  
3 In the filing, the Company requested an annual revenue increase of \$114,234, or 80  
4 percent.

5  
6 **Q. Please describe the miscellaneous tariff items in Docket UW-100642.**

7 A. Docket UW-100642 involves miscellaneous tariff items filed by Deer Meadows that  
8 would change certain of the provisions in the Company's currently effective Tariff  
9 WN-U1, for items other than charges for monthly water service. These charges  
10 relate to Non-Sufficient Funds check charge, site visit charge and re-connection  
11 charge.

12  
13 **Q. Please describe Staff's review of Deer Meadows's tariff filing.**

14 A. Staff conducted a review of accounting records provided by the Company, including  
15 the Company's general ledger; customer accounts receivable records; documentation  
16 of expenses such as repairs, electricity, and office expenses; and documents relating  
17 to the Company's plant and assets. I reviewed Deer Meadows's financial statements,  
18 annual reports filed with the Commission, tax return for the test period, water usage  
19 data and the current tariff. I also reviewed information provided by Deer Meadows  
20 in response to eleven written Staff data requests. Many of the responses contained  
21 information that was created only in response to the specific data request rather than  
22 being maintained as part of regular business operations of the Company.

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<sup>1</sup> In Docket UW-100642, the Company designated the new tariff sheets as "Second Revision Sheet No. 22", "First Revision Sheet No. 23," and "First Revision Sheet No. 45." The stated effective date is May 21, 2010.

1 **Q. Please describe the analysis you applied to reach your conclusions.**

2 A. First, I entered expense and income data as submitted by the Company into a  
3 standardized analysis spreadsheet used by UTC Staff. The spreadsheet performs  
4 routine calculations on items such as the Company's capital structure, rate base,  
5 taxes and interest paid. Then, I analyzed each expense category to determine  
6 whether each component of expense was well-documented, a reasonable and prudent  
7 business expense and an allowable business expense that should be borne by  
8 ratepayers.

9 Next, I transferred the water usage data into the standardized analysis  
10 spreadsheet to provide revenue calculations based on rate design and actual company  
11 and customer usages.

12 Finally, after entering the data I was able to construct several scenarios for  
13 various rate designs to develop the revenue requirement found by Staff to be  
14 appropriate.

15 In performing this analysis, I consulted with other UTC Staff members, to  
16 assure consistency and appropriateness. The analysis I performed is consistent with  
17 the analysis Staff conducts in similar dockets.

18

19 **Q. What do you conclude based on your analysis?**

20 A. Based on my review of this filing, Staff concludes that the resolution of this docket  
21 on the terms described in the Settlement Agreement is consistent with the public  
22 interest. I discuss those terms next.

23

1           **V.       STAFF’S REVIEW OF THE SETTLEMENT AGREEMENT**

2  
3 **Q.     What do you address in Section V of your testimony?**

4 A.     I address Section III of the Settlement Agreement, entitled “Agreement.” The  
5       lettering of each topic in my testimony aligns with the lettering in the corresponding  
6       sections of Section III of the Settlement Agreement.

7  
8 **A.     Revenue Increase and Rate Effective Date**

9  
10 **Q.     What revenue change does the Settlement Agreement call for?**

11 A.     According to Settlement Agreement Section III.A, Paragraph 9, the Company will  
12       receive additional annual revenues of \$11,227. This revenue increase will be  
13       implemented through a 7.8 percent rate increase, effective the 20th day of the month  
14       after the Commission approves the Agreement.

15  
16 **Q.     How does this compare to the rate increase the Company is requesting in its**  
17 **filing?**

18 A.     From a ratepayer perspective, it compares very favorably. The Company filed for an  
19       overall revenue increase of \$114,234, or an 80 percent overall increase in revenues.

20  
21 **Q.     From Staff’s perspective, is the proposed revenue increase reasonable in other**  
22 **respects?**



1 A. Yes. Based on Staff's overall analysis, the settlement revenue requirement is  
2 reasonable. It is at the level Staff would likely have recommended, had this case  
3 been litigated. The primary need for the rate increase is the Company's increased  
4 expenses in the categories of property taxes, rate case cost and transportation. Staff  
5 reviewed the books and records of the Company and concluded that Deer Meadows  
6 prudently incurred these expenses.

7  
8 **B. Rate Spread and Rate Design for Revenue Increase**

9  
10 **Q. From Staff's perspective, are the rate spread and rate design provisions**  
11 **contained in Section III.B, Paragraph 11 of the Settlement Agreement**  
12 **reasonable?**

13 A. Yes. The rate spread and rate design is calculated to generate the appropriate  
14 revenue requirement as agreed to in this rate case. The rate design is also reasonable  
15 and it implements a zero allowance, three block, conservation-oriented rate design.

16  
17 **Q. Please describe the rates and the design of rates that implement the proposed**  
18 **revenue increase.**

19 A. The agreed rate design maintains the ready-to-serve rate to equal the base monthly  
20 charge for customers served by a 3/4 inch meter ("3/4 inch customers") and  
21 establishes up-size meter base charges. This up-size meter rate design is consistent  
22 with American Water Works Association (AWWA) flow factors for the size of each  
23 meter size.

1           The rate design calls for a base charge with zero water usage, followed by  
2 three rate blocks, with an increasing usage price through each block. This is  
3 considered to be a conservation-oriented rate design.

4           The third block usage amount and rate for 3/4 inch customers has been set by  
5 the Company to help encourage conservation by a few customers that consume very  
6 large quantities of water.

7           Overall, the rate design is consistent with rate designs the UTC has approved  
8 for other water companies.

9  
10 **Q. Please provide the rates that implement the proposed revenue increase.**

11 A. For customers served by a ready-to-serve charge, the monthly rate is \$24.00. The  
12 term “ready to serve” applies to any property owner who has a completed, signed  
13 and accepted water service application, who has paid Deer Meadows all applicable  
14 fees required for meter service connection, and for whom Deer Meadows has  
15 installed the direct connection from the water system to the applicant’s property line.  
16 However, Deer Meadows does not yet provide water to that property on an ongoing  
17 basis.

18           The Parties agree that the agreed revenue increase will be implemented as  
19 follows:

1

**Customers Served by a 3/4" Meter**

Usage per 1,000 gallons	Current Rate	Proposed Rate	Settlement Rate
Base Charge	\$26.25	\$48.25	\$24.00
0 – 4,600 Gallons	\$0.46	\$1.06	\$0.50
4,600 – 15,840 Gallons	\$0.46	\$1.06	\$1.00
Over 15,840 Gallons	\$0.46	\$1.06	\$1.60

2

3

**Customers Served by a 4" Meter**

Usage per 1,000 Gallons	Current Rate	Proposed Rate	Settlement Rate
Base Charge	\$438.38	\$438.38	\$400.80
0 – 76,820 Gallons	\$0.46	\$1.06	\$0.50
76,820 – 264,528 Gallons	\$0.46	\$1.06	\$1.00
Over 264,528 Gallons	\$0.46	\$1.06	\$1.60

4

5

Previously, the Company provided a 6 inch meter connection for the golf course

6

which is no longer a customer.

7

8

**C. Miscellaneous Charges and Other Proposals**

9

10

**Q. Earlier, you listed the miscellaneous charges proposed by Deer Meadows. In**

11

**general, what are these charges designed to do?**

1 A. In general, these charges are designed to recover the cost a customer causes the  
2 Company to incur, other than the cost to supply water. Each charge reflects the  
3 policy that costs should be borne by the ratepayer causing the utility to incur the cost.  
4

5 **Q. Please provide a brief explanation of each charge.**

6 A. **Non-Sufficient Funds (NSF) check charges** – Deer Meadows requested a new  
7 charge of \$25.00 to compensate the Company for the cost to process NSF charges  
8 and its administrative cost to re-deposit a check, correct Company records and notify  
9 the customer of non-payment for services.

10 **Site visit charge** - Deer Meadows requested a new charge of \$75.00 for the  
11 cost it incurs when its service technician visits a customer's property for a service  
12 inspection to determine if actual or potential cross-connection hazard exists, and the  
13 cost the Company incurs for administrative personnel to complete Company records  
14 and notify customers of completed services.

15 **Reconnection charge** - increase charge to \$75.00 –Deer Meadows requested  
16 an increase in this charge from \$25.00 to \$75.00 for the cost it incurs when its  
17 service technician visits a customer's property to reconnect (turn-on) service, as well  
18 as the Company's cost of administrative personnel to notify the customer of services  
19 and complete Company records.  
20

21 **Q. Please explain your review of these charges.**

22 A. Staff was unable to review these charges. The Company did not provide any support  
23 documentation to substantiate these charges. As stated in Section III.C, Paragraph 14

1 of the Settlement Agreement, these proposed charges are not included in the rate  
2 changes. Therefore, Staff recommends that these charges not be approved. The Non-  
3 Sufficient Funds (NSF) check charge would remain at zero (\$0.00), the Site visit  
4 charge would remain at zero (\$0.00) and the Reconnection charge would remain at  
5 \$25.00.

6  
7 **D. Authorized Return on Rate Base**

8  
9 **Q. What overall rate of return on rate base will the Company use for this rate case**  
10 **reporting and accounting purposes?**

11 A. For this rate case reporting and accounting purposes, the Parties agree that the  
12 Company will use an overall rate of return of 9.8 percent, and a return on equity  
13 (ROE) of 12 percent.

14  
15 **Q. From Staff's perspective, please explain the overall rate of return (9.8 percent)**  
16 **and the return on equity (12 percent).**

17 A. The overall rate of return on rate base is a function of the total capital structure and  
18 the weighted cost of capital. In this case, Staff calculated the weighted cost of debt  
19 to be 10.8 percent. Currently, Deer Meadows's owners hold all of the Company's  
20 debt, so the interest rate for this affiliated (non-arm's length) debt is imputed at a  
21 cost rate 200 basis points above the prime rate<sup>2</sup> for the test period.

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<sup>2</sup> American Water Resources, Docket UW-980072.

1                   The Commission established this imputation policy in *Utilities and*  
2                   *Transportation Commission v. American Water Resources, Incorporated*, Dockets  
3                   UW-980258, 980072, 980265 and 980076, Sixth Supplemental Order (January 21,  
4                   1999).

5                   For Deer Meadows's return on equity, Staff used a cost rate of 12 percent, as  
6                   the Commission established in Docket UW-010877, a 2001 general rate case  
7                   involving Rainier View Water Company, which has over 16,000 customers.

8                   Using a 12 percent return on equity, a 10.8 percent cost of debt, and Deer  
9                   Meadows's actual capital structure of 113.6 percent debt and negative 13.4 percent  
10                  equity, Staff calculated Deer Meadows's weighted cost of capital, or overall rate of  
11                  return, for this case to be 9.8 percent. This calculation is consistent with  
12                  Commission rules and past Commission practices, and Staff concludes that it is  
13                  reasonable.

## 15   VI. CONCLUSION

17   **Q.    Please summarize why Staff concludes the Settlement Agreement is consistent**  
18   **with the public interest.**

19   A.    From Staff's perspective, if accepted by the Commission, the Settlement Agreement  
20   would result in rates that are fair, just and reasonable. The non-rate provisions of the  
21   Settlement Agreement are also reasonable, for the reasons I described.

22                  Moreover, according to Settlement Agreement Section F.6, General  
23   Provisions, the Settlement Agreement will not be used to resolve issues in future

1           proceedings. Consequently, the Settlement Agreement properly preserves the  
2           Commission's discretion in future cases.

3

4   **Q.   Does this conclude your testimony?**

5   **A.   Yes.**

6