

**Exhibit T \_\_\_\_ (DPK-1T)**  
**Docket No. UW-040651**  
**Witness: Danny P. Kermode**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**CANTERWOOD WATER COMPANY,  
INC.,**

**Respondent.**

**DOCKET NO. UW-040651**

**TESTIMONY OF  
DANNY P. KERMODE, CPA  
IN SUPPORT OF THE SETTLEMENT AGREEMENT**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**JUNE 15, 2006**

1 **Q. Please State Your Name And Business Address.**

2 A. My name is Danny P. Kermode. My business address is 1300 South Evergreen Park  
3 Drive S.W., PO Box 47250, Olympia, Washington 98504-7250. My e-mail address  
4 is [dkermode@wutc.wa.gov](mailto:dkermode@wutc.wa.gov).

5  
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Washington Utilities and Transportation Commission as a  
8 Regulatory Analyst.

9  
10 **Q. What are your education and experience qualifications?**

11 A. I graduated in 1982 from Arizona State University in Tempe, Arizona with a  
12 Bachelor of Science in Accounting. Later that same year, I attended San Carlos  
13 University in the Philippines for postgraduate studies in Economic Analysis and  
14 Quantitative Business Analysis. I am a licensed as a Certified Public Accountant  
15 (CPA).

16 I was a member of the faculty at the National Association of Regulatory  
17 Commissioners (NARUC) Annual Regulatory Studies Program held at Michigan  
18 State University in East Lansing, Michigan in 1992 and 1993. I taught classes in  
19 Financial and Regulatory Accounting Standards and in Deferred Tax Accounting.  
20 I have been employed by the Washington Utilities and Transportation Commission  
21 as a regulatory analyst since 1998.

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**I. PURPOSE OF TESTIMONY AND SUMMARY**

**Q. What is the purpose of your testimony in this case?**

A. The purpose of my testimony is to describe and support the Settlement Agreement (Settlement) between Staff and Canterwood Water Company, Inc. (Canterwood or Company).

**Q. Please discuss the processing of Canterwood’s compliance filing filed with the Commission on January 30, 2006.**

A. In conformity with the requirements in prior Commission orders, Canterwood filed the second revision to its tariff Sheet No. 22. The tariff revision complied with Commission orders and did not change the rates charged by the company for its metered water service.

Since the filing was a compliance filing, no supporting data or financial information was provided with the filing. The Commission Staff commenced its review of the filing, which included requests for information and the review of supporting data and financial information, including water usage information.

**Q. Please describe the significance of the existing Order Authorizing Accounting Treatment No. 1, of May 26, 2006, in this docket, as modified by Order No. 02 (“Accounting Order”), and why the parties seek cancellation of this order under this Settlement.**

A. The Commission approved an Accounting Order that requires the Company to reclassify excess revenues over the company’s 2002 revenue level from operating

1 revenue to Contributions in Aid of Construction (CIAC).<sup>1</sup> The order describes a  
2 methodology that requires the Company to deposit “excess revenue” into a  
3 commercial escrow account. The intent of the Accounting Order was to capture  
4 excess revenues generated from the conservation tariff and prevent a revenue  
5 windfall to the Company if customer usage patterns did not change.

6 It was the Company’s intent to file a motion with the Commission soon after  
7 the approval of its filed rates to discontinue the application of its Accounting Order.  
8 Once the Accounting Order would be cancelled, excess revenue, as defined in the  
9 order, would no longer be reclassified from revenue to CIAC and thereby increase  
10 the return earned by the company.

11

12 **Q. When did Settlement discussions commence between the parties?**

13 A. After completing its review of the Company’s support to continue of the current rate  
14 structure, Staff believes the rates currently charged by Canterwood are appropriate if  
15 the Accounting Order is canceled. After additional discussions, the parties agreed to  
16 a Settlement that addresses the concerns of both the Staff and Canterwood and  
17 therefore, in order to avoid the time and expense of holding a hearing, the parties  
18 have reached a mutually acceptable result.

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20 **II. SETTLEMENT ISSUES**

21 **Q. Please explain the issues involved in this settlement discussion.**

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<sup>1</sup> Request of Canterwood Water Company Inc., Docket No. UW-040651, Order 1 (May 26, 2004)

1 A. There are two issues addressed in the settlement. The first issue addresses the  
2 appropriateness of the current rates, the second issue involves the cancellation of the  
3 accounting order requiring excess revenues be placed into a separate account for the  
4 use of current customers.

5 The current rates became effective in May 26, 2004, with the intent to curtail  
6 high water usage by some of the company's customers. The new rates implemented  
7 a steeply inverted rate design that added a third-tier conservation rate that would  
8 substantially increase the monthly charge for high-usage customers.

9 To avoid a revenue windfall if customer usage patterns did not change, the  
10 Commission issued an accounting order that requires the company to place in escrow  
11 any revenue exceeding its historical 2002 levels.<sup>2</sup>

12

13 **Q. What is the Settlement revenue requirement agreed to by the parties in the**  
14 **Settlement?**

15 A. The agreed revenue requirement is \$350,858 and is based on the Company's test  
16 year ended September 30, 2005. The rates filed by Canterwood in compliance with  
17 Commission Order produce the settlement amount.<sup>3</sup>

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19 **Q. What is the revenue impact of the Settlement on current rates?**

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<sup>2</sup> Request of Canterwood Water Company, Inc., Docket No. UW-040651, Order 01 (May 26, 2004).

<sup>3</sup> The rates filed in compliance with the commission order are identical to the metered rates currently in effect

1 A. The proposed settlement rates are the same as the current rates now charged by the  
2 company. The difference in revenue is the cancellation of the currently effective  
3 accounting order. Rather than the company reclassifying the accounting order  
4 related revenue as CIAC, the cancellation of the accounting order allows  
5 approximately \$71,700 of addition annual revenue to flow-through the income  
6 statement.

7

8 **Q. Do the parties believe the Settlement revenue requirement of \$350,858 results in**  
9 **rates that are fair, just, reasonable?**

10 A. Yes, with the cancellation of the accounting order.

11

12 **Q. Even with cancellation of the accounting order, should any provisions of the**  
13 **accounting order remain in effect, and if so, why?**

14 A. Yes, Finding (8), which is a refund provision in the accounting order should stay in  
15 effect. The provision states that if the CIAC sub-account has a positive balance at  
16 yearend, the excess funds remaining unspent by December 31, 2006, the company  
17 will refund the balance to all customers on a pro rata basis within the next billing  
18 cycle. In contrast, if there is a negative balance in the CIAC sub-account, no  
19 recovery is authorized.<sup>4</sup>

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<sup>4</sup> Request of Canterwood Water Company, Inc., Docket No, UW-040651, Order 01, page 4 (May 26, 2006).

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**III. SETTLEMENT METHODOLOGY SUMMARY**

**Q. Did the parties agree to specific adjustments to revenue, expenses, and rate base?**

A. Other than the cancellation of the accounting order, the parties did not agree to any specific adjustments. The parties agree that, with the cancellation of the accounting order, the filed rates produce \$350,858 in annual revenue.

**Q. Is there a particular equity return or capital structure implied by this Settlement?**

A. No. The settlement does not include as a matter of settlement any particular equity return or any capital structure, actual or implied.

**Q. Based on the Settlement, has any methodology, principles, facts, or theories been accepted or deemed approved by Staff?**

A. No, the Settlement represents a negotiated result and therefore the parties have agreed that no party shall be deemed to have approved the facts, principles, methodology, or theories employed by the other party in arriving at the Settlement. In addition, the parties have agreed that nothing in the Settlement will be viewed as precedent in subsequent proceedings.

**IV. CONCLUSION**

**Q. Please summarize the proposed Settlement Agreement.**

1 A. Both parties propose that the Commission allow the rates as filed by the Company to  
2 become effective and the accounting order discussed above be cancelled.

3

4 **Q. What do you recommend regarding the Settlement Agreement?**

5 A. I recommend that the Commission admit the Settlement Agreement into the record  
6 and adopt it in its entirety as resolution of Docket No. UW-040651.

7 I understand that WAC 480-07-730(1) allows parties to file a settlement that is  
8 entered into by all parties of a proceeding, which resolves all issues presented.

9 WAC 480-07-750(1) states:

10 The commission will approve Settlements when doing so is lawful,  
11 the Settlement terms are supported by an appropriate record, and  
12 when the result is consistent with the public interest in light of all  
13 information available to the commission.

14

15 I believe the Settlement is in the public interest, and the results are fair, just,

16 reasonable and sufficient.

17

18 **Q. Does this conclude your testimony?**

19 A. Yes.