

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	DOCKET NO. UW-010961
)	
Complainant,)	
)	
v.)	SETTLEMENT AGREEMENT
)	
AMERICAN WATER RESOURCES)	
COMPANY, INC.,)	
)	
Respondent.)	
.....)	

BACKGROUND AND FACTS

- 1 On July 3, 2001, American Water Resources, Inc., (AWRI or Company) filed proposed tariff revisions to increase the rates charged to customers. The stated effective date of the proposed new rates was August 5, 2001. The proposed general rates were designed to produce an additional \$227,647 (27.5%) annually, or \$10.37 per customer per month. As part of the general rate increase request, AWRI also requested temporary rates, subject to refund, of an additional \$184,296 (22.3%) annually, or \$8.59 per customer per month. AWRI serves approximately 1,822 active customers in Lewis, Thurston, Pierce, and Grays Harbor counties. By Order dated July 25, 2001, the proposed rate increase was suspended by the Commission. By Order dated October 31, 2001, the proposed temporary rate increase was suspended by the Commission.
- 2 A prehearing conference was held on October 15, 2001. At that time, a procedural schedule for the case was agreed on, and the parties requested that the Commission provide assistance to them in mediating a negotiated resolution to the case. The Company and Commission Staff have met and conferred, and have agreed to resolve the case without necessity of a contested case hearing.

TERMS OF AGREEMENT

3 The terms of the settlement agreement are as follows:

4 Staff and AWRI agree to the following:

- Test year period of calendar year 2000.
- Rate base is set at \$1,075,892.
- Accumulated depreciation is adjusted to \$503,214.
- CIAC is set at \$1,123, 298.
- Accumulated amortization is adjusted to \$146,142.

- Depreciation is set at \$85,000 per year, in lieu of reconstructing all the depreciation schedules and recomputing depreciation.
- Interest expense is set at \$79,692 per year. Interest expense has been revised from the original filing to reduce the interest rate paid on the shareholder's loan to 9.5%, and to eliminate interest on the surcharge loan, as the surcharge amount includes recovery of interest on that loan.
- Rate case costs are set at \$22,000, recovered over a two-year period, or \$11,000 per year. Because \$11,000 will be embedded in rates, the Company agrees to file a new rate case no later than two years from the date of this settlement agreement.
- The capital structure used to calculate the appropriate rate of return will be AWRI's actual capital structure.
- Rate of return is set at 9.08%.

5 (II) Proforma adjustments have been made to the following expense items for proposed expense increases:

Power:	Increase of \$8,800 for total of \$57,489 annually
Chemicals:	Increase of \$1,430 for total of \$14,941 annually
Testing:	Increase of \$4,633 for total of \$37,715 annually
Rents:	Increase of \$1,265 for total of \$10,800 annually
Bad Debt:	Increase of \$ 893 for total of \$10,762 annually

6 (III) Staff agrees to proforma increases above the restated 2000 test period for the following expense categories, but only with appropriate safeguards to ensure AWRI will segregate these additional funds and spend these funds on the purposes intended:

- Salary expense of \$279,364 (other than owner salary) which includes \$70,000 for two additional field staff and one additional office staff
- Transportation expense of \$43,116 which includes \$9,678 for the related transportation costs for the two additional field staff
- Payroll Tax and Benefits expense of \$75,841 which includes \$19,900 for the related payroll tax and benefits for the additional staff
- Business consulting expense of \$14,847 which includes \$3,840 annually to pay for increases exceeding \$917.00 per month.

7 (IV) The total effect of the agreements set forth in sections I, II, and III will increase the Company's annual revenue requirement by \$ 89,250 (11.27%), or \$3.47 per customer per month above the test year level, which will be added to the base rate.

8 (V) To ensure the funds discussed in section III are separated and spent on the intended purposes, AWRI will:

- set aside \$4.40 from each monthly payment received, starting with the first billing period after the new rates are in effect.
- separate and maintain this money in a separate bank account titled "Docket 010961 Account."

- use the money in this account to cover only those expenses for employees hired in addition to existing employee positions, the related benefits, payroll tax, and transportation expense, and outside business consulting that exceed the average monthly amount spent during the test period, calculated as follows:

Expense	Monthly Average
Salary	\$ 17,447
Transportation	2,787
Payroll Tax & Benefits	4,662
Business consulting	917

- not pay expenses for any change in position or increase in expenses for existing employee positions from the separate account.
- obtain the vehicles to be used by the two additional field employees from an independent company, i.e., one with no ties to the Company, or to Mr. Fox, by purchase or lease.

9 (VI) AWRI will prepare the monthly reports listed below, and file them with the Commission on a quarterly basis. Staff and the Company may agree to modify the reports to be provided.

- a. Income Statement
- b. Balance Sheet
- c. Budget Variance, with explanations for variance
- d. "Docket 010961 Account" detail to include: \$4.40 per month per customer
 1. Bills sent out
 2. Aging report
 3. Notices of pending Disconnects
 4. Listing of actual Disconnects
 5. Funds transferred based on collections
 6. Expenditure per budget for personnel, transportation and business consulting

10 (VII) The parties acknowledge that the procedural schedule for this case will be cancelled and that this Settlement Agreement will be scheduled for presentation. 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 December 15, 2001.

DATED this 5th day of December, 2001.

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

RICHARD A. FINNIGAN
Attorney for American Water
Resources, Inc.