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2 **WASHINGTON UTILITIES AND TRANSPORTATION**
3 **COMMISSION,**

4
5 **COMPLAINANT,**

6 **V.**

7 **ILIAD WATER SERVICE, INC.,**

8
9 **RESPONDENT.**

10
11 **DOCKET NO. UW-060343**

12
13 **DIRECT TESTIMONY**
14 **OF DEREK DORLAND**
15 **ON BEHALF OF ILIAD WATER SERVICE, INC.**
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17
18 **September 20, 2006**
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Q: PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.

A. My name is Derek Dorland. My business address is PO Box 20429, Seattle, WA 98102.

Q. WHAT IS YOUR POSITION WITH ILIAD WATER SERVICES, INC.?

A. I am the President and principal owner.

Q. WHAT IS THE RELATIONSHIP OF ILIAD WATER SERVICES, INC. TO ALDERLAKE WATER SYSTEM?

A. Alderlake Water System is one of the systems that is owned by Iliad Water Services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I am going to explain the facts and circumstances surrounding the Alderlake Water System construction project that is the subject of the tariff filing in this docket.

Q. PLEASE EXPLAIN WHEN THE ISSUES RELATED TO THE CONSTRUCTION PROJECT BEGAN AND HOW THINGS DEVELOPED.

A. In December, 2000, the Alderlake Water System's water source ran out of water. The Department of Health Drinking Water Division (DOH) directed Iliad Water Systems to take certain steps. These included trucking water from the town of Eatonville to the reservoir on the Alderlake Water System until new wells could be

1 provided on site; testing the water for coliform because of the trucking five times per
2 month instead of once a month; developing a new well with construction to be
3 approved by Department of Ecology and DOH; provide a microscopic particulate
4 analysis (MPA) testing to determine influence of surface water. This requires a test
5 taken during two distinct periods of time in order to evaluate the influence of the
6 surface water; and provide a professional engineer design submittals for the installation
7 of disinfection facilities to receive a CT, which is concentration multiplied times time,
8 at both existing wells. A copy of the DOH letter is attached as Exhibit No. _____ (DD-
9 2).

10
11 **Q. WHAT ACTION DID THE COMPANY TAKE IN RESPONSE TO THE**
12 **DOH REQUIREMENTS?**

13 A. In February of 2001, the company hired an engineer, J. C. McDonald, to prepare
14 and submit a project report and construction documents to the DOH. The project report
15 and construction documents were first submitted to DOH on May 30, 2001. As a result
16 of DOH review, the report and plans were revised and resubmitted on December 19,
17 2001.

18
19 **Q. IS IT UNUSUAL TO HAVE TO REVISE AND RESUBMIT PLANS?**

20 A. No. Quite often, DOH has comments and suggestions on the initial plan that
21 need to be taken into account and a revised report and construction documents are
22 submitted.

23

1 **Q. WHEN DID DOH APPROVE THE COMPANY'S PLANS?**

2 A. On January 31, 2002, DOH approved the engineering report and construction
3 documents for the Alderlake improvements. A copy of the DOH approval letter is
4 attached as Exhibit No. _____ (DD-3).

5
6 **Q. WHAT HAPPENED NEXT?**

7 A. Beginning in February of 2002, the company sought financing to complete the
8 improvements. The company did not have its own resources sufficient to fund the
9 improvements.

10
11 **Q. WHEN WAS FINANCIAL SUPPORT FOUND?**

12 A. It was not until January of 2003 that the company had commitments for
13 financing, which were subject to WUTC approval for the improvement assessment.

14
15 **Q. WHY DID IT TAKE SO LONG?**

16 A. This is a very small company, with limited assets. There are only 39 lots in the
17 Alderlake system. The company had a hard time finding anyone who is willing to
18 make an investment.

19
20 **Q. DID THE COMPANY CONSIDER COMMERCIAL LENDERS?**

21 A. Yes. However, it was clear that commercial lenders, such as banks, would not
22 be interested in this project.

23

1 **Q. WHEN WERE BIDS SOLICITED?**

2 A. An invitation to bid was issued August 9, 2004.

3
4 **Q. WHAT HAPPENED BETWEEN THE PERIOD OF JANUARY, 2003**
5 **WHEN COMMITMENTS FOR FINANCING BECAME AVAILABLE AND**
6 **AUGUST 9, 2004 WHEN THE INVITATION TO BID WAS SENT OUT?**

7 A. Iliad had a number of projects to undertake and with limited resources could not
8 get to each project at the same time. In addition, we know some of the customers were
9 opposed to the project. We wanted to try to get it right, so it took some time.

10
11 **Q. WHAT HAPPENED NEXT?**

12 A. The company received responses to its invitation to bid and selected the low
13 bidder as a qualified bidder. Copies of the bid documents are attached as Exhibit No.
14 _____ (DD-4). During this period, we sent a notice to customers, a copy of the notice is
15 attached as Exhibit No. _____ (DD-5). Based on the bid that was received, and
16 including engineering and other costs, the cost for the project was estimated to be
17 \$116,700. When other costs such as legal, financing and underwriting fees were
18 included, the cost came to \$125,972.

19
20 With thirty-nine customers on the water system, this equaled a cost of \$3,265 per
21 customer.

1 **Q. WHAT WAS THE NEXT STEP?**

2 A. The matters were delivered to our attorney in late September, 2004 and a tariff
3 filing was made October 11, 2004. This was docketed under UW-041830. A copy of
4 that tariff filing is attached as Exhibit No. ____ (DD-6). A customer notice was sent to
5 customers concerning this tariff filing. A copy is attached as Exhibit No. ____ (DD-7).
6

7 **Q. WHAT HAPPENED NEXT?**

8 A. The Commission Staff issued a number of data requests. They had many
9 questions concerning what costs should or should not be, the bidding process, the
10 options for customers, the back-up for expenditures already incurred, and so forth.
11 They had a major concern over whether the surcharge should be system specific or
12 apply to our other two systems as well. Data requests were filed dated October 20,
13 2004, December 14, 2004, May 5, 2005 and May 19, 2005. Copies of Commission
14 Staff data requests are attached as Exhibit No. ____ (DD-8).
15

16 **Q. DID THE COMPANY RESPOND TO THE DATA REQUESTS?**

17 A. Yes, except for the May 19, 2005 set. By that time it became obvious that
18 going to hearing was going to cost too much money and in light of several concerns,
19 would have opposition. This will be discussed a bit more later in my testimony.
20

21 Up to the time it withdrew its filing, the company sought to provide Staff with the
22 information that Staff requested. An example of some of the information provided to
23 Staff is in Exhibit No. ____ (DD-9).

1 **Q. WHAT ELSE HAPPENED DURING THIS TIME FRAME?**

2 A. The Staff told the company that certain costs could not be included in the
3 surcharge. The first example of this is Staff's letter of January 25, 2005, copy attached
4 as Exhibit No. ____ (DD-10).

5
6 **Q. THEN WHAT HAPPENED?**

7 A. The company evaluated Commission Staff's position and did not necessarily
8 agree, but in order to try to get the surcharge approved, agreed to reduce the surcharge
9 to \$2,773 per customer and provide an option of paying that upfront or at the rate of
10 \$38.25 per month over ten years. This was done by letter of March 22, 2005. A copy
11 is attached as Exhibit No. ____ (DD-11). During the interim, the tariff filing had been
12 suspended.

13
14 **Q. WAS THE REVISED PROPOSAL ACCEPTED BY COMMISSION**
15 **STAFF?**

16 A. No. Staff continued to ask questions. There was a pre-hearing conference
17 scheduled for May 23, 2005.

18
19 **Q. WHAT SORT OF QUESTIONS WERE ASKED?**

20 A. Staff had concerns about the bid, the age of the bid and whether the company
21 should re-bid the project. The Staff had questions about why the company had not
22 sought state revolving fund financing for the project, among other things. Staff also
23 indicated there were additional items that it was opposed to including in the surcharge.

1 For example, as contained in Staff letter of May 6, 2005, attached as Exhibit No. _____
2 (DD-12).

3
4 **Q. WHAT ACTION DID THE COMPANY TAKE IN LIGHT OF THESE**
5 **CONCERNS?**

6 A. The company felt that going through a hearing process would be too expensive
7 to undertake. So, in order to investigate the availability of SRF funds and to re-bid the
8 project that Commission Staff raised as concerns and to address other items Staff
9 raised, the company withdrew its filing by letter dated May 24, 2005. A copy is
10 attached as Exhibit No. _____ (DD-13). Although the letter lists only one reason, all the
11 items I mentioned were a part of the decision. It just did not seem necessary to list out
12 every reason.

13
14 **Q. PLEASE DESCRIBE WHAT HAPPENED NEXT.**

15 A. The company investigated the availability of SRF funding by asking its
16 engineer to review and evaluate the SRF process. The engineer's opinion was that SRF
17 funding was not available. So, the company re-bid the project. The construction bids
18 came in at a higher level than earlier. The material related to the bid process was
19 provided to Commission Staff prior to the company refiling its surcharge. A copy of
20 that material is attached as Exhibit No. _____ (DD-14).

21
22 The company then confirmed the availability of financing for the re-bid project, and
23 then re-filed for approval of the customer surcharge on March 1, 2006. Copies of the

1 tariff filing and customer notice related to the foregoing are attached as Exhibit No.
2 ____ (DD-15). Under the new tariff filing, the rate per customer is \$3,405.00.

3
4 **Q. WHAT WAS DONE IN RESPONSE TO THE REFILED SURCHARGE?**

5 A. Again, Staff issued a large number of data requests and did an extensive
6 investigation. Copies of the requests and some of the responses are attached as Exhibit
7 No. ____ (DD-16). As a result of the investigation, Staff recommended approval of the
8 surcharge if filed in a revised form, which the company agreed to do. The revision is
9 attached as Exhibit No. ____ (DD-17). Staff's Memorandum recommending approval
10 is attached as Exhibit No. ____ (DD-18). Unfortunately the Commission did not agree
11 with Staff's recommendation.

12
13 **Q. DO YOU HAVE ANY CLOSING COMMENTS?**

14 A. This proceeding may well break the company. If that is the Commission's
15 desire and if the Commission wants to run this company, they can have it.

16
17 We are a small company with limited resources. We have tried to do our best. Now we
18 are being criticized for following our engineer's advice. We are being criticized for
19 taking too long.

20
21 Quite frankly, I don't think the project would have been much cheaper if we bid it in
22 2003 instead of 2004. However, in 2003 we recognized that not all customers wanted

1 the project. We wanted to be sure we did it right and wanted to try to address customer
2 concerns. So, we took time to try to do the best we could.

3
4 When we filed in 2004, we ran into a great many questions about the docket. Staff, we
5 understand, was doing its job. We tried to respond to those questions as best we could.
6 We reduced the amount of the surcharge, even though we thought that some of that
7 adjustments from Staff were not appropriate. However, we did not have the resources
8 to fight about it.

9
10 That was still not enough. Staff raised questions about the bidding process and the SRF
11 loans. Staff raised other questions. I understand that they are just doing their job, but
12 sometimes a small company has difficulties in doing everything Staff would like us to
13 do. Based on all those questions, we withdrew the filing so that we could investigate
14 SRF availability and the project could be re-bid, and to address other concerns. We
15 went through the process, we relied on our engineer, we came back with a new bid,
16 presented a new proposal and here is where we find ourselves.

17
18 We understand that some of the customers don't want this or don't think this
19 improvement is necessary. However, DOH believes it is necessary and required under
20 its regulations to see that the water system does not pose a health hazard to the
21 customers.

22

1 We understand that people wonder why we took so long. We can probably be
2 criticized for not bidding the project earlier, but I doubt that would have made much
3 difference. And, we were trying to get it right. Certainly, any time since 2004 is not
4 the company's fault. We responded to Commission Staff inquiries. We had to find
5 financing, not an easy job for a small company. We were facing customer resistance.
6 We wanted to be sure that this project would be something that would go into place,
7 satisfy DOH, try to satisfy as many customers as possible, knowing that there would be
8 some customers that are unhappy.

9
10 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

11 **A. Yes.**