

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

ROCHE HARBOR WATER SYSTEM,

Respondent.

DOCKET NO. UW-042132

NARRATIVE SUPPORTING
SETTLEMENT AGREEMENT

I. INTRODUCTION

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 major terms of the Settlement Agreement, and it is not intended to modify any of the Settlement Agreement terms.

The signatories to the Settlement Agreement are Roche Harbor Water System and Staff of the Washington Utilities and Transportation Commission (Staff) (collectively, "Parties").

The Parties do not intend to file documentation supporting the Settlement Agreement in addition to the Settlement Agreement and this Narrative. The Parties are willing to provide additional supporting documents in the event the Commission deems such documents necessary or appropriate.

The Parties encourage the Commission to schedule proceedings to consider the Settlement Agreement as soon as practicable.

II. BACKGROUND

Roche Harbor filed a new Tariff Sheet with the Commission on December 6, 2004, to implement an "improvement charge." The improvement charge was to be a graduated charge applied to new customers of the water system after the effective date of the Tariff Sheet. The charge for a standard ¾-inch connection was \$3,000. The improvement charge is a facilities charge under the Commission's rules (WAC 480-110-245 and WAC 480-110-455(3)) and will be referred to as a facilities charge hereafter.

The new facilities charge would apply in addition to Roche Harbor's current \$1,500 service connection charge and current \$3,500 facilities charge. Thus, a new customer would pay \$8,000 to connect to Roche Harbor's water system with a ¾-inch connection after the effective date of the Tariff Sheet. The Commission suspended Roche Harbor's tariff revision by order dated December 29, 2004.

Roche Harbor asserts that its owner, the Roche Harbor Resort (Resort), will pay between 80 and 90 percent of the proposed facilities charge because most of the water system's growth will be due to the Resort's expansion. Currently, Roche Harbor estimates that it will obtain 527 new connections from the Resort and 55 new connections from customers outside of the Resort. The Settlement Agreement allows Roche Harbor to collect the requested new facilities charge from its new customers, but ensures that the Resort will bear the level of charges it says it will.

III. OVERVIEW OF SETTLEMENT AGREEMENT TERMS

The Settlement Agreement consists of four documents: (1) the Settlement Agreement, (2) Calculation of Roche Harbor's Facilities Charge, (3) Map of Roche Harbor Resort, and (4) Draft Tariff Sheet for Schedule 4 of Roche Harbor's Tariff. The Settlement Agreement contains the terms of the Parties' agreement to resolve this matter. The Calculation of Roche Harbor's Facilities Charge shows the amount charged for various connection sizes. The Map of Roche Harbor Resort shows the area in which the Resort plans to expand, and in which it expects to request 527 new water connections from Roche Harbor Water System. The Draft Tariff Sheet contains the language Roche Harbor will include in its Tariff Sheet for Schedule 4 of its Tariff based on the Parties' agreement.

A. Agreement Terms

The Parties agree that Roche Harbor will increase its current facilities charge from \$3,500 to \$6,500 for a standard ¾-inch connection, rather than having two separate facilities charges.¹ The facilities charge will be a graduated charge that increases with larger connections.²

Roche Harbor has provided a map of the Resort, which the Parties agree depicts the area in which the Resort plans to expand. The map serves as the definition of the Resort under the Parties' Settlement Agreement.³

The Parties agree that the Resort will pay both the \$6,500 facilities charge and the \$1,500 service connection charge for all new ¾-inch connections within the Resort or related to the Resort's expansion.⁴ The Resort will pay these charges whether it retains ownership of the property or whether it sells the property.⁵ If the Resort sells the property, it will pay the charges when the subsequent owner applies to Roche Harbor for a new connection.⁶

¹ Settlement Agreement at ¶ 3.2.

² *Id.*

³ Settlement Agreement at ¶ 3.3.

⁴ Settlement Agreement at ¶¶ 3.4, 3.6.

⁵ *Id.*

⁶ Settlement Agreement at ¶ 3.6.

The Parties agree that new customers outside of the Resort and not related to the Resort's expansion will pay the \$6,500 facilities charge and the \$1,500 service connection charge for all new ¾-inch connections.⁷

The Parties agree that Roche Harbor will comply with WAC 480-110455(3) and maintain the facilities charge funds collected in a separate account and will submit quarterly reports showing the balance, amounts received, amounts spent, ending balance, and reconciliation of band balance to general ledger.⁸ The first report under the Settlement Agreement will be for the quarter ending September 30, 2005.⁹ Roche Harbor will use the funds for future capital projects described in its filing (Docket No. UW-042132) or other projects approved by Commission order, but not for general operating expenses.¹⁰

B. Effective Date

The effective date of the Settlement Agreement is the date the Commission enters an order fully accepting the Agreement. If the Commission accepts the Settlement Agreement upon conditions not proposed by the Parties, the effective date is 10 days after the date of the Commission's order if no Party files an objection to the conditions. If the Commission accepts the Settlement Agreement upon

⁷ Settlement Agreement at ¶¶ 3.5, 3.6.

⁸ Settlement Agreement at ¶¶ 3.9, 3.10.

⁹ Settlement Agreement at ¶ 3.10.

¹⁰ Settlement Agreement at ¶ 3.9.

conditions not proposed by the Parties and a Party files a timely objection to the conditions, the Settlement Agreement is not effective.¹¹

The effective date of Roche Harbor's Tariff Sheet for Schedule 4 of its Tariff is August 22, 2005.¹² Roche Harbor agrees to file the amended Tariff Sheet for Schedule 4 of its Tariff by August 8, 2005, for Staff review.¹³

IV. STATEMENT OF PARTIES' VIEWS ABOUT WHY THE SETTLEMENT SATISFIES THEIR INTERESTS AND THE PUBLIC INTEREST

WAC 480-07-740(a) requires this Narrative to include a "statement of parties' views about why the proposal satisfies both their interests and the public interest."

Each Party has contributed the following separate statements.

A. Commission Staff

Commission Staff believes the Settlement Agreement is a fair resolution to the issues presented in this docket. It appropriately balances the issue of who will pay the increased facilities charge while maintaining some degree of equity between Roche Harbor's current customers and its future customers. It also represents a compromise reached by the Parties.

Roche Harbor maintains that its owner, the Resort, will pay 80 to 90 percent of the requested facilities charge, essentially funding the bulk of the water system's

¹¹ Settlement Agreement at ¶ 4.9.

¹² Settlement Agreement at ¶ 3.1.

¹³ Settlement Agreement at ¶ 3.8.

growth. Staff is comfortable allowing Roche Harbor to collect the proposed facilities charge so long as the Resort actually pays the charge as represented.

There are two ways a utility owner may fund growth, including investment and contribution in aid of construction (CIAC). Investment, consisting of debt or equity, generally increases monthly rates because investment generally increases rate base. A company is entitled to recover the investment through depreciation and earn a return on the undepreciated portion of the investment. CIAC is considered to be a gift of sorts: the water company owns the contributed cash, plant, and any assets purchased with the contributed cash. Thus, the water company is not entitled to a return of or a return on CIAC, and CIAC does not affect monthly rates.

In this case, the owner Resort proposes to grow Roche Harbor's water system by paying cash CIAC to Roche Harbor. The cash CIAC is to be used to complete the projects described in Roche Harbor's testimony and exhibits in this docket. *See* Exhibit No. ___ (DWG-1T) and Exhibit No. ___ (DWG-2).

The issue of who pays the cash CIAC to Roche Harbor is important to Staff. If the Resort pays 80 to 90 percent of the funds as Roche Harbor claims, the situation would be similar to an owner providing funds to a company, but without the corresponding return of or return on investment. Roche Harbor says it intends that

the Resort not earn a return and that its operating costs are met through rates. The Settlement Agreement allows Roche Harbor to do precisely what it says.

Ensuring that the Resort pays as promised is important because if it does not, it will not be contributing to Roche Harbor's growth. Staff does not believe it would be fair to future, non-Resort customers to require them to bear the cost of Roche Harbor's growth resulting from Resort expansion. The Settlement Agreement prevents this from happening and is in the public interest. Staff recommends the Commission approve the Settlement Agreement.

B. Roche Harbor Water System

The proposed settlement satisfies the interests of the company and the public interest for the reasons set out in the company's filed, direct testimony, which the Parties have stipulated will be admitted into the record. In short, the settlement reflects a proposal that has community support and is the most effective means available to the company to keep monthly recurring rates lower than they might otherwise be. Under this proposal, the company's parent expects to pay 80 to 90 percent of the funds to be raised by the facilities charge. By paying for expansion through this means as opposed to capital investment where the investor would expect to earn a return on such investment, monthly recurring charges can be maintained at a lower level than they might otherwise attain.

V. SUMMARY OF LEGAL POINTS THAT BEAR ON THE SETTLEMENT

Chapter 80.04 RCW, chapter 80.04 RCW, and chapter 480-110 WAC, *inter alia*, govern the Commission's regulation of jurisdictional water companies providing service in Washington. A water company is required to charge the rates and charges found in its current tariff,¹⁴ and it must provide 30 days notice to the Commission before changing the rates and charges.¹⁵ The Commission may suspend a proposal to change rates and charges for a period not exceeding 10 months from the time they would have become effective.¹⁶ A water company's rates and charges must be fair, just, reasonable, and sufficient,¹⁷ and the Commission is charged with regulating in the public interest.¹⁸ The Settlement Agreement is consistent with chapter 80.04 RCW, chapter 80.28 RCW and chapter 480-110 WAC.

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 Commission has discretion to accept a settlement, impose conditions on its acceptance, or reject a settlement.¹⁹ The Settlement Agreement filed in this case represents the entire agreement among the Parties. The Parties recommend the Commission accept the Settlement Agreement in its entirety.

¹⁴ RCW 80.28.080.

¹⁵ RCW 80.28.060.

¹⁶ RCW 80.04.130; RCW 80.28.060.

¹⁷ RCW 80.28.010; RCW 80.28.020.

¹⁸ RCW 80.01.040.

¹⁹ WAC 480-07-750.

VI. CONCLUSION

The Parties strongly recommend the Commission adopt the Settlement Agreement filed in this docket. The Settlement Agreement fully resolves the issues presented in this docket in a manner consistent with the public interest.

DATED this 20th day of July 2005.

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