

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

ILIAD WATER SERVICE, INC.,

Respondent.

DOCKET NO. UW-071885

NARRATIVE SUPPORTING  
SETTLEMENT AGREEMENT

**I. INTRODUCTION**

1           This Narrative Supporting Settlement Agreement (Narrative) is filed with the  
Washington Utilities and Transportation Commission (“Commission”) pursuant to WAC  
480-07-740(2)(a) on behalf of the signatories to the Settlement Agreement filed in this  
docket. This Narrative summarizes the terms of the Settlement Agreement, and it is not  
intended to modify any of the Settlement Agreement terms.

2           The signatories to the Settlement Agreement are the Staff of the Washington Utilities  
and Transportation Commission (“Staff”) and Iliad Water Service, Inc., (“Iliad Water” or  
“Company”) (collectively, the “Parties”). Staff and Iliad Water are the only parties to this  
proceeding.

3           The Parties believe it would be appropriate for the Commission to consider the  
proposed Settlement Agreement on a paper record rather than hold a hearing. Should the  
Commission wish to schedule a hearing, the Parties are prepared, in keeping with WAC  
480-07-740(2)(b), to present one or more witnesses each to testify in support of the proposal

and answer questions concerning the Settlement Agreement's details, and its benefits. In addition, both counsel are available to respond to any questions regarding the proposed Settlement Agreement.

4           The Parties are filing this Narrative in support of this Settlement Agreement and do not intend to file additional documentation. The Parties are willing to provide additional supporting documents should the Commission deem such documents necessary or appropriate.

## 5           **II. BACKGROUND AND SCOPE OF THE UNDERLYING DISPUTE**

5           The underlying dispute concerns the tariff revisions filed with the Commission by Iliad Water on September 17, 2007, and assigned to this docket. Iliad Water serves approximately 91 customers on three water systems: Alder Lake water system (in Pierce County), Western Stavis II and III water system (in Kitsap County), and Cascade Crest water system (in Snohomish County). The Company made the filing to help cover increased operating costs, recognizing that the Company was operating at a loss. Iliad Water's last general rate increase was in August 1992. Staff welcomed the filing as it addressed one of three recommendations Staff made in an investigation report ordered by the Commission, and filed in July, 2007, in Docket UW-060343, a suspended tariff revision regarding the installation of a water chlorination system on the Company's Alder Lake water system. In that report, Staff found that the Company was not financially viable and recommended, in part, that Iliad Water file for rate relief by September 2007, as a means to address its financial viability.

6           The Commission held an open meeting on October 10, 2007, to hear customer

comments on the proposed tariff revisions. In the preliminary investigation, Staff reviewed the Company's records and concluded the Company required \$18,026 (63%) in additional revenue, less than the Company's requested \$32,324 in additional revenue. Iliad Water agreed to the lower revenue requirement for the purpose of temporary rates and agreed to Staff's proposed rate design, and on November 27, 2007, filed revised rates at Staff's recommended levels.

7           At its November 28, 2007, open meeting, the Commission issued a Complaint and Order which: (1) suspended the tariff, and (2) accepted the revised rates as temporary rates and approved those revised rates to become effective on December 1, 2007, on a temporary basis, subject to refund, if the Commission determines that different rates would be fair, just, reasonable and sufficient.

8           The Commission held a prehearing conference between the Parties on January 9, 2007, to set a procedural schedule. The Parties requested that settlement discussions be consolidated with ongoing settlement discussions in Docket UW-060343 (a surcharge to fund a water chlorination treatment plant mandated by the Department of Health). A settlement judge was already assigned to UW-060343, and, while the two dockets are procedurally separate, they share issues in common and the Parties desired to reach a comprehensive resolution. Following the prehearing conference, the Company provided additional financial information and water usage data pursuant to data requests of Staff, and the Parties engaged in a productive discussion of both of these matters. The Parties subsequently agreed to a resolution of all issues in this docket. The Parties also agreed to a resolution of issues in docket UW-060343. As the two matters are not formally

consolidated and remain procedurally independent, the Parties are filing separate settlement agreements and narratives in each docket.

### III. OVERVIEW OF PROPOSED SETTLEMENT AGREEMENT

9           The settlement resolves all issues in dispute in this proceeding. The Parties agree to a general rate increase which differs from the revised rates approved on a temporary basis, subject to refund, by the Commission on November 28, 2008, but maintains a three-tiered conservation rate structure, with a base charge that includes no water use.<sup>1</sup> It provides that for all customers on unmetered systems (Alder Lake and Western Stavis II and III), the flat rate will be \$46.50 per month.<sup>2</sup> It provides that, for “Ready to Serve” customers on all systems, the rate will be \$27.00 per month.<sup>3</sup> It provides that, for all metered systems, the base rate (which includes no water usage) will be \$35.75 per month, the charge for use of 0 – 600 cubic feet will be \$1.15 per 100 cubic feet per month, the charge for use of 601-1200 cubic feet will be \$1.40 per 100 cubic feet per month, and the charge for use of 1201 cubic feet and more will be \$1.65 per 100 cubic feet per month.<sup>4</sup>

10           The rates proposed reflect a revenue requirement of \$49,899, which represents a \$21,401 (75.1%) increase over test year revenue. If approved, the proposed rates will generate an expected rate of return on rate base of 9.73%.<sup>5</sup>

### IV. STATEMENT OF PARTIES’ VIEW ABOUT WHY THE SETTLEMENT SATISFIES THEIR INTERESTS AND THE PUBLIC INTEREST

11           WAC 480-07-740(a) requires that this Narrative include a “statement of parties’

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<sup>1</sup> Settlement Agreement, ¶ 11.

<sup>2</sup> *Id.*, ¶ 12.

<sup>3</sup> *Id.*, ¶ 13.

<sup>4</sup> *Id.*, ¶ 14.

<sup>5</sup> *Id.*, ¶ 15.

views about why the proposal satisfies both their interests and the public interest.” As stated in the Settlement Agreement, the settlement represents a compromise of the positions of the two Parties. The Parties find it is in their best interests to avoid the expense, inconvenience, uncertainty, and delay necessitated by ongoing adversarial proceedings. Likewise, it is in the public interest that this dispute conclude without the further expenditure of public and Company resources on litigation.

12 Iliad Water filed this rate case subsequent to Staff’s recommendation in its Report filed in UW-060343 that the Company file for rate relief as a necessary step toward financial viability and correction of severe undercapitalization. Staff is satisfied that, if approved, the Settlement Agreement will bring that recommendation to a satisfactory close. Staff’s investigation in this docket found that, during the test year, the Company’s balance sheet showed liabilities that far outweighed net assets along with substantial negative equity capital. This is the first rate increase for Iliad Water in over 15 years. Iliad Water requires this rate increase so that it can continue to provide service and cease operating at a loss.

13 The Settlement Agreement appropriately recognizes the revenue requirement of Iliad Water, and establishes a rate design to meet that revenue requirement. The three-tier rate design for all metered systems allows zero allowance in the base rate, so customers pay for only the water they use. The terms of the Settlement Agreement followed considerable Staff investigation into the records and operations of the Company, and many joint discussions. Also, together with the pending filing of a Settlement Agreement in Docket UW-060343, the Parties have resolved both dockets in a comprehensive manner.

14 The Parties recommend that the Commission accept the Settlement Agreement. The

Parties recommend the Commission address the Settlement Agreement as soon as practicable.

#### **V. SUMMARY OF LEGAL POINTS THAT BEAR ON PROPOSED SETTLEMENT**

15           In WAC 480-07-700, the Commission expresses its support for parties' informal efforts to resolve disputes without the need for contested hearings when doing so is lawful and consistent with the public interest. Under WAC 480-07-730(1), parties may file a full settlement, which is a settlement entered into by all parties of a proceeding that resolves all issues presented. The Settlement Agreement filed in this case represents the entire agreement between the Parties in this docket. The Parties have resolved all of the issues in dispute between them in this proceeding, and their resolution complies with Commission rules and, as explained above, is consistent with the public interest.

#### **VI. CONCLUSION**

16           Because the Parties have negotiated a resolution of all of the issues in this dispute and because the settlement is in the public interest, both Parties request that the Commission approve the Settlement Agreement filed in this docket.

[Signatures on next page]

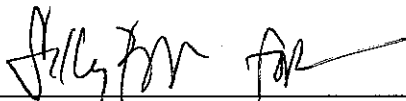
DATED this 8<sup>th</sup> day of April, at Olympia, Washington.

Respectfully submitted,

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

ILIAD WATER SERVICE, INC.

ROBERT M. MCKENNA  
Attorney General



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MICHAEL A. FASSIO  
Assistant Attorney General  
Counsel for the Washington Utilities and  
Transportation Commission Staff

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RICHARD A. FINNIGAN  
Counsel for Iliad Water Service, Inc.

DATED this \_\_\_ day of \_\_\_\_\_, at Olympia, Washington.

Respectfully submitted,

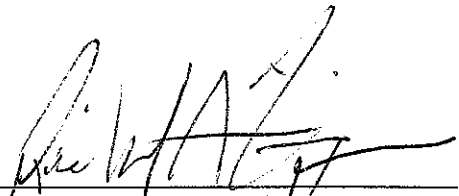
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RICHARD A. FINNIGAN  
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