

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	DOCKET NO. UW-911041
Complainant,)	
)	THIRD SUPPLEMENTAL ORDER
vs.)	
)	COMMISSION DECISION AND ORDER
ALDERTON-MCMILLIN WATER)	MODIFYING INITIAL ORDER;
SYSTEM, INC.,)	REJECTING TARIFF FILING AND
)	AUTHORIZING REFILING
Respondent.)	
.....)	

NATURE OF PROCEEDING: This is a rate case involving tariffs filed by Alderton-McMillin Water System, Inc. ("company"), a water company located in Pierce County. The company seeks general increases in its rates and charges for providing water service in an estimated annual amount of \$172,000. The company filed the tariff revisions on September 13, 1991. The Commission suspended this filing on October 31, 1991.

HEARINGS: Hearings were held on February 18, April 13, 14, and 16, and May 26, 1992 before Administrative Law Judge Elmer E. Canfield of the Office of Administrative Hearings. Members of the public testified at a public hearing held in McMillin on April 16, 1992.

INITIAL ORDER: The Second Supplemental Order, an initial order, entered by Administrative Law Judge Elmer E. Canfield, would reject the company's filing but would authorize the company to refile tariff revisions which will provide additional annual revenues not to exceed \$79,690. It would find that the company has provided poor water quality and poor service to its customers. It would require that the company make numerous improvements in water quality and customer service.

ADMINISTRATIVE REVIEW: The company and Public Counsel separately petition for review. The company asks for additional time to comply with proposed requirements that it hire an additional employee and lease a new truck within thirty days of the Commission's final order, and asks to be allowed flexibility to obtain two used trucks rather than lease one new truck. Public Counsel challenges some of the initial order's adjustments to test year results and rate base, challenges the initial order's proposed capital structure, argues that the equity rate of return should be set at zero, challenges the initial order's proposed rate design, and argues that the initial order erred in failing to set explicit time frames for compliance with recommended water quality and customer service standards.

COMMISSION: The Commission affirms the initial order's rejection of the company's tariff filing. It modifies the initial order's refiling authorization. The Commission adopts most of the initial order's adjustments to test year results of operations and rate base, but modifies several. The Commission reduces the authorized return on equity to 6.5 percent. It authorizes an overall rate of return of 7.52 percent on the company's adjusted rate base. The Commission finds that the company has an additional annual revenue requirement of \$40,526. It approves a flat rate percentage increase of approximately 15.5% upon all revenue rates. It adopts the initial order's findings with regard to the company's poor water quality and poor service, adopts the initial order's recommendations for improvements in water quality, water quantity, management, and customer service. It sets explicit time frames for compliance, for the most part six months. It retains jurisdiction and will review the company's compliance in a hearing to be held in approximately six months.

APPEARANCES: Alderton-McMillin Water System was represented by Robert E. Lundgaard, Attorney at Law, Olympia; the Commission Staff by Robert E. Simpson, Assistant Attorney General, Olympia; and the public by William A. Garling and Charles F. Adams, Assistant Attorneys General, Public Counsel Section, Seattle.

I. SCOPE OF PROCEEDINGS

A. Procedural History

Alderton-McMillin Water System, Inc. ("company") consists of 14 separate water systems and serves approximately 1,300 customers in Pierce County. The largest system serves approximately 775 customers and the smallest system serves four customers. The company has been owned by Dennis Ridgway and his wife since 1981. Dennis Ridgway is the company's President, General Manager, and a Board member, and is in charge of the company's day-to-day operations. He is one of three paid employees. The other two are his wife, who works part-time as a secretary, and a maintenance technician.

On September 3, 1991, the company filed tariff revisions designed to effect a general increase in its rates for water service in this state of approximately \$172,000 annually, with an effective date of November 1, 1991. The Commission suspended the filing on October 31, 1991. In its complaint and order suspending, the Commission also alleged violations under RCW 80.28.030 and RCW 80.28.040 relating to the purity, quality, volume, and pressure of water supplied by the company to its customers, as well as relating to the company's rules, regulations, measurements, practices, acts, and services.

The company requested interim rates of \$46,669 annually pending final Commission action on this general rate filing. The Commission heard testimony on the interim request on April 16, 1992. The Commission denied the request for interim rates by order entered on June 3, 1992.

In another docket (UW-910563, et al.), the company made a surcharge filing under RCW 80.28.022, to fund a comprehensive water system plan. The Commission rejected the surcharge filing as not in the public interest.

Hearings were held on the requested rates before Administrative Law Judge Elmer E. Canfield. On July 14, 1992, the administrative law judge entered the proceeding's second supplemental order, an initial order which would deny the requested tariff increases but allow the company to refile tariffs producing not more than \$79,690 in annual revenue.

The company and Public Counsel separately request administrative review of the initial order.

B. Evidence and Hearing Positions

The company in its direct case presented testimony and exhibits of Dennis Ridgway, President and General Manager, as well as testimony and exhibits of James D. Bacon, a self-employed Certified Public Accountant. Mr. Bacon testified on the areas of pro forma results of operations, average rate base, revenue requirement, tariffs and rate of return of the company for the year ending June 30, 1991.

On rebuttal, the company provided additional testimony and exhibits from Dennis Ridgway and James Bacon, as well as testimony from Michael Heath, a Public Health Advisor with the Washington State Department of Health, Division of Drinking Water, Technical Service Section.

The Commission Staff presented testimony and exhibits of: Fred J. Ottavelli, WUTC Water Program Manager; James M. Owens, President and Lab Director of Laucks Testing Laboratories, Inc.; Teresa C. Osinski, WUTC Policy Research Specialist; Julia M. Parker, WUTC Revenue Requirements Specialist; and Ellie Reynolds, WUTC Utility Tariff Administration Specialist. In addition to testifying on the normal ratemaking issues, Commission Staff witnesses testified about the results of their investigation into the quantity and quality of water provided by the company, and the quality of customer services.

Commission Staff recommended a number of adjustments to test year results and rate base; recommended a revenue increase of \$54,756 annually, which would include a 13 percent return on equity; recommended that the increase be spread half to basic charge and half to usage charge; and, recommended changes related to the quality of service, management, and metering.

Public Counsel presented testimony and exhibits of Kevin M. Winters, Public Counsel Utility Policy/Rate Analyst, Office of the Attorney General, Fair Practices Division, Public Counsel Section.

Public Counsel generally supported Commission Staff's proposed adjustments to test year results of operations and rate base. It generally supported Commission Staff's proposed minimum service standards and procedures, and proposed additional ones. Public Counsel differed sharply with Commission Staff on the appropriate rate of return on equity and on rate design. Public Counsel argued that the company has failed to provide adequate service to its customers, and that until it does it is not entitled to any return on equity. Public Counsel also argued that any increase in rate should be collected entirely through increases in usage rates. Public Counsel recommended that any rate increase have a one-year sunset date.

Several hundred customers attended an evening hearing. Thirty-nine customers testified. Written comments from ratepayers were also included in the record as an exhibit. The ratepayers overwhelmingly opposed the rate increase. The ratepayers have experienced deplorable water quality, water pressure problems, service interruption problems, and poor customer service, for more than a decade, and the problems continue largely unabated.

C. Initial Order

On July 14, 1992, Administrative Law Judge Canfield entered an initial order which would reject the tariff filings but authorize the company to file revisions to its tariff. The initial order would adopt most of the adjustments to test year results and rate base proposed by Commission Staff. The initial order's recommended revisions would produce additional revenues not to exceed \$79,690 annually based on adjusted test year results of operations, and a 12.57 overall rate of return on the company's adjusted rate base. The initial order would approve a disconnect visit service charge of \$15. After deducting anticipated revenues of \$1800 from the disconnect visit service charge, the company would be authorized to collect the balance of the approved increase by imposing a flat percentage increase of 31.17 percent to all other basic monthly charges and usage rates.

The initial order rejected Public Counsel's recommendation that the equity rate of return be zero, and rejected Public Counsel's recommendation that any rate increase have a one-year sunset date.

The initial order would accept numerous recommendations of Commission Staff and Public Counsel regarding water quality, service, operations, and maintenance. The initial order finds that the company has supplied poor water and provided inadequate service to its customers; that it has neglected its obligations to its ratepayers; and that it has been unresponsive to its customers.

D. Petitions for Review

The company and Public Counsel separately petition for administrative review. Commission Staff answered Public Counsel's petition. The company also answered Public Counsel's petition. Public Counsel replied to the Commission Staff and company answers.

The company and Public Counsel challenge only a handful of the initial order's adjustments to operating results and rate base.

Public Counsel continues to argue that the company is not entitled to any return on its equity, and that any increase should be allocated 100 percent to usage charges. It objects to the initial order's failure to order the company to comply with recommendations for minimum water quality and service standards within an explicit time frame. Public Counsel also objects to the initial order's approval of a \$15 disconnect visit service charge.

E. Summary of Commission's Order

The Commission affirms the initial order's rejection of the company's tariff filing. It modifies the initial order's refiling authorization. It adopts most of the initial order's suggested adjustments to test year results and rate base. It reduces the initial order's proposed return on equity to 6.5 percent. It adopts the initial order's recommended rate spread. It adopts the initial order's approval of a \$15 disconnect visit service charge. It authorizes the company to refile tariff revisions which will provide additional estimated annual revenues of \$40,526. It adopts the initial order's recommendations for improvements in water quality, water pressure and flow, management practices, service standards, and metering, including the elements challenged by the company, and sets explicit time frames for compliance. Finally, it directs Commission Staff, in

carrying out and enforcing the provisions of this order relating to water quality and service improvements, to consult and coordinate with the state department of health, consistent with RCW 80.28.030 and 80.28.040.

II. PUBLIC PARTICIPATION

The Commission held a hearing on April 16, 1992, in McMillin, for the purpose of taking testimony from members of the public. Several hundred people attended the hearing. Thirty-nine of the company's ratepayers testified. Their testimony covered both the request for a general rate increase and the request for interim rates. The testimony was clear: the company's ratepayers oppose the company's request for a rate increase. The SAM (Subscribers of Alderton-McMillin, an organized customer group), also opposed the requests.

The ratepayers on the various Alderton-McMillin systems were angry and upset about the poor quality of the water and poor service they are receiving. They feel that their rates are already too high for what they receive in return. They object to paying still more to the same individual who has owned and managed the company for more than a decade. They have lost faith, trust, and confidence in Dennis Ridgway. The ratepayers do not feel that they will see any benefit from a rate increase while Mr. Ridgway runs the company. The customers' testimony demonstrates that they have experienced deplorable water quality and water service problems, and deplorable customer relations problems during Mr. Ridgway's decade of ownership, and that those problems continue largely unabated.

The complaints of the customers were numerous but similar and consistent. Many brought in water samples showing significant discoloration and impurity. There were complaints of iron and other elements in the water. Customers complained of the water's offensive taste and smell. Some residents testified that they believe the water has caused health problems for themselves and their children. Many customers have installed water filters, which quickly become clogged due to the impurities. Some customers absolutely refuse to drink the water. Many customers in the various Alderton-McMillin systems have resorted to the inconvenience and added expense of buying bottled water to drink. There were complaints of skin irritation and rashes when using the water for bathing.

Ratepayers have been forced on repeated occasions to go without water for extended periods of time. Customers have experienced these numerous water outages, and shut-offs for repairs, without notice from the company. Customers have had to do without working toilets, showers, and other modern conveniences during these frequent outages.

The customers complained about damage to their appliances allegedly caused by the water. There were also many complaints about stains on clothes and fixtures.

There are water pressure problems, as well as fire flow problems, on the various systems. Property owners in Chinook Estates are unable to build on their lots because a moratorium on building permits has been imposed due to the water-related problems.

There were also numerous complaints that Mr. Ridgway has charged excessively high hook-up fees. Customers pointed out that Mr. Ridgway himself, using his construction company, installed several of the water systems, and that he installed inadequately-sized water mains and insufficient fire hydrants. They questioned whether he performed the work he was paid to do in the first place. They questioned whether they are being asked to pay a second time for a system for which they have already paid through hook-up fees.

Customers complained that Mr. Ridgway's use of company funds has been questionable and imprudent. Mr. Ridgway has failed to keep promises to customers in the past regarding hook-ups, improvements, and repairs. Customers have repeatedly been unable to contact Mr. Ridgway concerning service problems. Several complained that the company does not keep regular office hours. Mr. Ridgway has failed to respond or return calls to customers. Based on their past experiences, many customers do not trust Mr. Ridgway.

In addition to the public testimony, written comments from ratepayers were included in the record as an illustrative exhibit. The record contains letters and petitions signed by several hundred ratepayers. The customer problems and concerns stated in the letters are similar to those summarized above.

III. ISSUES AND GOVERNING PRINCIPLES

The ultimate determination to be made by the Commission in this matter is whether the rates and charges proposed in the company's tariffs are fair, just, reasonable, and sufficient, pursuant to RCW 80.28.020. These questions are resolved by establishing the fair value of respondent's property in service, determining the proper rate of return permitted respondent on that property, and then ascertaining the appropriate spread of rates charged various customers to recover that return.

The purpose of a rate proceeding is to develop evidence from which the Commission may determine the following:

- (1) The most appropriate test period, which is defined as the most recent 12-month period in which income statements and balance sheets are available. The test period is used for the investigation of the company's operations for the purposes of these proceedings;
- (2) The company's results of operations for the appropriate test period, adjusted for unusual events during the test period and for known and measurable events;
- (3) The appropriate rate base which is derived from the balance sheets of the test period. The rate base represents the net book value of assets provided by investors' funds which are used and useful in providing utility service to the public;
- (4) An appropriate rate of return the company is authorized to earn on the rate base established by the Commission;
- (5) Any existing revenue deficiency; and
- (6) The allocation of the rate increases, if any, fairly and equitably among the company's ratepayers.

RCW 80.04.130 places the burden of proving that a proposed increase is just and reasonable upon any public service company proposing such an increase.

IV. TEST PERIOD

The Commission adopts the initial order's proposed test period of the twelve months ending June 30, 1992.

V. RESULTS OF OPERATIONS

Having determined the appropriate test period, the Commission must examine the company's operations during the test period. The company's net operating income per books for Washington intrastate operations for the test period is \$38,279. The booked results of the company's test period operations must be adjusted to remove amounts which are not representative or which are not properly included within the test period. This type of adjustment is called a "restating actual" adjustment. Additional adjustments are made to test period results to give effect to known and measurable changes which are not offset by other factors occurring during or after the test year. These adjustments are called "pro forma" adjustments.

Commission Staff proposed a number of restating and pro forma adjustments to test year results of operations. Many of Commission Staff's proposed adjustments were not contested. The company also proposed several adjustments.

The initial order examined the uncontested adjustments, found them to be proper for ratemaking purposes, and adopted Commission Staff's numbers. The initial order examined fourteen contested adjustments to results of operations. It would make a number of adjustments.

On review, the company contests the initial order's treatment of the following adjustments to results of operations: PA-1 (Salaries and Fringes), and P-2 (New Truck). Public Counsel contests the initial order's treatment of adjustments P-2 (New Truck), R-2 (Prior Year Rate Case Expense), and part of RA-11 (Restate Rate Base). No party contests the initial order's treatment of other proposed adjustments.

The Commission has examined all the proposed adjustments to results of operations. For the most part, the Commission adopts the initial order's findings, treatment, and numbers with regard to adjustments which were contested at hearing. The Commission agrees with the company's arguments with respect to proposed adjustments PA-1 and P-2. The Commission rejects Public Counsel's arguments with respect to proposed adjustments P-2 and R-2. The Commission, on its own motion, reverses the initial order's finding and treatment of proposed adjustment RA-11 (Restate Rate Base); it recalculates adjustment PA-11 (Pro Forma Debt), using the initial order's proposed methodology.

The Commission's discussion of adjustments which were contested on review, or which the Commission has modified on its own motion, follows. Attachment A to this order depicts the Commission's findings and treatment with regard to all proposed adjustments to results of operation.

A. PA-1 Salaries and Fringes

The initial order would accept an adjustment that would increase the company's salaries and fringes to permit adding a new employee. The initial order accepted the adjustment with the stated requirement that the new employee be hired within 30 days of the Commission's final order.

On review, the company requests that the 30 day requirement for hiring be extended to 90 days, to allow the company sufficient time to find a qualified employee.

The Commission accepts the company's arguments, and will allow 90 days for the company to demonstrate that it has complied with this requirement. The Commission nonetheless expects that the company will hire a qualified employee at the earliest possible time.

B. P-2 New Truck

The initial order would accept an adjustment that would increase the company's expenses to allow it to lease a new truck for its new employee. It would reject the company's proposed adjustment for a second new truck. The initial order accepted the adjustment for one truck with the stated requirement that the new truck be leased within 30 days of the Commission's final order.

On review, the company contends that 30 days is not sufficient time to obtain the new truck. It further contends that the record supports the company's need for two trucks, and that the adjustment should be revised to include two new trucks. As an alternative, the company asks that it be permitted the option of obtaining two used trucks rather than leasing one new truck.

Public Counsel contends that the proposed truck leasing expense is not known and measurable, and therefore is not properly includable in rates. Public Counsel argues that the company has not made a firm commitment to lease the truck in question.

The Commission finds that the addition of the new truck for the new employee is reasonable. Consistent with adjustment PA-1 for new employee salary and fringes, a vehicle for the new employee should be included in results of operations; the Commission notes that Public Counsel does not contest adjustment PA-1. Transportation costs for the new employee are reasonably measurable by reference to the lease documents of record.

The Commission believes that the decision whether to lease one new truck or purchase two used trucks is properly a management decision, and will allow the company the flexibility to purchase two used trucks rather than lease one new truck. As with the new employee, the Commission will allow the company 90 days from the date of the Commission's final order to obtain the truck(s). Again, the Commission expects that the company will obtain the truck(s) at the earliest possible time.

C. RA-11 Restate Rate Base

The Commission reviewed portions of this adjustment. This adjustment is principally a rate base adjustment. The discussion is included in the rate base section of this order.

D. R-2 Prior Year Rate Case Expense

The initial order would accept the company's proposed adjustment to amortize its prior year rate case expense over three years at \$525 per year, with the unamortized portion placed in rate base. It would reject Commission Staff's argument that the expense was imprudent.

On review, Public Counsel contends that this adjustment should be rejected as an imprudent expenditure. Public Counsel argues "that ratepayers should not be forced to bear the costs of company rate filings which the company fails to fully pursue".

The Commission does not find any evidence that the company was imprudent in filing for a rate increase when it did. Some of the adjustments requested in that proceeding, such as a new employee, are adopted here. The Commission adopts the initial order's findings and treatment with regard to proposed adjustment R-2.

E. PA-8 Pro Forma Debt

The initial order would accept Commission Staff's method of calculating this adjustment. The resulting adjustment reflects an increase in federal income tax expense based on average rate base and weighted cost of debt found in the initial order.

On review, this adjustment was not contested by any of the parties; however, Public Counsel did argue for changes in the initial order related to capital structure and rate base.

Consistent with its findings concerning capital structure and rate base, the Commission revises the initial order's pro forma debt adjustment.

F. Results of Operations Summary

Based on its determination of specific adjustments, the Commission concludes that the net operating income of the company during the test period, as adjusted, is \$6,831. Attachment A shows the effect of adjustments to the company's actual income that we find appropriate for ratemaking purposes.

VI. RATE BASE

RCW 80.04.250 provides as follows:

Valuation of public service property. The commission shall have power upon complaint or upon its own motion to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state . . .

The company's test period per-book rate base was \$612,068. The rate base must be adjusted to remove amounts which are not properly included and to take into account known and measurable changes which will occur during the period rates will be in effect so as to avoid a miscalculation of the value of property which is used and useful for service.

At hearing, the company and Commission Staff proposed various restating and pro forma adjustments. Public Counsel recommended that the Commission adopt the restating and pro forma adjustments proposed by Commission Staff. The initial order would make a number of adjustments to rate base.

On review, neither the company nor Commission Staff contests the initial order's rate base adjustments. Public Counsel contests the initial order's treatment of adjustments RA-2 (Capitalized Attorney Fees), R-2 (Prior Year Rate Case Expense), PA-6 (Rate Case Expense), and RA-11 (Restating Rate Base).

The Commission has reviewed all proposed rate base adjustments. For the most part, the Commission adopts the initial order's findings and treatment with respect to rate base. The Commission's discussion of adjustments which were contested on review by a party, or which the Commission modified on its own motion, follows. Attachment B to this order depicts the Commission's findings and treatment with regard to all proposed rate base adjustments.

A. RA-2 Capitalized Attorney Fees

The initial order would capitalize the company's attorney fees of \$16,315 for Pierce County water main looping hearings (adjustment RA-1) and amortize them to operating expense over a three-year period. The unamortized portion would be included in the company's rate base as working capital.

On review, Public Counsel argues that these costs are expenses and as such do not belong in rate base. Public Counsel further argues that the record does not support the initial order's finding that a positive working capital exists.

The Commission finds, as it has in previous rate proceedings, that working capital does include deferred costs not yet recovered through rates. The record supports a finding that the company is in a positive working capital situation prior to this adjustment; Mr. Bacon's testimony supports the finding. The Commission finds the rate base portion of the initial order's adjustment to be appropriate.

B. R-2 Prior Year Rate Case Expense

As it did with attorney fees, the initial order would amortize the company's prior year rate case expense over a three-year period and place the unamortized portion in rate base. In addition to the arguments discussed above under results of operation, Public Counsel objected to the rate base treatment of the unamortized portion of these costs, making the same arguments it made against rate base inclusion of attorney fees.

The Commission finds, as it did for the capitalized attorney fees, that the rate base adjustment for prior year rate case expense adopted in the initial order is appropriate.

C. PA-6 Rate Case Expense

The initial order's rate base treatment of unamortized portions of the expenses of the current rate case, and Public Counsel's arguments against that treatment, are the same as those made with regard to capitalized attorney fees and prior year rate case expense. The Commission finds that the initial order's treatment of the rate base portion of the proposed adjustment for rate case expense is reasonable and appropriate.

D. RA-11 Restate Rate Base

In this proposed adjustment, Commission Staff restated depreciation expenses and the plant account balances to the level it calculated to be included in rate base. Its proposed adjustment included five parts (see Exhibit 56).

The initial order would accept three portions of the proposed adjustment. It would reject the Alderwood Estates acquisition portion of the adjustment, and the "other" portion.

On review, Public Counsel contests the initial order's rejection of the Alderwood Estates acquisition portion of RA-11.

The Commission adopts the initial order's determination with regard to all portions of the proposed adjustment except its rejection of the "other" portion. Its discussion of the acquisition portion and "other" portion follows.

i. Acquisition Adjustment

In 1987, Mr. Ridgway purchased the stock of the Alderwood Estates Water System for \$55,000, which was below the net book value of \$72,000. He later merged Alderwood Estates into Alderton-McMillin. The company used the net book value of Alderwood Estates for rate base purposes. Commission Staff originally proposed an adjustment to the rate base for the difference between the net book value and the price of the Alderwood Estates acquisition. Commission Staff's argument was that the ratepayers should not have to support a rate base greater than the amount reflected in the purchase price, and that there was no evidence in the record that the ratepayers received any benefit from the sale or merger.

The initial order would reject the proposed adjustment, concluding that the ratepayers are not being asked to support a rate base beyond its net book value. The initial order also would find that there is no evidence that the purchase of stock was anything other than an arms-length transaction.

On review, Public Counsel renews the arguments made by Commission Staff at hearing. Public Counsel argues that if the adjustment is not made, all ratepayers will be required to support a rate base beyond that reflected by the purchase price.

The Commission concludes that the adjustment should be rejected. There is no evidence that the purchase of Alderwood Estates at less than book value was other than an arms length transaction. There is no evidence that other ratepayers are subsidizing the Alderwood Estates system. Moreover, such evidence, if it did exist, would relate to rate spread rather than to revenue requirements.

ii. Rate Base Restatement - Other

The final piece of adjustment RA-11 as depicted in Bench Request 1 (Exhibit 56) was "Other." The initial order rejected this proposed adjustment stating that "[t]his portion of the adjustment was not explained or supported by evidence". The Commission has reviewed the record and finds the adjustment to be reasonable.

Ms. Parker testified (Ex. T-30, on page 9): "this adjustment restates depreciation expense and the plant accounts to the level calculated by staff to be included in rate base. The major differences...". Her statement is not limited to the major items discussed individually, yet the company provided no cross or rebuttal of the proposed adjustment. In Bench Request No. 1 (Ex. 56), the amount is shown as a separate adjustment, and again the company provided no rebuttal of the amount. Finally, the company did not argue against this amount in its brief.

It is the company's responsibility to support its stated rate base and operating expenses. Staff found no support for this portion of the company's stated rate base. The company had ample opportunity to rebut the staff finding or to contest the initial order, and did not. The Commission accepts Commission Staff's "other" portion of proposed adjustment RA-11.

VII. RATE OF RETURN

A. Legal Principles

The governing principle for determining rates to be charged by a public utility is the right of the public on the one hand to be served at a reasonable charge, and the right of the utility on the other to a fair return on the value of its property used in the service. The fixing of just and reasonable rates involves a balancing of the investor and the consumer interests. Federal Power Comm. v. Hope Natural Gas Co., 320 U.S. 591, 64 S.Ct. 281, 88 L Ed 333 (1944).

What is a reasonable rate of return is a question of fact, the determination of which calls for the exercise of common sense and sound judgment. A utility ordinarily is entitled to the opportunity to earn a rate of return sufficient to maintain its financial integrity, attract capital on reasonable terms, and receive a return comparable to other enterprises of corresponding risk. Bluefield Water Works Improvement Co. vs. PSC of West Virginia, 262 U.S. 679 (1923); Federal Power Comm. v. Hope Natural Gas Co., supra. The lowest reasonable rate is one that is not so unjust as to be confiscatory in the constitutional sense. FPC v. Natural Gas Pipeline Co., 315 U.S. 575, 62 S.Ct. 736, 86 L.Ed. 1037 (1942); Duquesne Light Co. v. Barasch, 488 U.S. 299, 109 S.Ct. 609, 102 L.Ed.2d 646 (1989).

B. Initial Order; Administrative Review

The initial order adopted the capital structure, weighted costs rates, and rate of return proposed by Commission Staff. It found a capital structure of 77.60 percent equity and 22.40 percent debt to be appropriate for rate making purposes. It would approve a 13 percent return on equity, and an 11.09

percent return on cost of debt, yielding an overall rate of return of 12.57 percent. It specifically rejected Public Counsel's position that the company is not entitled to any rate of return on equity.

On review, Public Counsel continues to argue positions it took at hearing. It contends that the appropriate capital structure is 65.53 percent equity and 34.47 percent debt. It contends that the initial order erred in including stockholder debt as equity, and that as a result the capital structure accepted in the initial order is too high in equity. Public Counsel argues that this treatment increases costs to the ratepayer.

Public Counsel also contends that the company's failure to meet its public service obligations to its customers makes it ineligible to receive any return on its equity. The company answers that a zero return on equity is not justified by the record, would be confiscatory of investors' property, and would leave the company unable to provide adequate service or to improve service.

C. Commission Discussion

The Commission rejects Public Counsel's position on the proper capital structure, and adopts the initial order's capital structure treatment: 77.6% equity and 22.4% debt.

The initial order found the cost of debt to be 11.09%. The Commission adopts the cost of debt proposed in the initial order.

The Commission does not adopt the initial order's determination on the appropriate level of return on equity.

The Commission finds that the company has failed to provide water service that is safe and adequate, has failed to adequately maintain its water systems, and has neglected the interests of its customers.

The Commission realizes that some of the water quality problems experienced by the company's customers are due to the high mineral content of well water in the area and may be without remedy at reasonable cost by good management. The Commission also realizes that small water companies serving rural areas in the state are often undercapitalized. However, it has also been the Commission's experience that small water company problems are sometimes the result of management that has little regard for the interests of its customers. See, WUTC vs. Pacific Beach Water, Inc., Docket No. U-89-2953-T, First Supplemental Order (April 1990).

The Commission is concerned that the number and seriousness of water quality and service problems experienced by this company's ratepayers, and the anger and frustration exhibited by the company's customers at the public meetings on this and a related docket, may indicate problems far more profound than a high mineral content in the water, under capitalization, or even merely inept management. The customers' testimony was to the effect that company management's approach to running this company has been to acquire customers at the least cost, spend as little as possible on maintenance and improvements, and take as much as possible out of the company, with little regard to the company's obligation to provide service that is safe, adequate, efficient, just, or reasonable. Other evidence, including Mr. Ridgway's use of his own construction company to perform construction work for the water company, is consistent with this interpretation.

The Commission is concerned that granting any rate increase to this company may be throwing good money after bad. It is concerned, based on the company's history, that the ratepayers may not see any benefit from the increase in rates. That the customers are receiving deplorable water quality and service after more than a decade of the current ownership and management only adds to the overall impression that this company's problems are unlikely to improve while the current management continues at the helm.

In an appropriate case, the Commission may deny any rate increase to a water company. See, WUTC v. Pacific Beach Water, Inc., supra. In that case, the company was failing to provide service which was safe, adequate, efficient, just, or reasonable; it had not provided such service for some time; the management of the company had ignored its public service responsibility and had disregarded the interests of its customers; and the Commission had granted the company several rate increases predicated on specific commitments to improve the system, which were never accomplished.

Based on the record before it, the Commission is not yet able to conclude that it is presented with a situation as irremediable as that found in Pacific Beach. However, given the number, seriousness, and persistence of this company's service and management problems, and the clear evidence of the ongoing disregard of the customers' interests, the Commission does not believe that it is appropriate or prudent to grant the company a rate of return on equity equal to what the Commission would grant to a company which is providing adequate service and meeting its public service obligations. The Commission does not believe that an equity rate of return of 13 percent is fair or reasonable under the circumstances presented here.

The Commission believes that it is appropriate and prudent under the circumstances to tie any rate increase to rigid performance standards which are clearly related to improvements in service. The Commission believes that it is appropriate and prudent to defer consideration of a portion of the proposed rate increase until the company demonstrates that it is seriously undertaking the needed improvements in water quality and service that the initial order identifies. The Commission believes that it is appropriate and prudent to establish a relatively short, although achievable, time line for compliance.

The Commission approves a 6.5 percent rate of return on equity at this time. The Commission defers consideration of any further increase in return on equity. The Commission will leave this proceeding open, so that Commission Staff may monitor compliance, and so that the Commission may review the appropriate level of return on equity at an appropriate time.

At the end of six months, or earlier upon compliance with the provisions of this order, the company shall submit a compliance report, identifying its achievements.

D. Rate of return summary

Based on the above decisions with respect to capital structure, cost of equity and cost of debt the Commission finds an overall rate of return of 7.52% to be appropriate as depicted in Table I below:

TABLE I
ALDERTON McMILLIN WATER SUPPLY, INC.
Rate of Return Summary

<u>Capital Structure</u>	<u>Weight%</u>	<u>Cost Rate %</u>	<u>Weighted Cost %</u>
Debt	22.40	11.09	2.48
Equity	<u>77.60</u>	6.50	<u>5.04</u>
Total	<u>100.00%</u>		<u>7.52%</u>

VIII. REVENUE REQUIREMENTS

Based on the above determinations of rate base, results of operations, and rate of return, the Commission finds that thee company has the following revenue requirement:

Revenue Requirement Calculation

Pro forma rate base	\$ 516,456
Authorized rate of return	7.52 %
Required net operating income	\$ 38,837
Pro forma net operating income	\$ 6,831
Net operating income deficiency	\$ 32,006
Conversion factor	0.789781
Revenue requirement	\$ 40,526

IX. RATE SPREAD

The initial order would authorize the company to collect the approved increase from disconnect visit service charges and from a flat percentage increase to all revenue items. It accepted Commission Staff's position that the \$15 disconnect visit service charge adopted in the initial order will produce revenues of \$1,800 per year. It ordered that the flat percentage is to be calculated after subtracting the \$1800 from the total revenue requirement approved in the order. It rejected the company's proposal that the entire revenue increase be assigned to the basic charges in each tariff on a uniform basis, rejected Commission Staff's proposal that half of the revenue requirement be placed on the usage rate and the other half collected in a basic charge increase, and rejected Public Counsel's proposal that any rate increase be collected only through water usage blocks.

On review, Public Counsel continues to urge the allocation it recommended at hearing.

The Commission adopts the initial order's treatment. The Commission approves the company's proposed \$15.00 disconnect visit service charge (see section XII of this order). This tariff change will increase the company's revenue by an estimated \$1800 per year. The Commission orders that the revenue requirement remaining after the deduction of the \$1800 is to be collected by imposing a flat percentage increase to all other revenue rates. The revenue requirement after deducting the \$1800 is \$38,726. Using \$ 249,874 as the pro forma revenue amount, the percentage increase required is 15.50 percent.

X. WATER QUALITY, PRESSURE, OPERATIONS MAINTENANCE, AND CUSTOMER SERVICE; TIME FRAMES

The evidence supports the initial order's findings that the company has provided poor water quality, inadequate service, neglected its obligations to its ratepayers, and been unresponsive to its customers. "Deplorable" is a more apt description of the quality of water and service provided.

The initial order recommends numerous improvements. It failed to recommend explicit time frames for compliance. The Commission agrees with Public Counsel that it would be appropriate to establish explicit time frames for compliance. The Commission believes that the following improvements in water quality and service should be ordered, and that the following time frames are appropriate; except where otherwise indicated, the company shall comply with the provisions of this order within six (6) months of the order:

A. Water Testing

The record amply demonstrates that the company has had problems with water contamination, which the initial order summarizes in considerable detail. Commission Staff recommended that the company coordinate with the Department of Health (DOH) in developing a schedule for water sampling throughout the systems wherein a reasonable attempt would be made to have a DOH representative present during at least three sampling processes over the first six months from the date of the Commission's final order. Commission Staff also recommended that the company, or the lab that performs the testing, submit all results for all tests to the Commission and to DOH for a period of six months from the date of the Commission's final order.

The Commission adopts the Commission Staff recommendations. The Commission orders the company to develop a schedule of water sampling throughout its systems, in coordination with DOH and Commission Staff; to conduct at least three sampling processes during the first six months from the date of this order, to make a reasonable attempt to have a DOH representative present during those sampling processes, and to submit all results of all tests to the Commission and to DOH for a period of six months from the date of this order.

B. Operations Maintenance

There is evidence that the company has not complied with WAC 480-110-076, which requires it to maintain its plant and system in a manner that will enable it to furnish adequate service. Commission Staff recommended that the company develop a 12-month maintenance plan for each of its water systems that will satisfy the requirements of DOH and the Commission, and suggested that the plan be completed and submitted to Commission within 60 days of the Commission's final order.

In accordance with WAC 480-110-041, Commission Staff recommended that a copy of the required plans be kept in a notebook containing: 1) all water company-related WACs; 2) the final Commission order in this case; 3) the company's currently

adopted tariff; 4) the annual schedule of maintenance, by system, as submitted to the Commission; and 5) written descriptions of the company's policy on procedures to respond to reported emergencies or service failures. Commission Staff suggested that the notebook be clearly marked and be readily available for customers to review in the office.

The company has kept very poor records. This has caused considerable problems and added to the time Commission Staff had to spend on its investigation. In order to reduce the time necessary for audits in the future, Commission Staff recommended that the company be directed to set up a record keeping system acceptable to Commission Staff.

Public Counsel recommended that the Company hold quarterly meetings with the company's largest organized subscriber group, Subscribers of Alderton-McMillin ("SAM") and other customer groups until the company's next general rate case. Public Counsel also suggested that the Commission require the company to give the Commission advance notice of any sale or divestiture of any portion of the Alderton-McMillin system.

The Commission adopts the above Commission Staff and Public Counsel recommendations. The Commission orders the company to complete the following, on the schedule noted for each element:

(1) Develop a 12-month maintenance plan for each of its water systems that will satisfy the requirements of DOH and the Commission; and complete and submit the plans to the Commission within 60 days of this order.

(2) Maintain a notebook in the company's office, clearly marked and readily available for customers to review, containing: (a) a copy of the required 12-month maintenance plans b) all water company-related WACs; c) this order; d) the company's currently adopted tariff; e) the annual schedule of maintenance, by system, as submitted to the Commission; and f) written descriptions of the company's policy on procedures to respond to reported emergencies or service failures. The notebook shall be completed and available in the company's office within 60 days after this order. The Company shall provide the Commission and Public Counsel with copies of the notebook.

(3) Establish a record keeping system acceptable to Commission Staff, in coordination with Commission Staff; and, to have the record system established and in use within six months after the date of this final order.

(4) Hold regular meetings, at least quarterly, with each subscriber group, including Subscribers of Alderton-McMillin ("SAM"), until the company's next general rate case.

C. Water Quality and Service Problems

There are serious water pressure problems on the company's various systems. Long term solutions will require substantial improvements in infrastructure, and major improvements cannot be undertaken until the company completes a Comprehensive Water Plan as required by DOH. Commission Staff recommended several short term measures for addressing the problems, which are detailed in the initial order. Public Counsel recommended that the Commission require the company to devise a water conservation plan.

Customers in the company's systems experience frequent shut-offs of service without advance notice. Commission staff recommended that in addition to requiring the company to develop a detailed maintenance schedule, the Commission should require that the Company conform with the WAC 480-110-076 requirements that it give customer 24 hours notice of scheduled interruptions in service and that it keep a record of all interruptions if a substantial number of customers are affected. The Commission Staff recommendations are set out in considerable detail in the initial order.

The company has provided deplorable customer service. To address this problem, Commission Staff recommended that the company comply with the requirements of WAC 480-110-096, which includes keeping a record of any complaint or dispute involving the company and a customer. Commission staff made additional recommendations regarding what the record should include, which the initial order details. Commission staff recommended that this customer complaint/dispute record be submitted to the Commission within 3 months of the Commission's final order, then quarterly. Commission Staff recommended that the company prepare a written policy addressing the prioritizing of requests, and suggested what that policy should include.

The company has not been reasonably accessible to customers. Commission Staff and Public Counsel made separate recommendations regarding appropriate office hours. The initial order recommends minimum office hours. Commission Staff recommended, and the company agreed, that the company should purchase a voice mail box type service.

The Commission orders the company to do the following on the stated schedule:

(1) Prepare and send a notice to the customers on each system known to have had water pressure problems (particularly during the summer months) which addresses steps the customers can take to alleviate the water pressure problems in their systems, including suggested alternative schedules for water use. The company shall prepare the customer notice and provide the Commission with a copy within six months of this order; the company shall mail the notices to customers during late Spring, 1993, no later than June 1, 1993, and shall promptly notify the Commission when it has completed the sending of the notices.

(2) Monitor water pressure in those water systems with water pressure problems, especially in the Alderton-McMillin corridor and Chinook Estates systems, and if water pressure in any system is dropping below the legal pressure requirements, to take steps to advise residents of alternative water use practices. The company shall report the nature and results of its monitoring program to the Commission within six months after the entry of this order.

(3) Whenever there is a pressure reduction, the company shall promptly check for whether the reduction is due to mechanical breakdown; and, shall keep a record of occurrences of pressure reduction substantially similar to the record it is required to keep of interruptions in service, as set out in (6) below. The company shall begin performing this requirement no later than three months after entry of this order.

(4) Devise a water conservation plan within a reasonable period, not to exceed one year after the Commission's final order. The plan shall include a description of the cost-effective water-saving measures that can be implemented, a method of financing the measures, and a method of getting the measures implemented in the customers' homes. Within six months after the date of this order, the company shall inform the Commission of its progress in devising a plan.

(5) Give customers 24 hours notice of scheduled interruptions in water service, by U. S. mail, by telephone, in person, or by any other reasonable means likely to give the customer actual prior notice.

(6) Keep a record of all interruptions in water service if more than one customer is affected. This record is to include the location, date and time, duration, the cause (if determinable), the exact number of customers affected, the timeliness of the company's response to notice of the interruption, and the steps taken to keep a repeat outage from occurring. The company shall submit a copy of the record to the Commission within six months of this order. The company shall begin performing this requirement no later than three months after entry of this order.

(7) Develop a way to inform customers of emergency shut-offs through use of its various customer associations, within six months of this order.

(8) Prepare a written policy for company employees to use in prioritizing customer requests. At a minimum, the policy must provide that the employee of the company will return each call received by the end of the next working day, unless the customer states that no return call is necessary, and must include emergency response procedures, as required by WAC 480-110-041, providing for immediate response to emergencies whenever reasonably possible. The policy shall be completed, and a copy submitted to the Commission, within six months of this order.

(9) Maintain a business location and a regular telephone number at which company employees may be contacted directly by customers during regular business hours, and to provide a means by which they may be contacted at any hour in the event of a service failure or emergency, or at which a customer may leave a message reporting such failure or emergency to which a prompt response will be made, as required by WAC 480-110-041.

(10) Purchase a voice mail type service, within one month after the date of this order.

D. Meters

The record is replete with accounts of meter-related problems. The company has kept poor meter reading records. Commission staff recommended that the company comply with the meter history records requirements of WAC 480-110-166. Some customers' meters were broken and/or otherwise not capable of being read. The company has resorted to estimating water usage of some of its customers. Commission staff recommended that the company read meters on a regular basis and only estimate readings in extreme circumstances. In such instances, staff suggested that the company bill the customer only the basic charge; total consumption would then be billed in the next billing cycle. This would prevent "overestimating" and could be an incentive for the company to read meters. Noting the importance of production meters, that measure the company's water production, Ms. Reynolds recommended and the Commission will require reading production meters at the same time the company reads customers' meters.

The company has converted many customers to flat rates for various reasons. The company has a number of flat rated customers on its systems. The company reports 116 flat rated customers. Commission staff witness Ellie Reynolds recounted the problems caused by the company's flat rate situation. She recommended that the company install a meter for every customer for whom it is economically feasible. The company should be

expected to supply data supporting any claim that a meter would not be economically feasible in a given case. Ms. Reynolds recommended that the company file a plan with the Commission setting forth its schedule for metering customers. She suggested that all customers have meters installed by March 1, 1993. In the future, after current problems are remedied, she suggested that broken meters be replaced within one week of being identified.

Public Counsel made similar suggestions regarding meters, suggesting that all customers should have operating meters within one year after the date of the Commission's order and should then be served under Schedule No. 2, the company's metered rate tariff.

With regard to metering, the Commission orders the company to:

(1) Read meters on a regular basis and only estimate readings in extreme circumstances.

(2) When it estimates the meter readings of a metered customer, to bill the customer only the basic charge, and defer billing for actual total consumption until the next billing cycle.

(3) Read production meters at the same time it reads customers' meters.

(4) Install a meter for each customer for whom it is economically feasible, and have all meters installed by September 1, 1993; file a plan with the Commission, within three months after the date of this order, setting forth the company's progress on and schedule for metering customers; file a compliance report, no later than September 15, 1993, including data supporting any claim that a meter would not be economically feasible in a given case. The time frame may be extended upon good cause shown, by a letter from the Secretary of the Commission.

E. Possible Receivership

The Commission, in its complaint and order suspending, alleged violations under RCW 80.28.030 and RCW 80.28.040 relating to the purity, quality, volume, and pressure of water supplied by the company to its customers, as well as relating to the rules, regulations, measurements, practices, acts, and services of the company. Water companies are required to comply with state board of health standards adopted under RCW 43.20.050(2)(a) and

department standards adopted under chapter 70.116 RCW. Failure of a water company to comply with Commission-ordered water or service improvements in a timely manner can ultimately result in the company being placed in receivership. RCW 80.28.030 and RCW 80.28.040.

At hearing, Commission Staff discussed the possibility of requesting the Department of Health to petition the court to place the company in receivership in the event the company fails to comply with the Commission order. Public counsel argued that the evidence of poor water quality and service in this case justifies beginning the process.

The initial order would reject the suggestion that a "compliance" hearing automatically be held at a designated time after the final Commission order. It concluded that the company had been adequately been put upon notice as to its obligations under the law and this order, and that monitoring by Commission Staff would sufficiently assure compliance. The Commission disagrees.

In this order, the Commission has established service standards and deadlines by which the company must meet the standards. It directs Commission Staff to consult and coordinate with the Department of Health, as set out below. The Commission will keep this proceeding open, and will schedule a hearing approximately six months from the date of this order to assess company compliance. At that time, the Commission will assess the appropriateness of requesting that the Department of Health commence receivership proceedings.

XI. Directive to Commission Staff to Consult and Coordinate with the Department of Health

RCW 80.28.030 provides that when the Commission finds, after hearing, that the purity, quality, volume, and pressure of water supplied by a water company is insufficient, impure, inadequate, or inefficient, it shall order such improvements in the storage, distribution, or supply of water as will in its judgment be efficient, adequate, just, and reasonable. In ordering improvements, the Commission is required to consult and coordinate with the state department of health. If the water company fails to timely comply with a Commission order, the Commission may request that the department petition the court to place the company in receivership.

RCW 80.28.040 has similar provisions related to the practices, acts, and services of water companies which the Commission finds unjust, unreasonable, improper, insufficient, inefficient, or inadequate.

The Commission directs Commission Staff, in carrying out and enforcing the provisions of this order relating to water quality and service improvements, to consult and coordinate with the state department of health.

XII. RELATED AND OTHER TARIFF CHANGES

A. Disconnect Visit Service Charge

The company proposes to assess a \$15.00 service charge to a customer when it has to dispatch an employee to disconnect service due to nonpayment only to be given payment at the time of the disconnect visit. Commission staff supported this proposed tariff change, while Public counsel opposed it. The initial order found the proposed charge to be reasonable, and would approve it.

The Commission also finds the proposed disconnect visit service charge to be reasonable. It approves the charge.

This tariff change will impact revenue, and is discussed in the rate spread section of this order (Section IX).

Should the company use this charge in an unfair or abusive manner, the Commission reminds ratepayers that there are Commission complaint procedures available to them. The Commission's toll free number for customer complaints is 1-800-562-6150.

B. Taxes on CIAC for Service Connection Charges

The company requested a tariff change to allow it to collect federal income tax on Contributions in Aid of Construction (CIAC) for service connection charges. The initial order found that this request is in compliance with past Commission orders, and would approve it.

The Commission approves this requested tariff change.

FINDINGS OF FACT

Having discussed in detail all material matters inquired into, and having stated findings and conclusions, the Commission now makes the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate findings are incorporated by this reference.

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

2. Respondent Alderton-McMillin Water System, Inc. ("company") is a public service company engaged in the business of furnishing water service to customers within the State of Washington, and, as such, is subject to regulation by the Washington Utilities and Transportation Commission.

3. On September 13, 1991, the company filed tariff revisions designed to effect general increases in its rates for water service in this state, to be effective November 1, 1991. The proposed rates are designed to produce increased gross annual revenues of approximately \$172,000. The Commission suspended the filing by order entered on October 31, 1991.

4. On January 21, 1992, the company filed a Petition for Interim Rate Relief in this docket in the annual amount of \$45,669. The Commission heard testimony of this interim request, and on June 3, 1992, the Commission entered its First Supplemental Order denying interim rates.

5. The twelve-month period ending June 30, 1991, is the appropriate test period to examine for ratemaking purposes in this matter.

6. The company has provided inadequate and insufficient water service to its customers, and has disregarded its public service obligations. These problems have persisted for a number of years. Numerous complaints have been made to the company, but management has not taken reasonable steps to correct the problems and improve its service.

7. The respondent's adjusted rate base is properly valued at \$516,456.

8. The appropriate capital structure for ratemaking purposes is 22.4 percent debt and 77.6 percent equity.

9. An overall rate of return of 7.52 percent on respondent's adjusted rate base is fair and reasonable under the circumstances.

10. The respondent's test year Net Operating Income within the State of Washington after all adjustments is \$6,831 under present rates.

11. A revenue deficiency exists in adjusted test period gross annual revenue on respondent's water operations in the amount of \$40,526 calculated on the rate of return found appropriate in this order.

12. The rate spread proposals recommended by the parties are rejected. As found appropriate in the body of this order, after deducting the \$1,800 disconnect visit service charge

revenue, a flat rate percentage increase upon all other revenue rates will fairly apportion the burden of the additional rates among the customers of the company and will result in rates that are fair, just and reasonable.

13. The tariff revisions filed by the respondent on September 13, 1991, would produce increased annual revenues in excess of those found to be fair above.

14. The tariff revisions filed by the respondent on September 13, 1991, should be rejected in their entirety. The respondent should be authorized to file revisions which will produce additional revenues not to exceed \$40,526, as determined in the body of this order. The company's requested tariff change for collection of federal income tax on CIAC is approved. The tariff revisions shall conform with the terms of this order.

15. The tariff revisions authorized in this order will result in rates and charges that are fair, just and reasonable.

From the foregoing findings of fact, the Commission enters the following proposed conclusions of law.

CONCLUSIONS OF LAW

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

2. The respondent's existing rates and charges for water service in tariff WN U-2 are insufficient to yield reasonable compensation for water services rendered in the State of Washington. Revisions of rates and charges made in accordance with the above findings will yield a fair rate of return on the respondent's rate base found proper in this order, and, if filed as authorized, will be fair, just, reasonable and sufficient.

3. The tariff revisions under suspension in Docket No. UW-911041 contain rates and charges which exceed those found reasonable in this order. They should be rejected in their entirety.

4. The company has supplied poor water and provided inadequate service to its customers. The ratepayers aptly described these deplorable conditions at the public hearing. The company has neglected its obligations to the ratepayers. It has been unresponsive to its customers. There are serious concerns about this company and its management. The water testing done in this case served the purpose of confirming ratepayer complaints

that there are in fact water quality problems with this company. Upon considering the multitude of problems, the Commission should enter the orders set out in Section X of this order. Except as otherwise indicated, the company should comply with those orders set out in section X within six months of this order.

5. As a public service company supplying water service in this State, the respondent must comply with State Board of Health standards adopted under RCW 43.20.050(2)(a) and Department of Health standards adopted under chapter 70.116 RCW. A failure of a water company to timely comply with Commission-ordered water or service improvements can ultimately result in the company being placed in receivership. RCW 80.28.030; RCW 80.28.040.

6. During the course of the hearings, there were various motions made, i.e., to dismiss, to incorporate evidence, to strike testimony and on the admission of exhibits. All motions made in the course of these proceedings which are consistent with the above findings and conclusions should be granted, and those inconsistent should be denied.

7. The Commission should retain jurisdiction in this proceeding.

O R D E R

IT IS ORDERED That:

1. The tariff revisions filed by Alderton-McMillin Water Supply, Inc. on September 13, 1991, now under suspension and docketed in Docket No. UW-911041 are rejected in their entirety.

2. The respondent is authorized to file revisions to tariff WN U-2 in the form found to be appropriate in this order, to produce no more than the additional gross revenues above found to be proper for the respondent's provision of water services within the State of Washington.

3. The filings authorized in this order shall bear an effective date which will allow the Commission at least five working days following receipt to consider them. The filings shall reflect no retroactive rate treatment and each sheet shall bear the notation, "By authority of order of the Washington Utilities and Transportation Commission, Docket No. UW-911041".

4. Material in support of the manner in which the authorized increase is obtained shall be submitted simultaneously with the filings.

5. A notice of the filings authorized in this order shall be posted, on or before the day of filing with the Commission, at the company's business office. The notice shall state when the filing is to become effective and shall state that a copy of the filing is available for inspection at the business office. The notice shall remain posted until the Commission has acted on the filing.

6. The company shall comply with the orders set out in section X of this order, within the time frames set out in that section.

7. All motions consistent with this order are granted and those inconsistent with it are denied.

8. The Commission retains jurisdiction to effectuate the provisions of this order.

9. The Commission will schedule a hearing to review the company's compliance with this order, and to consider other pending matters in this proceeding, in approximately six months, within the scheduling requirements of the Commission.

DATED at Olympia, Washington and effective this 31st day of August 1992.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD D. CASAD, Commissioner



A.J. PARDINI, Commissioner

NOTICE TO PARTIES:

This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).

Alderton McMillan Water Supply, Inc.

Results of Operations

12 Months Ended June 30, 1991

Adjustment-Description

Net operating income-Actual	\$38,279
RA-1 Contractual Services	\$10,366
RA-2 Capitalized Attorney Fees	(6,027)
R-2 Prior Year Rate Case Expense	(446)
RA-3 Misc. Tax Adjustment	858
RA-4 Salaries	(11,490)
RA-5 Insurance Expense	1,104
RA-6 Federal Income Tax	(903)
RA-7 Accounting Fees	0
RA-8 Other Water Revenue	3,018
RA-9 Restate Testing	1,249
RA-10 Telephone Service	2,155
RA-11 Restate Ratebase	2,604
RA-12 Revenue Imputation	863
RA-13 6446 Filing Expense	(1,163)
PA-1 Salaries and Fringes	(24,995)
P-3 Health Insurance	0
P-2 New Truck	(3,496)
PA-2 Management Fees-View Royal	6,817
PA-3 Purchased Water	(2,740)
PA-4 Underground Locate Service	(354)
PA-5 Property Taxes	(728)
P-5 Retirement Plan-IRA	0
PA-6 Rate Case Expense	(6,800)
PA-7 Water Mains	(406)
P-9 Unanticipated Expense	0
P-10 Water Tank	0
PA-8 Pro Forma Debt	(934)
Total Adjustments	(\$31,448)
Pro Forma Net Operating Income	\$6,831

Alderton McMillan Water Supply, Inc.
Rate Base
12 Months Ended June 30, 1991

Adjustment-Description	Amount
Rate Base Actual	<u>\$612,068</u>
RA-2 Capitalized Attorney Fees	\$12,055
R-2 Prior Year Rate Case Expense	893
RA-4 Salaries	2,918
RA-11 Affiliated Interest	(40,981)
" Acquisition Adjustment	0
" Deferred FIT	(48,034)
" Customer Advances	(29,096)
" Other Restating Rate Base	(28,261)
PA-1 Salaries and Fringes	0
P-2 New Trucks	0
PA-6 Rate Case Expense	17,000
PA-7 Water Mains	17,894
P-10 Water Tank	<u>0</u>
Total Adjustments	<u>(\$95,612)</u>
Pro Forma Rate Base	<u>\$516,456</u>