

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	DOCKET UW-020827
)	
RAINIER VIEW WATER)	
COMPANY, INC.,)	
)	
Petitioner,)	
)	
For an Order Approving the)	
Accounting Treatment of Amounts)	
Received and Assets Obtained that)	
Relate to the Contract to Purchase)	
Wholesale Water from the City of)	ORDER AUTHORIZING
Tacoma.)	ACCOUNTING TREATMENT
.....)	

BACKGROUND

- 1 On June 24, 2002, Rainier View Water Company, Inc., (Rainier View or Company) filed a Petition with this Commission. The Petition seeks Commission approval of its proposed accounting for the assets acquired under an agreement with the City of Tacoma (Tacoma Agreement) to purchase water on a wholesale basis for delivery to customers of Rainier View¹. On January 29, 2003, Rainier View filed a Supplement to its Petition for Accounting Order which amended its request based on the final form of the agreement with the City of Tacoma (Tacoma).

- 2 Rainier View provides water service to approximately 12,000 customers in Pierce County. The majority of its operations are located in the Southwood/Sound Water System (Southwood System). For the Southwood System, Rainier View has either fully utilized, or committed to make use of, all its water rights issued

¹ A copy of the Tacoma Agreement is attached to this order as Exhibit A.

by the Department of Ecology. The Department of Ecology is not issuing additional water rights for this area.

- 3 Rainier View projects, with moderate growth in the Southwood System, that it will need 4,200 Equivalent Residential Units (ERUs)² over the next ten to fifteen years. To meet the demand, Rainier View has negotiated an agreement with the City of Tacoma. The agreement provides Rainier View with the right to purchase up to 4,200 ERUs of water capacity needed to meet the projected demand. As Rainier View experiences the projected growth, Tacoma will sell, on a wholesale basis, needed water on a continuing basis up to the 4,200 ERUs. The rate that Rainier View will pay for wholesale water, codified in the Tacoma Municipal Code, is periodically adjusted by the Tacoma Public Utility Board and adopted by the Tacoma City Council.
- 4 The cost of the contract rights to receive up to 4,200 ERUs from the City of Tacoma is \$9,083,498. In addition, Rainier View will incur costs related to connecting the Tacoma water system to the Southwood System, as well as the costs of required upgrades to the Tacoma water system³.
- 5 Rainier View proposes that the costs associated with the Tacoma Agreement be funded solely through a developer contingency charge⁴, which will be accounted for as a type Contributions in Aid of Construction (CIAC) in the form of a facilities charge. The Company has proposed in separate filings a developer contingency charge based on the debt service requirements, cost of the intertie and the Tacoma upgrades costs.⁵

² One ERU is equal to 350 gallons per day per household. 4,200 ERUs are equal to 1,470,000 gallons per day.

³ Any upgrades to the Tacoma water system paid for by Rainier View become the property of the City of Tacoma.

⁴ Also referred to by Rainier View as *Supplemental Developer's Fee*

⁵ The developer contingency charge is not before the Commission in this petition.

MEMORANDUM

6 In its petition, the Company proposes specific accounting treatment for the following three distinct groupings of assets created by the Tacoma Agreement:

- An intangible asset, the right to purchase wholesale water from Tacoma, at a cost of \$9,083,498;
- Plant and Equipment, consisting of the intertie with the associated plant and booster station, at an estimated cost of \$477,000; and,
- Costs associated with system upgrades required by Tacoma estimated at \$295,000⁶.

7 ***Intangible asset*** – Rainier View recognizes that the intangible asset created by the Tacoma Agreement has an indefinite life and requests that it not be amortized, but maintained on the books of the Company in perpetuity or until such time that a useful life can be determined. However, once the process of funding the intangible asset through developer contingency charges is complete, the Company may seek permission from the Commission to write off the full amount of the intangible along with the associated CIAC amount. It also proposes to account for the intangible asset in a separate sub-account and not commingle this intangible asset with other intangible assets. The Uniform System of Accounts adopted by this Commission⁷ frequently uses sub-accounts to account for costs that require special tracking.

8 ***Plant and Equipment*** – The Intertie and Booster Station are the plant and equipment needed to physically connect Rainier View's water system with the

⁶ \$70,000 related to engineering and consulting plus \$225,000 for facility improvements.

⁷ National Association Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts for Water Companies (1996).

City of Tacoma. The Intertie and Booster Station have actual useful lives. The Company proposes that these assets will be depreciated over the useful life of each asset, following normal accounting procedures. However, in order to synchronize the depreciation of the asset and the amortization of the related CIAC, the Company proposes to also amortize the associated CIAC financing over the remaining life of the Intertie and Booster Station.

- 9 ***Tacoma upgrade costs*** – The upgrades are the property and equipment needed by Tacoma to improve its water system in order to provide service to Rainier View. Because the assets related to the upgrade costs become the property of Tacoma, Rainier View’s costs associated with upgrades to the Tacoma water system will be expensed when incurred, along with the amortization of the associated CIAC.
- 10 **Accounting for Contribution in Aid of Construction.** In its petition the Company proposes to record all CIAC received under this project into a separate CIAC sub-account. Sub-accounts will allow the Company to manage and track the CIAC related to the payment of interest and the related fixed assets. Also, sub-accounts will be fundamental to the Company’s support of any changes to the developer contingency charge that it may present to the Commission for approval.
- 11 **Developer Contingency Charge.** The Company’s petition, as amended, proposes that future developer contingency charges be the only rate mechanism to obtain the funds used to both service the related long-term obligation to Tacoma⁸ and to pay for building the intertie and Tacoma upgrade costs. In its petition, the Company states its concern that “existing customers not be unduly burdened by the costs of expansion and procuring additional water capacity to satisfy new demand.”⁹ In order to obtain this objective, the Company proposes the use of a ratemaking methodology in which the assets and financing related to

⁸ Or if applicable, to provide a return related to any equity investment.

the contract right to purchase wholesale water, intertie and upgrades are separated from the other assets and financings in the determination of the appropriate developer contingency charge. Consistent with the Company's proposed approach, in any general rate case, all assets and financing applicable to the Tacoma Agreement would be removed from the Company's rate base and capital structure respectively and not considered in setting general rates.

- 12 To ensure that the funds received from the developer contingency charge are spent on the intended purposes, the Company has agreed to maintain the funds in a separate bank account. The sole intent of the funds in this account would be to satisfy Rainier View's obligations under the Tacoma Agreement, including the payment of engineering, banking and legal fees incurred as a result of the development and implementation of the Tacoma Agreement.

FINDINGS AND CONCLUSIONS

- 13 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including water companies. *RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.*
- 14 (2) Rainier View Water Company, Inc., is a water company and is a public service company subject to the jurisdiction of the Commission.
- 15 (3) On June 24, 2002, Rainier View Water Company, Inc., filed a Petition with this Commission seeking approval for the proposed accounting of the assets acquired under the Tacoma Agreement.

⁹ Petition for Accounting Order, Docket UW-020827, page 5, paragraph 8.

- 16 (4) WAC 480-09-420(7), allows companies to file a petition including that for which Rainier View Water Company, Inc., seeks approval.
- 17 (3) On January 29, 2003, Rainier View Water Company, Inc., filed a Supplement to Petition for Accounting Order which amended its request based on the original petition and the final form of the agreement with the City of Tacoma.
- 18 (4) The Petition, as amended, further seeks Commission approval for the proposed accounting of CIAC received to finance the project under the Tacoma Agreement.
- 19 (5) The accounting treatment proposed for the intangible asset described above in paragraph 7 is reasonable and should be approved. Since the final value of the intangible and the total CIAC collected to fund it is not known and measurable at this time, the proposal to write-off the full amount of the intangible and the related CIAC should not be addressed in this Order. Once the amount of the intangible and the related CIAC has become fixed and the Company is no longer collecting the developer contingency charge it may file such a request.
- 20 (6) The accounting treatment proposed for the plant and equipment needed to physically connect Rainier View to the City of Tacoma, described in paragraph 8 is reasonable and should be approved.
- 21 (7) The accounting treatment proposed for the Tacoma upgrade costs described in paragraph 9 is reasonable and should be approved.

- 22 (8) The accounting treatment proposed for the CIAC received under the Tacoma project described in paragraph 10 is reasonable and should be approved.
- 23 (9) The requirement that the Company maintain funds received through any Developer contingency charges that may be approved by this Commission in a separate bank account is reasonable and should be ordered.

ORDER

THE COMMISSION ORDERS:

- 24 (1) The requested petition for accounting order as amended by the supplement filed January 29, 2003, as described above in paragraphs 7 through 9 of this Order is granted.
- 25 (2) To assure that the funds received from the Developer contingency charge are spent on the intended purposes, RVW must separate and maintain the funds in a separate bank account titled "Developer contingency charge - Docket UW-020827 Account." Use of the funds in this account are limited solely to satisfying Rainier View's obligations under the Tacoma Agreement, and the payment of engineering, banking and legal fees incurred as a result of the development and implementation of the Tacoma Agreement.
- 26 (3) Once the obligations of Rainier View under the Tacoma Agreement are satisfied, any funds remaining in the Developer contingency charge account shall be transferred out of that account with Commission approval and shall then be used and accounted for in the same manner as Rainier View's current Developer's Fee.

- 27 (3) This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.
- 28 (3) The Commission retains jurisdiction over the subject matter and Rainier View Water Company, Inc., to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 12th day of February, 2003.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner