

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

RAINIER VIEW WATER CO., INC.,

Respondent.

DOCKET UW-110054

NARRATIVE SUPPORTING
SETTLEMENT AGREEMENT

I. INTRODUCTION

1 This Narrative Supporting Settlement Agreement (Narrative) is filed pursuant to
WAC 480-07-740(2)(a) on behalf of Rainier View Water Co., Inc. (Rainier View or
Company) and Staff of the Utilities and Transportation Commission (Staff) (collectively,
“the Parties”). Both parties have signed the Settlement Agreement (Agreement), which is
attached to this Narrative. This Narrative summarizes the Agreement. It is not intended to
modify any terms of the Agreement.

II. PROPOSALS FOR REVIEW PROCEDURE

2 The Parties do not intend to file documentation supporting the Agreement, with the
exception of the Agreement itself and this Narrative. If the Commission requires supporting
documents beyond the Agreement and its attachments, Narrative, and the other documents
on file in this docket, the Parties will provide documentation as reasonably needed.

3 In keeping with WAC 480-07-740(2)(b), the Parties are prepared to present one or
more witnesses each to testify in support of the proposal, and answer questions concerning

the Agreement's details and its costs and benefits, should such testimony be required. In addition, both Staff and Company counsel are available to respond to any questions that the Commission may have regarding the proposed settlement.

4 To the knowledge of either party, there are no opponents of the settlement. Because the Agreement includes a surcharge affecting existing customers and a customer notice, the Parties suggest that an opportunity for public comment, such as via written comments, is appropriate.

III. SCOPE OF THE UNDERLYING DISPUTE

5 On January 4, 2011, Rainier View filed with the Commission in this docket tariff revisions to its currently effective Tariff WN-U-2, designated as Original Sheet No. 56. The tariff revision raised its general facilities charge to \$1,702. The stated effective date was February 4, 2011. For many years, Rainier View has collected general facilities charges from new customers by contract. Facilities charges are charged to new customers so that new customers pay water system capital costs associated with growth, such as water system source, treatment, transmission, pumping, and storage infrastructure. Facilities charges are treated as contributions-in-aid-of-construction (CIAC).

6 The tariff filing also proposed a second facilities charge based on the estimated cost of an intertie with Lakewood Water District known as the *Lakewood Pipeline Project*. The tariff proposed a higher facilities charge for the Southwood/Sound water system of \$8,640. This part of the filing was prompted by the Company's desire to collect funds upfront to pay for the estimated cost of building a main to connect directly with the Lakewood Water District and these charges were currently not in the Company's tariff. Rainier View estimated that the Lakewood Pipeline Project will cost \$11,572,658, and construction would

begin in 2017 or 2018. The Company serves about 16,650 residential and non-residential commercial customers in Pierce County.

7 Staff and Rainier View agreed to temporary rates that set the general facilities charge at \$1,210 for all systems except Southwood/Sound. As filed by the Company, the Southwood/Sound facilities charge was set at \$6,480. This charge is comprised of the general facilities charge of \$1,210 and an amount of \$5,270 to be used for the Lakewood Pipeline Project. Previously, these amounts were collected by construction contract submitted to the Commission. The Company filed revised rates on January 24, 2011. On January 27, 2011, the Commission issued an order suspending this filing for further review and approving revised rates on a temporary basis, subject to refund.

8 By notice dated March 31, 2011, the Commission scheduled a prehearing conference for April 28, 2011, and appointed Administrative Law Judge (ALJ) Marguerite Friedlander to hear the matter.¹

9 The Commission held a prehearing conference on April 28, 2011, which, among other things, set a procedural schedule.² Staff investigated the Company's filings in detail and engaged in further discovery. On June 21, 2011, the Commission suspended the procedural schedule to facilitate ongoing and productive settlement discussions, at the request of the Parties. To accommodate the need for more time for discussions, on July 26, 2011, and again on September 1, 2011, Rainier View filed letters with the Commission waiving any statutory deadline for conclusion of the filing by three months and an additional

¹ *Washington Utilities and Transportation Commission v. Rainier View Water Company, Inc.*, Docket UW-110054, Notice of Prehearing Conference (March 31, 2011).

² *Washington Utilities and Transportation Commission v. Rainier View Water Company, Inc.*, Docket UW-110054, Order 02, Prehearing Conference Order Establishing Procedural Schedule and Scheduling Hearing (May 2, 2011).

two months, respectively. In conjunction with this filing, the Company is fully waiving any suspension period. The Parties reached an agreement in principle, which, if approved by the Commission, would resolve all of the issues in this docket. The Parties' agreement has been memorialized in a Settlement Agreement being filed concurrently with this Narrative.

IV. SUMMARY OF KEY POINTS OF PROPOSED SETTLEMENT AND STATEMENTS OF PARTIES' INTEREST AND PUBLIC INTEREST

10 The settlement resolves all of the issues in dispute. As stated in the 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 inherent in a litigated outcome. It is in the public interest that this dispute conclude without further expenditure of public resources on protracted litigation.

A. General Facilities Charge

11 The Parties agree that Rainier View will be authorized to implement a General Facilities Charge ("GFC") on all new customers on all Company water systems for the purpose of funding capital costs associated with developing and purchasing equipment and facilities needed for source, treatment, and transmission on all water systems.³ The GFC amount shall be \$1,549 for a three-quarter (3/4) inch or smaller meter and increases proportionately for meters larger than a 3/4 inch meter based on meter size using meter size factors published by the American Water Works Association ("AWWA").⁴ Under temporary rates currently in effect, and as originally proposed, the Company would collect a \$1,210 general facilities charge from customers on all water systems. While three such

³ Settlement Agreement, ¶ 14, ¶ 20.

⁴ Settlement Agreement, ¶ 15, and Attachment A. A three-quarter inch or smaller meter equates to an Equivalent Residential Unit ("ERU"), which is defined in WAC 246-290-010. Settlement Agreement, ¶10.

facilities charges have been collected, no refunds are due because the \$1,549 proposed rate is greater.⁵ Rainier View also agrees to invest on average at least 30 percent of the total infrastructure cost for projects involving the use of General Facilities Charge funds to preserve the Company's investment ratio for this source of customer contribution, and report information about this investment to the Commission on an annual basis.⁶ The Company also agrees to accounting and reporting requirements consistent with WAC 480-110-455.⁷

B. Background and Explanation of the Lakewood Pipeline Project

12 In 2002, Rainier View signed a long term contract to purchase additional water capacity with the City of Tacoma (Tacoma). In 2009, Rainier View signed a long term contract to purchase additional water capacity with the Lakewood Water District (LWD). In 2009 and 2010, the Company expended previously collected funds for a portion of what is known as the "LWD shared pipeline." This shared pipeline construction project intertwined LWD with Tacoma and other water purveyors. This shared pipeline allows the Company to take delivery of water that it purchases from LWD through a wheeling contract with Tacoma.

13 The shared pipeline wheeling contract between Rainier View and Tacoma has a provision that requires the Company to purchase 100 percent of the available and previously agreed Tacoma water before Tacoma will wheel the LWD water. Additionally the contract contains a "wheeling" charge to transport the water from the LWD shared pipeline, through the Tacoma system, for delivery to the current Rainier View water system. The combined effect makes the Tacoma water very expensive.

⁵ Settlement Agreement, ¶ 25.

⁶ Settlement Agreement, ¶¶ 18, 24.

⁷ Settlement Agreement, ¶ 20-23.

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The proposed Lakewood Pipeline Project would connect the Lakewood shared pipeline directly with Rainier View's distribution system. When completed, the Lakewood Pipeline Project will allow Rainier View to purchase water directly from LWD directly through the Lakewood Pipeline Project at a lower cost.

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Staff did a comparative analysis of the projected cost of water purchased from Tacoma (with wheeling charges) to water purchased directly from Lakewood, based on estimated usage. That analysis showed a significant annual cost savings would result from purchasing water from LWD using the Lakewood Pipeline Project. In the long run, the completed project will benefit all of Rainier View's customers because of the significantly lower-cost water.

C. Lakewood Pipeline Surcharge and Facilities Charge to Fund Lakewood Pipeline Project

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Under the Agreement, Rainier View would be authorized to collect a Lakewood Pipeline Surcharge ("LPS") from all current and future customers, and a Lakewood Pipeline Facilities Charge ("LPFC") from all new customers, to recover costs associated with the Lakewood Pipeline Project.⁸

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The Company originally proposed to fund the entire Lakewood Pipeline Project with a facilities charge that would be paid by only new customers on Rainier View's Southwood/Sound water system. Using Pierce County's established growth projections, the Company estimates that approximately 228 new customers will connect to the system annually for a total representing 2,280 ERUs over 10 years, and that it will take at least 10 years to collect the projected costs of the new pipeline.⁹ The Company proposed to collect

⁸ Settlement Agreement, ¶¶ 26-56.

⁹ The Company states that three new customers have connected since January 27, 2011.

facilities charges until the project is fully funded before starting the construction or to fund phases of the project and begin a specific phase once funded. During that 10 year period, Staff calculated that there would be an accumulated balance of between approximately \$1,928,833 and \$11,573,000 in facilities charges in accounts under Company control as cash or invested in other securities. Staff had several concerns regarding the amount of cash involved, how to protect the cash from loss due to bank failure, and how to ensure that the money would be spent for the intended purpose for the benefit of the customers. These concerns combined with the unfavorable economic climate, uncertain growth projections, and potential cost savings that would result from completing the project sooner than originally proposed prompted Staff to propose an alternate funding method, which is set forth in detail in the Settlement Agreement, and summarized herein. The agreed approach addresses Staff's concerns.

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As proposed in the Agreement, funding for the Lakewood Pipeline Project will rely primarily on two revenue sources (a surcharge and a facilities charge), instead of a single facilities charge on Southwood/Sound system customers. This approach would use existing CIAC cash balances and construction-type loans to provide initial funding to complete design and construction of the Lakewood Pipeline Project in approximately six years, instead of ten years, or longer. The Company intends to secure a construction loan, or combination of loans, that the Company can draw on as needed. A construction loan that is available on a demand basis will provide the most efficient source of capital. The Company will secure a commitment to borrow money conditioned upon the Commission approving a surcharge sufficient to service the debt. To ensure that the Company has sufficient revenue to service these loans, a stepped approach surcharge for two phases of the project would be

implemented, in concert with a Lakewood Pipeline Facilities Charge on future customers which, as collected, will enable the surcharge to expire sooner than scheduled.

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Rainier View will be authorized to implement a Lakewood Pipeline Surcharge (“LPS”) on all current and future Rainier View customers.¹⁰ The LPS will be divided into two phases. Upon Commission approval of the Agreement, the surcharge in Phase 1 will be set at \$2.00 per month, to recover costs estimated at \$1,173,907 for Phase 1 activities of engineering, design, construction documents and site acquisitions, and the \$2.00 surcharge will continue until those estimated costs are paid in full.¹¹ To expedite the Lakewood Pipeline Project when Phase 1 work is complete, Phase 2 will start. This phase would involve the actual construction of the pipeline and completion of all testing and in-service placement. The Commission will set the Phase 2 surcharge at the appropriate time, and it is tentatively calculated to be \$5.40 per month to service estimated construction costs and interest costs. The Phase 2 LPS may be recalculated at the time construction begins using then-current customer counts, known construction costs, and using the actual terms of financing secured by the Company to do the construction. The Phase 1 LPS will expire upon completion of engineering, design, construction documents and site acquisitions, collection of cost and payoff of loan(s) associated with phase 1 estimated at \$1,173,907. The Phase 2 LPS will expire upon construction of the pipeline and completion of all testing and in-service placement estimated at \$11,949,719 and interest costs of \$3,427,043. The Phase 1 and Phase 2 surcharges may run concurrently. The projected surcharge amounts are based on the Company’s estimated costs to complete the pipeline project, adjusted for

¹⁰ Settlement Agreement, ¶ 26.

¹¹ Settlement Agreement, ¶ 27.

inflation.¹² The Company agrees to detailed accounting and reporting requirements related to the LPS.¹³

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As proposed in the Agreement, Rainier View will be authorized to collect a Lakewood Pipeline Facilities Charge (“LPFC”) from all new customers on all water systems.¹⁴ The LPFC shall be \$5,756 for a three-quarter inch or smaller meter.¹⁵ The LPFC will be based on meter sizes as shown in Attachment A to the Settlement Agreement. The LPFC is set at the level necessary to fund the estimated cost of the entire Lakewood Pipeline Project on a stand-alone basis. All funds received will be deposited in a separate pipeline project bank account, Treasury account, or other financial institution account and will be used for specific purposes related to the Lakewood Pipeline Project, in a specific order.¹⁶ The Company has a willingness and ability to obtain loans for the project, and will provide Staff with loan documents at closing so that Staff may reassess financial assumptions.¹⁷ The LPFC will expire after future customers representing 2,280 ERUs have paid the LPFC.¹⁸ Any amounts collected (up to 2,280 ERUs) after payoff of all construction loans and after expiration of the LPS, will be passed through to all existing customers on a semi-annual basis in the form of a bill credit.¹⁹ The Parties agree to various and specific accounting and reporting requirements for the LPFC consistent with WAC 480-110-455.²⁰ The Parties

¹² Settlement Agreement, ¶28.

¹³ Settlement Agreement, ¶¶ 36-40.

¹⁴ Settlement Agreement, ¶ 41.

¹⁵ Settlement Agreement, ¶ 42, and Attachment A.

¹⁶ Settlement Agreement, ¶ 43-46.

¹⁷ Settlement Agreement, ¶ 47.

¹⁸ Settlement Agreement, ¶ 48-49.

¹⁹ Settlement Agreement, ¶ 50.

²⁰ Settlement Agreement, ¶¶ 52-56.

agree that no refunds of facilities charges already collected to fund the Lakewood Pipeline Project are due.²¹

21 The Parties have also agreed on initial funding of the facilities charge accounts. The Company currently has committed and uncommitted funds in a “City of Tacoma Account.” Committed funds will be allocated and deposited into the General Facilities Charge account for future use. Any uncommitted funds will be allocated to pay initial costs associated with the Lakewood Pipeline Project, and deposited into the company’s LPFC account(s) for immediate use.²² This initial funding of costs will benefit current and future customers by reducing the costs necessary to be recovered from current and future customers by the Lakewood Pipeline Surcharge and Lakewood Pipeline Facilities Charge.

22 The Agreement contains additional provisions related to the filing of replacement pages to the Company’s tariff and notice to existing customers of the proposed Lakewood Pipeline Surcharge.²³ Customer notice is required and appropriate because existing customers have not received notice of the surcharge proposed in the Agreement.

23 For the reasons explained above, these commitments, and the Agreement as a whole, are in the public interest and in the interest of Staff and the Commission. Staff recommends that the Commission approve the Agreement in its entirety.

D. Rainier View’s Separate Statement

24 Rainier View concurs in the foregoing Narrative and urges that the Commission approve the Agreement in its entirety.

²¹ Settlement Agreement, ¶ 57.

²² Settlement Agreement, ¶¶ 58-59.

²³ Settlement Agreement, ¶¶ 60-62.

V. LEGAL POINTS THAT BEAR ON PROPOSED SETTLEMENT

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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. The Parties have resolved all of the issues in dispute between them, and their resolution complies with Commission rules and, as explained above, is consistent with the public interest.

VI. CONCLUSION

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Because the Parties have negotiated a compromise on all of the issues in dispute, and because the settlement is in the public interest, both parties request that the Commission approve the attached Settlement Agreement.

Respectfully submitted this _____ day of April, 2012.

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

RAINIER VIEW WATER CO., INC.

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Dated: April 4, 2012

Dated: April 6, 2012