

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND |) | |
| TRANSPORTATION COMMISSION, |) | |
| |) | DOCKET UW-071885 |
| Complainant, |) | |
| |) | |
| v. |) | |
| |) | SETTLEMENT AGREEMENT |
| ILIAD WATER SERVICE, INC., |) | |
| |) | |
| Respondent. |) | |
| |) | |
| |) | |
| |) | |

1 This Settlement Agreement (Agreement) is entered into by the parties to this proceeding for the purpose of resolving all issues raised in the above docket.

I. PARTIES

2 The Parties to this 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.”

II. BACKGROUND

3 Iliad Water serves approximately 91 customers on three water systems: Alder Lake near Elbe in Pierce County, Western Stavis II and III near Silverdale in Kitsap County, and Cascade Crest near Marysville in Snohomish County. On September 17, 2007, Iliad Water filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions in this docket. The tariff filing proposed increases to the Company’s basic service rates that would have resulted in \$32,324 (143%) of additional revenue to the Company for the three systems. The Company requested the increase to cover increased operating costs. Iliad Water’s last general rate increase was in August 1992. The Company notified customers of this increase by mail on September 17, 2007.

4 The proposed revisions would have increased the base rate charged to customers on the Alder Lake and Western Stavis II and III water systems from \$23.13 to \$56.19 per month, and would have increased the base rate charged to customers on the Cascade Crest water systems from \$26.26 to \$59.52 a month. The first 500 cubic feet of usage was included in

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the base rate, with a single usage block over 500 cubic feet of \$0.76 per 100 cubic feet remaining unchanged.

- 5 On October 2, 2007, Iliad Water extended the effective date of the tariff at Staff's request.
- 6 At an October 10, 2007, open meeting, the Commission invited customers and other interested parties to comment on the proposed tariff revisions. Staff summarized customer comments received to that date. On October 22, 2007, Iliad Water filed a letter with the Commission and a water quality report for the Alder Lake water system, addressing the customer comments received at the open meeting concerning water quality issues on the Company's systems.
- 7 At a subsequent open meeting on November 28, 2007, Staff summarized and addressed additional customer comments. Staff also summarized progress to date on Docket UW-060343, which involves a tariff the Commission suspended on March 29, 2006 to address the proposed installation of a chlorination plant on the Company's Alder Lake water system required by the Department of Health (DOH). Staff recommended that the Commission decide this matter in a comprehensive way to consider the Company's proposed financing through the Drinking Water State Revolving Fund. Staff also recommended the Commission consider the Company's equity investment plan to ensure the Company is committed to a path resulting in a viable company serving customers on an ongoing basis.
- 8 In this docket, Staff initially concluded Iliad Water has a revenue deficiency of \$18,026 and recommended a three-tiered conservation rate design and other adjustments. On November 27, 2007, Iliad Water filed replacement pages to its tariff revisions using revised rates at Staff's recommended levels, using a system average. On November 28, 2007, the Commission, at Staff's recommendation, issued a Complaint and Order suspending the tariff and approving these revised rates on a temporary basis, subject to refund, and pending hearing. In the complaint, the Commission found that Iliad Water had not yet demonstrated that the tariff revisions would result in rates that are fair, just, and reasonable, and ordered a staff investigation into the rates.
- 9 On January 9, 2008, the Parties participated in a prehearing conference, and established a procedural schedule. At the prehearing conference, Administrative Law Judge Ann Rendahl granted the Parties' request that settlement discussions be consolidated or occur jointly with ongoing settlement discussions in Docket UW-060343 referenced above. Administrative Law Judge Dennis Moss was appointed settlement judge. Following the prehearing conference, the Company provided additional financial information and water usage data to Staff, and also provided additional information to address issues in Docket UW-060343. Staff reviewed and analyzed the information provided by the Company, and discussions and settlement negotiations ensued. On March 3, 2008, the Parties informed Judge Rendahl that they had reached a settlement in principle, prior to the filing of testimony. On March 3, 2008, the Commission granted a motion filed by Iliad Water, with the support of Staff, to postpone the filing dates pending settlement.

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III. AGREEMENT

A. Preliminary Matters

10 The Parties have reached agreement on the issues raised in the above docket and wish to present their Agreement for the Commission's consideration and approval. The Parties therefore adopt the following Agreement, which the Parties enter into voluntarily to resolve the matters in dispute between them and to expedite the orderly disposition of this proceeding.

B. Rates

11 Commission Staff and Iliad Water agree to a general rate increase that differs from the revised rates the Commission approved on a temporary basis, subject to refund, on November 28, 2008. In addition, the Parties agree upon a conservation rate design for metered systems, with a base charge that includes no water use, and three usage blocks.

12 The Parties agree that, for all customers on unmetered systems (Alder Lake and Western Stavis II and III) the flat rate will be \$46.50 per month.

13 The Parties agree that, for Ready to Serve customers on all systems, the rate will be \$27.00 per month.

14 The Parties agree that the metered rate base charge (includes no water usage) will be \$35.75 per month. For rates based on usage, the charge for use of 0 to 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. Currently, only Cascade Crest is metered. The Company intends to meter Western Stavis II and III within approximately two months, and Alder Lake as part of the construction package under consideration in Docket No. UW-060343.

C. Revenue Requirement and Rate of Return

15 The Parties agree that the rates proposed reflect a revenue requirement of \$49,899, which represents a \$21,401 (75.1%) increase over test year revenue, and generate an expected rate of return of 9.73%.

IV. GENERAL PROVISIONS

16 The Parties agree that this Agreement is a settlement of all contested issues between them in this proceeding. The Parties understand that this Agreement is not binding unless and until accepted by the Commission.

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- 17 The Parties agree to cooperate in submitting this Agreement promptly to the Commission for acceptance. The Parties agree to support adoption of this Agreement in proceedings before the Commission. No party to this Agreement or its agents, employees, consultants, or attorneys will engage in advocacy contrary to the Commission's adoption of this Agreement.
- 18 Parties agree that neither the settlement discussions nor the terms of this Agreement creates any precedent in terms of methodology, theory, result or in any other manner, for Iliad Water or any other company.
- 19 The Parties agree to 1) provide each other the right to review in advance of publication any and all announcements or news releases that the other party intends to make about the Agreement (with the right of review to include a reasonable opportunity to request changes to the text of such announcements), and 2) include in any news release or announcement a statement to the effect that Staff's recommendation to approve the Agreement is not binding on the Commission itself.
- 20 Nothing in this Agreement shall limit or bar any other entity from pursuing legal remedies against Iliad Water or Iliad Water's ability to assert defenses to such claims.
- 21 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty, and delay of continuing litigation. The Parties recognize that this Agreement represents a compromise of the Parties' positions. As such, conduct, statements, and documents disclosed during negotiations of this Agreement shall not be admissible as evidence in this or any other proceeding, except in any proceeding to enforce the terms of this Agreement or any commission order fully adopting those terms. This Agreement shall not be construed against either party because it was the drafter of this Agreement.
- 22 The Parties have negotiated this Agreement as an integrated document to be effective upon execution and commission approval. This Agreement supersedes all prior oral and written agreements on issues addressed herein. Accordingly, the Parties recommend that the commission adopt this Agreement in its entirety.
- 23 The Parties may execute this Agreement in counterparts and, as executed, shall constitute one Agreement. Copies sent by facsimile are as effective as original documents.
- 24 The Parties shall take all actions necessary, as appropriate, to carry out this Agreement.
- 25 In the event the Commission rejects all or any portion of this Agreement, each party reserves the right to withdraw from this Agreement by written notice to the other party and the Commission. Written notice must be served within ten (10) days of the order rejecting part or all of this Agreement. In such event, neither party will be bound or prejudiced by the terms of this Agreement, and either party shall be entitled to seek reconsideration of the order. Additionally, the Parties will jointly request that a prehearing conference be convened as soon as possible for purposes of establishing a procedural schedule to complete the case.

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Entered into as of the date of the last signature set forth below.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

ILIAD WATER SERVICE, INC.

ROBERT M. MCKENNA
Attorney General

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

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

Dated: _____, 2008.

Dated: _____, 2008.