Exhibit No. ______T (AW-1T)
Docket UW-110107
Witness: Amy White

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **SUMMIT VIEW WATER WORKS,** **Respondents.**	**DOCKET UW-110107**

TESTIMONY OF

Amy White

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

July 22, 2011

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I. INTRODUCTION

Q. Please state your name and business address.

A. I am Amy White. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, Washington 98504.

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

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst 3 working for Regulatory Services.

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

A. I have worked for the Commission for four years, since June 2007.

Q. Would you please state your educational and professional background?

A. I graduated in 1982 from the University of Washington with a Bachelor of Business Administration with an emphasis in Accounting. I earned a Master of Business Administration (1988) and a Master of Public Administration (1989) from City University of Seattle. I hold a Certified Government Audit Professional credential from the Institute of Internal Auditors.

Before my employment began at the Commission, I was an Internal Auditor for the Department of Social and Health Services (DSHS) for five years. I also worked for DSHS as a Medicaid Fraud Auditor for five years, as a Hospital Auditor for three years, and as the manager of the Surveillance and Utilization Review unit, which performed pre-audit analysis of suspected fraudulent providers, for three years. In addition, I worked for DSHS as a rate analyst developing hospital rates in the Medicaid program for seven years. I also developed rates for hospitals for one year in the workers' compensation program at the Department of Labor and Industries.

As a Regulatory Analyst 3, I review the tariff filings of regulated water companies either as the lead analyst or as a member of a Staff team. I have presented Staff recommendations to the Commission at numerous Open Public Meetings.

I am also currently assigned as lead analyst in Docket UW-110220, a rate case filed by Summit View Water Works, LLC regarding its irrigation water service operations.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the scope of your testimony?

A. My testimony presents Staff's analysis and recommendation regarding the proposal of Summit View Water Works, LLC (Company) to establish a surcharge to apply to current customers and a one-time facilities charge to apply to future customers in order to finance construction of a new well for domestic water service.

Q. Please summarize your recommendation in this proceeding.

A. The Company's filing seeks to recover $230,000 for construction of the new well. My analysis concludes that this amount approximates the likely and reasonable cost of the new well.

The Company seeks to recover half of the total cost of the new well from current customers and half from future customers. The Company's proposal assumes that existing and new customers will benefit equally from construction of a second, redundant water source even though the new well is being constructed primarily to serve future customers. Therefore, the proposed surcharge on existing customers should be rejected and the entire cost of constructing the new well should be paid solely by future customers through a one-time, per customer facilities charge of $1,402.

Q. What is the basis for your conclusion that the new well is being constructed primarily to serve future customers?

A. The Company currently has 87 domestic water service customers. Its existing well has sufficient capacity to serve up to 100 domestic water service customers. Thus, the current well is sufficient to serve the existing customers. Moreover, the Company's water system has sufficient storage capacity to handle brief outages related to well maintenance. Although existing customers may receive some benefit from the new well providing a redundant source of water, the new well would not be constructed except to accommodate Company growth in the future.

Therefore, I conclude from these circumstances that the primary justification for the new well is to serve future customers.

Q. Have you prepared an exhibit that calculates the $1,402 new customer facilities charge you recommend?

A. Yes. My Exhibit No. ___ (AW-2) applies Staff's financing model in this case. The exhibit shows my calculation of a one-time facilities charge of $1,402 to be assessed on each new customer for construction of the new drinking water well, including the associated interest costs of financing the construction.

III. DISCUSSION

Q. Please provide a brief history of the regulated operations of the Company.

A. The Company has been regulated by the Commission since March 2006. It operates near Kennewick, Washington both a metered domestic drinking water system and an unmetered irrigation system that uses a flat rate structure.

Docket UW-090124 was filed when the Company began serving customers in developments where lot sizes ranged in size from one-half acre to five and one-half acres. The Company realized that it was unfair to charge irrigation water service customers with one-half acre lots the same amount as those with five and one-half acre lots. The filing proposed to change the Company's flat rate irrigation service to a rate structure that included an "outlet fee" similar to a base rate, plus a prorated, per-acre charge.

However, Docket UW-090124 was withdrawn so the Company could file a rate case for domestic and irrigation water service in Docket UW-090732. That filing was also withdrawn after Staff discovered that nearly all assets used in water production were owned by two affiliated companies, Tri-City Development Corporation and Candy Mountain LLC. The Company currently has another filing (Docket UW-110220) pending before the Commission concerning irrigation rates.

Q. Please describe the relevant facts in this docket.

A. The Company currently has one well which is approximately 830 feet deep drilled under a Department of Ecology groundwater permit that allows use of enough water to serve 100 drinking water customers. At the time of the filing, the Company had 85 domestic drinking water customers. Since the first well is nearing capacity, the Company planned to construct a second drinking water well. The Company anticipates that the existing and new wells will serve 360 customers total. The Company assumes that the 85 customers would receive half the benefit of the new well as a redundant water source, and so it believed that the existing customers should pay half of the $230,000 cost of constructing the new well.

Q. How does the Company propose to recover the cost of new well construction?

A. The Company proposes two sources of funds to raise the $230,000 needed to build the new drinking water well. The first funding source would collect $115,000 through a monthly $11.60 surcharge to be paid by all customers in order to service a commercial loan that the Company has secured at 6.25 percent interest. The $11.60

monthly payment is in addition to a base rate of $40.00 per month plus a usage charge of $1.00 per 100 cubic feet per customer. The Company, in response to Staff Data Request 1, Item 8, stated that the average customer also incurs $7.00-$8.00 per month in usage charges for an average monthly bill of $47.50. Thus, the $11.60 proposed surcharge would represent an average 24.4 percent increase in total monthly cost to existing customers. The $11.60 monthly payment from each of the existing 85 customers at the time of the filing was calculated to exactly cover the principal and interest payments of the bank loan, with no contribution from the Company.

No adjustments to this amount would be applied as more customers subscribed to water service. Nor did the Company propose a maximum collection amount corresponding to the cost of the loan. As a result, the surcharge could generate funds in excess of the amount needed to service the loan, depending upon how many customers subscribed to the drinking water service.

The Company has indicated in response to a Staff data request a willingness to include in the tariff a sunset provision tying the total amount collected from customers to the payoff of the commercial bank loan. The Company has also provided loan commitment paperwork showing that the loan will not close unless the Commission approves a monthly surcharge from existing customers that is large enough to service the loan payment. The commercial lender was only willing to loan money based on the surety of repayment from surcharge amounts collected from current customers.

Q. Please describe the second source of funds proposed by the Company to raise the remaining $115, 000 needed to build the new drinking water well.

A. The second funding source proposed by the Company is a facilities charge of $1,000 per future customer. No maximum collection amount corresponding to the remaining cost of the well construction was proposed. The Company stated that all amounts raised by the facilities charge would service a loan from its affiliate Candy Mountain LLC for $115,000 at 6.5 percent interest for 15 years. The Company stated in its response to Staff Data Request 8, Item 6.3 in Docket UW-110220 that there are 87 current drinking water customers and 21 ready-to-serve customers for a total of 108 customers on the system. If the total system capacity is increased to 360 customers because of the new well and an additional 252 customers purchase land and build in the developments served by the Company, then a $1,000 facilities charge would generate $252,000, far in excess of the amount needed to finance the proposed $115,000 loan from Candy Mountain LLC. The Company has again indicated its willingness to include a sunset provision tied to the total collection amount regarding the facilities charge.

Q. Does Staff agree with the Company that existing customers will benefit from the new well equally with future customers?

A. No. Although Staff agrees that existing customers will receive some benefit from construction of a redundant water source, Staff is unable to assign a monetary value of that benefit to existing customers. Nor has the Company provided any specific analysis that new and existing customers benefit equally and, therefore, should be equally responsible for construction of the new well.

Moreover, growth in costs caused by new customers should be paid by those new customers and not by existing customers.

Finally, the Company's existing well will provide service reliability to future customers, but they have borne none of the costs to construct the existing well. It is not fair for existing customers to bear any cost responsibility for constructing the new well when future customers have paid none of the costs to construct the existing well that will provide them with service reliability.

Therefore, Staff recommends that new customers bear the total cost of the new well through a one-time, per customer facilities charge. There are 87 drinking water customers and 21 ready-to-serve customers for a total of 108 customers currently on the system. To reach the 360 customer level that the two wells can serve, the Company anticipates adding 252 new customers. Staff recommends a facilities charge of $1,402 for each new customer for construction of the new drinking water well. This amount is shown on line 25, column B of Exhibit No. __ (AW-2).

Q Please explain Exhibit No. __ (AW-2) in more detail.

A. Staff's analysis begins with the assumption that the Company would fund the entire $230,000 cost of the new well with affiliate debt. Using the Company's estimate that approximately 15 new customers will connect each year, it will take 17 years for all 252 new customers to connect. Therefore, Staff assumes that the affiliate loan for $230,000 would be for 17 years instead of 15 years for the proposed $115,000 loan.

The top half of the exhibit shows a 17-year payment schedule between the Company and its affiliate, Candy Mountain LLC, for a loan from Candy Mountain LLC to finance the total cost of construction of the new well. Including principal ($230,000) and interest ($123,319), the total cost of the loan is $353,319. That amount divided by the 252 new customers the Company expects to achieve results in my recommended $1,402 per customer facilities charge. My exhibit uses a 5.25 percent interest rate, rather than the 6.5 percent interest rate called for in the Company's current loan from Candy Mountain LLC. 5.25 percent is the current prime rate plus 2 percentage points. The Commission has previously found this formula reasonable for calculating the cost of debt between affiliated companies. See *WUTC v. American Water Resources, Inc.*, 6th Suppl. Order at 6, Docket Nos. UW-980072, *et. al* (January 21, 1999).

The bottom half of my exhibit applies the $1,402 facilities charge to the 15 new customers anticipated each year by the Company. It shows that the total cost of the loan to finance construction of the new well will be recovered from new customers after 17 years.

Q. Are there other aspects of your recommendation?

A. Yes. There are three additional features of my recommendation. First, Staff recommends that the facilities charge expires after 17 years, the expected term of the loan, or when the Company has recovered the total actual costs of well construction.

The tariff should include an express "sunset" provision and expiration date to implement this recommendation.

Second, under WAC 480-110-455(3)(b), a facilities charge may not fund 100 percent of the total cost of a project. Staff requests an exemption from this requirement. An exemption is consistent with the public interest and the underlying purposes of regulation because, as stated above, it is fair and reasonable for new customers to pay the total cost of new facilities constructed predominantly to serve new customers.

Finally, the Company began construction of the new well in April 2011 with a loan from its affiliate, Candy Mountain LLC. Once the actual costs are known, the Company should be required to file a report with the Commission consisting of a cost summary, with supporting documentation related to the construction. The report should be filed no later than three months after the end of construction. If the report shows that actual costs are materially different from the Company's initial estimates, the Company should also be required at the same time to file a tariff to adjust the facilities charge and provide refunds, if any, to customers who have made payments in excess of the amount needed to generate the actual construction costs.

Q. There are other, existing accounting and reporting requirements in WAC 480-110-455(4) that apply to facilities charges. Must the Company also comply with these requirements?

A. Yes. The reporting and accounting requirements I recommend are in addition to those contained in the rule. This rule does state that the Commission may require a company to request pre-approval to disburse funds generated by the facilities charge. Staff does not recommend that this particular aspect of the rule be implemented as this time.

Q. Do you have any closing comments?

A. Yes. At the Open Public Meeting when the Company's tariffs in this case were suspended, the commissioners expressed interest in whether sufficient water permit rights are available to support the new well. Staff reviewed groundwater permits and rights owned by the Company's affiliate, Candy Mountain LLC, or associated with the Company. Staff also discussed the issue with staff at the Department of Ecology.

In its response to Data Request 4, Item 2, the Company confirmed the new drinking water well is being drilled under Permit G4-30508P. Staff found these rights were transferred to the Company through a Purchase and Sale Agreement among the Company, Candy Mountain LLC and another affiliate, Tri-City Development Corporation, in September 2010. Staff's review also showed that the listed permit contains sufficient water rights designated for "non-irrigation community domestic supply for up to 260 units." Thus, there are sufficient water rights to support construction and operation of the new well.

Q. Does this conclude your testimony?

A. Yes.