

Agenda Date: April 28, 2004
Item Number: A7

Docket: UW-040657
Company Name: Rainier View Water Company, Inc.

Staff: Danny Kermode, Regulatory Analyst

Recommendation:

Allow the tariff revision filed by Rainier View Water Company, Inc., in Docket UW-040657, to become effective May 9, 2004, with conditions.

Discussion:

On April 8, 2004, Rainier View Water Company, Inc., (Rainier View or Company) filed a revision to its current water treatment surcharge. The Company has filed a replacement page reducing the proposed surcharge from \$3.59 to \$3.29 per month or a reduction of its proposed increase from \$1.44 to \$1.14. The revised proposal would increase revenue by \$185,139 annually (4.7%) over 2003 revenues. Annual revenue for Rainier View in 2003 was \$3.9 million. The existing water treatment surcharge has been effective since September 23, 1998. Rainier View serves approximately 13,500 customers in Pierce County.

On October 2, 2002, the Tacoma-Pierce County Board of Health adopted a resolution requiring fluoridation of drinking water in Pierce County water systems that serve 5,000 or more people. The Board's resolution was challenged in court on the basis that it was unconstitutional on a number of grounds, and that it constituted an illegal tax. Pierce County Superior Court upheld the resolution on summary judgment.

In compliance with the resolution, Rainier View has undertaken the implementation of a fluoride treatment program. The program requires the installation of fluoridation equipment along with sophisticated monitoring equipment. The monitoring equipment, referred to as SCADA (Supervisory, Control, And Data Acquisition), allows remote monitoring along with a capacity to make changes to fluoridation operations according to pre-programmed constraints. The cost of the installation of the fluoridation equipment and the SCADA system is estimated at \$736,751. Rainier View has received a commitment from CoBank to finance the project costs over a 15-year period at 6%.

In addition, the Company expects to experience increased costs associated with the operation of the fluoridation system. These additional costs include chemical costs, electric, repair and maintenance costs along with additional labor costs. The costs are estimated to average approximately \$111,000 annually over the first five-year period. These costs represent new operating and maintenance costs not included in the company's current water rates.

Of the \$1.14 proposed increase, forty percent (46¢) would pay principal and interest costs of the CoBank loan. In recognition that ratepayers will pay for the costs of the fluoride related assets

through the surcharge, all surcharge revenue associated with assets will be considered contributions in aid of construction.

The remaining sixty percent of the proposed increase (68¢) would pay for the increased operations and maintenance costs. The company expects operations and maintenance costs to be highly variable during the initial startup of the fluoridation program, the five-year period allows time for the costs related to the fluoride treatment to stabilize. The Company has agreed to file a revised water treatment surcharge within five years removing all operations and maintenance costs. The Company would then have the option to file for recovery of those costs in its basic water rates in a general rate filing.

The Company's current water treatment surcharge funds the costs associated with its corrosion-control water treatment program. It also consists of both a debt service component and an embedded operations and maintenance component. The Company has agreed to remove the operations and maintenance costs related to its corrosion-control water treatment from the surcharge at the same time as the fluoride related operations and maintenance costs are removed from the surcharge.

The current and proposed rates are provided below:

	<u>Current</u>	<u>Proposed</u>
Monthly Treatment Surcharge	\$2.15	\$3.29

The Commission received 12 letters opposed and 2 letters in favor of the fluoride treatment surcharge. Where four letters indicated that their opposition was due solely to financial concerns, most cited alleged health issues associated with the use of fluoride as their reason. Staff has reviewed documents supporting the Company's proposed fluoride program including engineer costs estimates. The cost estimates when adjusted for certain regulatory ratemaking considerations are reasonable. The Company has demonstrated that the proposed rates are fair, just, and reasonable and therefore, Staff recommends the Commission allow the tariff revision filed by Rainier View Water Company, Inc., in Docket UW-040657, to become effective May 9, 2004, with conditions.