

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

vs.

CANTERWOOD WATER COMPANY,
INC.,

Respondent.

DOCKET NO. UW-040651

SETTLEMENT AGREEMENT

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

The Parties, defined below, enter into the following settlement agreement to resolve all issues raised in this docket.

I. PARTIES

1.1 The Parties to this Agreement are the Staff of the Washington Utilities and Transportation Commission (Staff) and Canterwood Water Company, Inc., (Canterwood or Company), collectively, "the Parties."

II. BACKGROUND

2.1 On January 30, 2006, Canterwood filed a revision to its effective Tariff WN U-3, designated as the second revision to Sheet No. 22, in conformity and compliance with the requirements of prior Commission orders. The Commission had, among other things,

ordered that the Company file a revised tariff by December 31, 2005.¹ This deadline was later extended to January 31, 2006 upon the Company's petition.² The filing did not change the rates then in effect for the Company's metered water service.

2.2 The Commission suspended operation of the tariff revision pending hearing to determine whether the proposed revision would result in fair, just, reasonable and sufficient rates.³ Because the filing was a compliance filing, the Company did not file supporting data or financial information. At Staff's request, the Company provided supporting data and financial information, including water usage data, which Staff then reviewed.

2.3 Following a prehearing conference on April 27, 2006, and continued discovery and settlement discussions, the Parties agreed to a resolution of all issues in this docket, including Canterwood's overall revenue requirement and rate design.

2.4 The Parties therefore adopt the following Settlement, which the Parties have entered into voluntarily to resolve matters in dispute between them in order to avoid the time and expense of a hearing, and to expedite the orderly disposition of this proceeding. The Parties submit this Settlement to the Commission and request that the Commission adopt the Settlement as presented.

2.5 The intent behind the Settlement as proposed is to allow the Company to

¹ See *WUTC v. Canterwood Water Company, Inc.*, Docket No. UW-040651, Order Authorizing Accounting Treatment, Order No. 01 (May 26, 2004), and *WUTC v. Canterwood Water Company, Inc.*, Order Modifying Order Authorizing Accounting Treatment, Order No. 02 (January 26, 2005).

² *WUTC v. Canterwood Water Company, Inc.*, Docket No. UW-040651, Order Granting Modification, Order No. 03 (December 28, 2005).

³ *WUTC v. Canterwood Water Company, Inc.*, Docket No. UW-040651, Complaint and Order Suspending Tariff Revisions, Order No. 4 (February 22, 2006).

meet its revenue requirement by addressing the accounting order currently in effect. The current rates became effective on May 26, 2004, with the intent to reduce peak usage by some of the Company's customers. The rates implemented a steeply inverted rate design that added a third-tier conservation rate that substantially increased the monthly charge for high-usage customers. To avoid a revenue windfall if customer usage did not decrease as expected, the Commission issued an accounting order requiring the Company to place in escrow, any operating revenue exceeding its historical 2002 levels, and reclassify excess revenue as Contributions in Aid of Construction (CIAC).

2.6 Staff's review of the Company's current financial data shows that the rates currently charged do not produce excess revenue over Staff's computed revenue requirement.

2.7 Staff's review of the Company's financial data indicates that to meet the Company's current revenue requirement, the Commission should remove the requirement to reclassify excess revenue as CIAC. Discontinuing the reclassification requirement would produce approximately \$71,700 of additional annual revenue.

III. SPECIFIC TERMS

3.1 The Parties agree to an overall revenue requirement for the Company's operations of \$350,858. The parties have negotiated this revenue requirement without regard to any specific adjustments to revenue, expense, rate base items, cost of capital components, or the Company's capital structure, actual or implied.

3.2 The Parties agree that the Company's present rate design should remain in effect.

3.3 The Parties agree that, with the exception of the provisions addressed in 3.4 and 3.5 below, the Order No. 1 Authorizing Accounting Treatment of May 26, 2004, as modified by Order No. 2, be cancelled as part of this Settlement, to meet the Company's revenue requirements.

3.4 The Parties agree that the provision in Finding (8) of Order No. 1 Authorizing Accounting Treatment of May 26, 2004, as modified by Order No. 2, relating to the pro rata refund of excess funds in the CIAC sub-account, remain in effect and subject to enforcement. Canterwood proposes, and the Staff does not oppose, to memorialize the construction of the terms "refunded to all customers prorata" in the original Order No. 1 to mean a per customer credit.

3.5 The Parties further agree that authorized expenditures from the CIAC sub-account may continue to be made prior to calculation of the pro rata refund. The pro rata refund shall consist of the amount remaining in the CIAC sub-account as of December 31, 2006, and shall be refunded as a per customer credit on the next billing cycle.

IV. GENERAL TERMS

4.1 The Parties agree that this Settlement Agreement resolves the contested issues between them in this proceeding. The Parties understand that the specific terms of the Agreement do not apply unless the Commission approves them.

4.2 The Parties have entered into this Agreement voluntarily to avoid further expense, inconvenience, uncertainty, and delay of litigation.

4.3 The Parties agree that this Settlement is in the public interest and would result in rates that are fair, just, reasonable, and sufficient.

4.4 The Parties agree to cooperate in submitting this Agreement promptly to the Commission for acceptance. Each party agrees to support this Settlement, including submitting written testimony unless the obligation to submit such testimony is waived by the Commission. Each party agrees to support this Settlement throughout this proceeding and recommend that the Commission issue an order adopting the Settlement contained herein.

4.5 The Parties recognize that this Agreement represents a compromise of the positions the Parties may otherwise assert in this proceeding. 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 adopting those terms. No party shall be deemed to have agreed that this Agreement is precedent for any issues in any other proceeding, other than a proceeding for enforcement of this Agreement.

4.6 This Agreement shall not be construed against either party because it was the drafter of the Agreement.

4.7 The Parties have negotiated this Agreement as an integrated resolution of the issues. This Agreement supersedes all prior oral and written agreements on issues addressed herein. The Parties recommend the Commission adopt this Agreement in its entirety.

4.8 The Parties may execute this Agreement in counterparts and as executed shall constitute one Agreement. Copies sent by facsimile are effective as original documents.

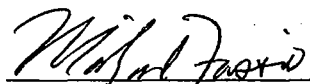
4.9 The Parties shall take all actions necessary and appropriate to carry out this Agreement.

4.10 In the event that the Commission rejects all or any portion of the Specific

Terms of this Agreement or conditions approval of the Specific Terms on material revisions to its terms and conditions, 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 10 days. In such event, neither party will be bound or prejudiced by the terms of this Agreement, and both Parties shall be entitled to seek reconsideration of the Order rejecting all or part of the Agreement.

DATED this 15th Day of June, 2006.

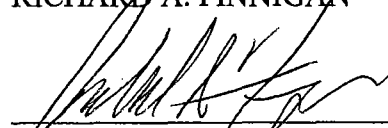
ROB MCKENNA
Attorney General



MICHAEL FASSIO
Assistant Attorney General
Counsel for the Utilities and
Transportation Commission

Date Signed: 6/15/06

LAW OFFICES OF
RICHARD A. FINNIGAN



RICHARD A. FINNIGAN
Attorney at Law
Counsel for Canterwood Water Co.

Date signed: 6/15/06