BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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| Washington Utilities and Transportation Commission,  Complainant,  v.  ILIAD WATER SERVICE, INC.,  Respondent. | DOCKET UW-150311  SETTLEMENT AGREEMENT |

1. INTRODUCTION
2. This Settlement Agreement (“Settlement”) is entered into by the parties in this case: Iliad Water Service, Inc. (“Iliad Water Service” or the “Company”) and staff of the Washington Utilities and Transportation Commission (“Staff”) (hereinafter collectively referred to as “Parties” and individually as “Party”).
3. This Settlement is a “full settlement” as the term is defined in WAC 480-07-730(1) because it is entered into by the Parties, and it resolves all issues raised in the above docket.
4. AGREED FACTS
5. Iliad Water Service is a water company and a public service company subject to the jurisdiction of the Washington Utilities and Transportation Commission (“Commission”). At the initiation of this docket, the Company provided water service to 56 customers on two water systems located in Pierce and Snohomish Counties. On July 30, 2015, in Order 01 of Docket UW-150688, the Commission approved the transfer of control, by acquisition of stock and merger, of five water systems to Iliad Water Service, effective August 1, 2015. Following the merger, Iliad Water Service provides water service to 326 customers on seven water systems located in Clallam, Pierce, Kitsap, and Snohomish Counties.
6. Derek Dorland is owner and president of Iliad Water Service. Derek Dorland makes all final management decisions for Iliad Water Service; he is ultimately responsible for the operations of the Company. Derek Dorland is the Company’s sole employee.
7. Iliad Water Service has contracted Iliad, Inc.—owned and operated by Dave Dorland, Sr., the father of Derek Dorland—to perform maintenance and operations services pursuant to the terms of a Management Contract. The Management Contract between Iliad Water Service and Iliad, Inc. is attached as Exhibit A.[[1]](#footnote-1) Iliad Water Service also entered into a fixed price contract with Iliad, Inc. for $152,826 to finance and construct a corrosion control treatment plant needed to meet state water quality standards on the Company’s Alder Lake community water system—the subject of this docket is cost recovery for this corrosion control treatment plant. The contract between Iliad Water Service and Iliad, Inc. for the financing and construction of the corrosion control treatment plant is attached as Exhibit B. In addition to the formal relationships between Iliad Water Service and Iliad, Inc., David Dorland, Sr. also occasionally takes on voluntary roles for Iliad Water Service, and provides “fatherly” general business advice to Derek Dorland.
8. Iliad Water Service has contracted Water Services Company—owned and operated by Sondra LeBaron, the sister of Derek Dorland—to perform its billing and bookkeeping services. These services are provided pursuant to a Billing Service Agreement, which is attached as Exhibit C.[[2]](#footnote-2)
9. On December 31, 2007, the Department of Health (“DOH”) notified Iliad Water Service that the Company’s Alder Lake community water system required corrosion control treatment to address copper levels that exceeded state and federal drinking water standards. On February 16, 2011, DOH approved the Company’s proposal to construct a corrosion control treatment plant (the “Plant”) to address the high copper levels. The Company submitted its Construction Completion Report to DOH on July 1, 2011, and DOH approved it on July, 6, 2011. The Plant was placed into service for the benefit of Alder Lake community water system customers in December 2011, after some additional water quality monitoring occurred to ensure that the Plant was operating properly.
10. On February 23, 2015, Iliad Water Service filed with the Commission a proposed tariff revision that would generate $160,512 of additional revenue to recover costs for the Plant. The Company proposed to recover the Plant’s cost from the 35 customers of the Alder Lake community water system by providing each customer a choice between either: 1) a one-time $4,586 surcharge, or 2) a ten-year financing, at 8.5% interest, via a monthly surcharge of $57. The proposed effective date for the rate increase was April 1, 2015.
11. On March 26, 2015, the Commission issued a Complaint and Order Suspending the Tariff Revisions in which it found that Iliad Water Service’s initial filing did not adequately justify the proposed tariff revisions. The Commission determined that it should investigate and appraise the Company’s operations, accounts, practices, and activities to determine whether the proposed tariff revisions would result in rates that are fair, just, reasonable, and sufficient. The Commission further determined that Iliad Water Service bore the burden of proof to show that the proposed rate increase is fair, just, reasonable, and sufficient.
12. On June 8, 2015, the Commission convened a prehearing conference before Administrative Law Judge Rayne Pearson, and made the discovery rules available to the Parties. No other Party intervened in the proceeding.
13. After the Company filed its direct testimony and responded to numerous discovery requests from Staff, the Parties engaged in settlement discussions. On August 6, 2015, the Parties requested that the Commission suspend the procedural schedule to enable them to negotiate a settlement without the need to file additional testimony. The Commission granted the request on August 7, 2014. On August 19, 2015, Staff notified the Commission that the Parties had reached a settlement in principle, and requested that the Commission provide the Parties with time to memorialize their agreement. The Commission granted the request on August 28, 2015, and directed the Parties to file a settlement agreement and supporting documentation, or a status report on their progress by September 4, 2015.
14. The Parties’ full settlement agreement is reflected in this Settlement document, which was entered into voluntarily to resolve all matters in dispute. The Parties now wish to present their Settlement for the Commission’s consideration and approval. This Settlement is filed in the interest of expediting the orderly disposition of this proceeding. The Parties understand that this Settlement is subject to Commission approval, and hereby respectfully request that the Commission issue an order approving this Settlement in its entirety. The Parties will jointly file supporting documentation, as required by WAC 480-07-740(2).
15. AGREEMENT
16. **Corrosion Control Treatment Plant Costs.**
    1. Total Cost – The Parties agree that the total capital cost of the Plant is $94,972, and that the total rate case costs associated with this docket is $9,000. This cost does not include B & O tax, which the Company shall collect as part of the final surcharge.
    2. Asset Life of the Plant – The Parties agree that, for ratemaking purposes, the Plant has a total asset life of fifteen (15) years, the Plant has been in service to customers for three-and-a-half (3.5) years, and therefore the Plant has eleven-and-a-half (11.5) years of its useful life remaining. The recovery period shall equal this remaining useful life.
    3. Recoverable Cost – The Parties agree that Iliad Water Service shall be allowed to recover the capital costs of $94,972, plus the rate case cost of $9,000. The capital cost shall be reduced by the three-and-a-half (3.5) years of in-service use ($22,160) and, along with the rate case cost, recovered over the Plant’s remaining useful life of eleven-and-a-half (11.5) years. This amounts to a total recovery cost of $81,812. Based on the total recovery cost, an additional $4,114.32 for B & O tax shall be included in the final surcharge.
17. **Cost Recovery.**
    1. Monthly Surcharge to All Customers – The Parties agree that Iliad Water Service shall recover the $81,812 via a monthly surcharge to all of its 326 customers for a term of eleven-and-a-half (11.5) years. The monthly surcharge, which includes 8.5% interest and $4,114.32 for B & O tax, shall total $3.00 per customer.
    2. Tariff Revision and Customer Notice – The Parties agree that, within seven (7) days of an order approving this Settlement becoming final, the Company shall file revised tariff sheets to implement the monthly surcharge, and it shall issue to all of its customers the notice attached as Exhibit D. The revised tariff shall become effective no sooner than thirty (30) days after the Company issues the customer notice.
18. **Accounting Transparency Improvements.**
    1. Affiliated Interest – The Parties acknowledge that an affiliated interest exists between Iliad Water Service and Iliad, Inc., and that all dealings between these two companies are subject to the state laws and Commission rules governing affiliated interests as codified inChapter 80.16 RCW and Chapter 480-110 WAC. The Parties agree that Staff shall not seek penalties against the Company for any violations of Chapter 80.16 RCW and Chapter 480-110 WAC that occurred prior to Commission adoption of this Settlement.
    2. Enhanced Disclosure – The Parties agree that Iliad Water Service shall disclose to the Commission all dealings between Iliad Water Service and Water Services Company. Going forward, Iliad Water Service shall file with the Commission any new agreements for services, or modifications to previously executed agreements, between Iliad Water Service and Water Services Company. Such filing shall occur within 30 days of the effective date of the new or modified agreement.
    3. Cost Recovery – The Parties agree that the Company’s filings made pursuant to sections b and c of this paragraph do not guarantee cost recovery for the subjects of its filings. Pursuant to state law and Commission rules, Iliad Water Service shall bear the burden of proof to show that any future proposed rate increase is fair, just, reasonable, and sufficient.
19. GENERAL PROVISIONS
20. The Parties agree that this Settlement reflects the settlement of all contested issues in this proceeding. The Parties understand that this Settlement is not binding unless and until accepted by the Commission.
21. The Parties agree that this Agreement promotes the public interest, and that it is appropriate for unconditional Commission acceptance under WAC 480-07-750.
22. The Parties agree to advocate for acceptance of this Settlement before the Commission. After the Commission accepts this Settlement, no party or its agents, employees, consultants, or attorneys will engage in advocacy contrary to the Settlement. The Parties shall take all actions necessary, as appropriate, to carry out this Settlement.
23. The Parties agree to provide each other the right to review, in advance of publication, any announcement or news release that the party intends to make about this Agreement. The right to review includes a reasonable opportunity to comment on and request changes to the text of such announcements or news releases.
24. The Parties have negotiated this Settlement as an integrated document to be effective upon execution and Commission approval. This Settlement supersedes all prior oral and written agreements on issues addressed herein.
25. The Parties may execute this Settlement in counterparts, and as executed shall constitute one agreement. Copies sent by facsimile or electronic mail are as effective as original documents.
26. In the event that the Commission rejects or modifies any portion of this Settlement, each Party reserves the right to withdraw from this Settlement by written notice to the other Parties and the Commission. Written notice must be served within ten (10) business days of the Order rejecting part or all of this Settlement. In such event, no Party will be bound or prejudiced by the terms of this Settlement, and any Party shall be entitled to seek reconsideration of the Order.
27. Each person signing this Settlement warrants that he or she has authority to bind the Party that he or she represents.

Respectfully submitted this \_\_\_\_\_ day of September, 2015.

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| WASHINGTON UTILITIES AND  TRANSPORTATION COMMISSION | ILIAD WATER SERVICE, INC. |
| ROBERT W. FERGUSON  Attorney General  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  CHRISTOPHER M. CASEY  Assistant Attorney General  Counsel for the Utilities and  Transportation Commission Staff  Dated: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, 2015 | \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  RICHARD FINNIGAN  Counsel for Iliad Water Service, Inc.  Dated: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, 2015 |

1. Since the initial execution of the Management Contract, Iliad Water Service and Iliad, Inc. have orally modified the rate for Attachment C, Item 1, from $75 per hour to $85 per hour, and that the rate for Attachment C, Item 5, from $75 per hour to $95 per hour. Also, Exhibit B of the Management Contract mistakenly references Marbello Water Company; the Parties agree the correct reference is to Iliad Water Service, Inc. [↑](#footnote-ref-1)
2. The attached contract is not signed or dated; Iliad Water Service has confirmed, and the Parties agree, that the contract is otherwise a true and correct copy of the agreement in effect between the Company and Water Services Company. [↑](#footnote-ref-2)