February 4, 2002

NOTICE OF ISSUANCE OF BENCH REQUESTS
(February 8, 2002)

RE: WUTC v. Rainier View Water Company, Inc.
Docket No. UW-010877

TO PARTIES OF RECORD:

Evaluation of the questions framed in this proceeding may be enhanced if the Commission Staff ("Staff") provides certain information. Therefore, Staff is asked to provide the following information no later than Friday, February 8, 2002.

In the following bench requests, refer to Company sponsored adjustments as C-RA-# or C-PA-# and refer to the WUTC Staff's sponsored adjustments as S-RA-# or S-PA-#, as the case may be.

The following bench requests are for WUTC Staff witness, Mr. Danny P. Kermode, CPA, related to his prefiled testimony and exhibits, Exhibit No.____(DPK-T-1) and Exhibit Nos.______(DPK-2 through DPK-9).

1. In Mr. Kermode's Exhibit No.____(DPK-T-1), page 35, lines 1 through 3, he refers to a cost of capital rate of 7.09%, a cost of equity of 15.83% and cost of debt of 5.55%. However, Mr. Kermode's Exhibit No.____(DPK-8), lines 21 through 35, indicates that a cost of equity of 15.83% and a cost of debt of 5.55% yields an overall rate of return of 8.56%. In addition, Mr. Kermode's Exhibit No._____(DPK-2) Schedule 1, line 54, column (J), reflects a rate of return of 8.69% at "Results at Staff Rates." Please clarify and/or reconcile the differences between the three percentages, 7.09%, 8.56% and 8.69%.

2. In Mr. Kermode's Exhibit No.______(DPK-4) Schedules 1 and 2, he demonstrates that if the Commission authorized a fair rate of return of 12.0% and imputed taxes at 34%, that the after tax return to the shareholder would be 7.32% or 7.99%, depending on whether or not deferred taxes are deducted from rate base. On his Schedule 3 he demonstrates that if the Commission does <u>not</u> impute taxes, that the shareholder would receive an after tax return of 12.10%, which is

slightly above the authorized return of 12.0% because the Company failed to deduct Deferred Income Taxes from Rate Base. Based upon this comparison, is it Mr. Kermode's position that if the Commission does impute income taxes for ratemaking purposes that the actual realized after tax return to shareholders would be <u>less</u>?

3. In Mr. Kermode's Exhibit No._____(DPK-4), Schedule 3, he demonstrates that if the Commission authorized a fair rate of return of 12.0% and imputed no income taxes that the shareholder would receive an after tax return of 12.10%, which is slightly above the authorized return of 12.0% because the Company failed to deduct Deferred Income Taxes from Rate Base. However, to achieve the 12.10% return, apparently the Commission would have to authorize a return of 18.18% (Net Income of $218,182 divided by Net Rate Base of $1,200,000 equals 0.1818 or 18.18%.) Is Mr. Kermode's proposing that the Commission authorize a pre-tax rate of return as an alternative to imputing Federal Income Taxes for ratemaking purposes?

4. In Mr. Kermode's Exhibit No._____(DPK-4), Schedule 4, which is the method he recommends the Commission adopt for ratemaking, he demonstrates that if the Commission authorized a fair rate of return of 12.0% and imputed no income taxes that the shareholder would actually receive an after tax return of 7.99%. Assuming for purposes of this question, that there is not deferred tax problem, is it Mr. Kermode's position that if the Commission authorizes a fair rate of return to investors of 12.0% and they actually realize an after tax return of 7.99% or some other return smaller than 12.0%, that the investor has received a fair rate of return?

5. In Mr. Kermode's illustrations in Exhibit No._____(DPK-4), Schedules 1 through 4, does he assume that all income is equity income and therefore taxable?

6. Please provide any analysis Mr. Kermode has, which demonstrates that his proposed working capital allowance of $231,387 is investor-supplied.

7. The WUTC Staff has advocated and the Commission has adopted a so-called Pro Forma Debt or Interest Synchronization Adjustment in innumerable rate cases. Why has Mr. Kermode not adopted this standard approach in this case?

8. Mr. Kermode's exhibits do not appear to include a Net-To-Gross Conversion Factor calculation. Please provide one.

9. Mr. Kermode's exhibits do not appear to include a Revenue Requirement Calculation. Please provide one.

10. In Mr. Kermode's calculations of cost of capital, he recommends a Debt Service Ratio (DSCR) of 1.25 at page 34 of his prefiled testimony. The 1.25 ratio is apparently a pre-tax ratio. Does Mr. Kermode's assume in these calculations that 100% of RVW's pre-tax income would be retained by the Company and would be available to pay interest expense, and that the Company would not distribute any amount of income to shareholders to pay Federal Income Taxes or as a distribution of earnings to shareholders?

11. At page 34, lines 16 through 23 of his prefiled testimony, Exhibit No._____(DPK-T-1), Mr. Kermode indicates that he adjusted the equity component of the Company's capital structure downward by 7% or by $553,793 for "cash and short-term liquid assets" which he asserts are equity financed and are non-rate base investments. a) Please identify any precedent established in any other litigated rate case, in which the Commission adopted such an adjustment. b) Please provide any analysis Mr. Kermode has made to determine that cash and short-term liquid assets are financed 100% by equity. c) In the working capital allowance of $231,387 proposed by Mr. Kermode, what does he assume to be the composition of his working capital allowance and does he consider this in his adjustment to reduce the Company's capital structure by 7%.

Please respond no later than 4:00 p.m., Friday, February 8, 2002, with an original and the appropriate number of copies.

Sincerely,

MARJORIE R. SCHAER
Administrative Law Judge