



STATE OF WASHINGTON
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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Ref.: 4-1253

January 25, 2005

Derek Dorland
Iliad Water Services Inc.
PO Box 20429
Seattle WA 98102

Subject: Alderlake Water System
UW-041830 Assessment Charge

Dear Mr. Dorland:

On October 11, 2004, Iliad Water Service, Inc., (Iliad Water or Company) filed a tariff revision that proposes to assess each customer of its Alderlake water system a one-time charge of \$3,265 to recover the actual costs associated with the deepening of one of the system's well in 2001 and to fund the proposed costs associated with installing a water chlorination system.

The costs related to the deepening of the well were incurred four years ago (January 2001). It is Staff's opinion that these costs are normal utility plant investments and any non-depreciated balance should be recovered in general rates over the remaining life of the asset. WAC 480-110-455 *Water company funding mechanisms* does not provide for a surcharge for the rapid recovery of an investment in plant already installed and in service. As stated above, the Company may include these costs in any general rate case proposal however, they are not appropriate for surcharge recovery.

The other part of the proposed surcharge relates to the proposed construction of a disinfection water-treatment facility. It is Staff's understanding that the Company would then begin the construction of the facility after the surcharge is approved. Other than the proposed surcharge, the Company has not arranged for any other financing for the project.

WAC 480-110-455 provides for a surcharge for either

- (2)(a)(i) the collection of a reserve to purchase needed water plant as part of a long-term plan or
- (2)(a)(II) the funding of debt used to finance water plant.

WAC 480-110-455 does not provide for a one-time assessment that necessitates ratepayers to incur debt themselves in order to finance Company capital improvements. If the Company decides to finance the construction through debt, a surcharge can be proposed that will service the debt, as provided under 480-110-455 (2)(a)(II), when the Company obtains a commitment for a loan to finance the facility, and signed contracts to construct the facility.

Staff is of the opinion that the proposed tariff does not conform to the surcharge requirements outlined in WAC 480-110-455 and therefore the filing should be withdrawn.

If you have any questions, please call me at (360) 664-1253.

Sincerely,



Danny Kermode CPA
Regulatory Analyst

cc: Richard Finnigan, Attorney
Ingrid Salmon, Department of Health