**BEFORE THE WASHINGTON STATE**

**UTILITIES AND TRANSPORTATION COMMISSION**

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| In the Matter of the Petition of  CAMANO HILLS WATER COMPANY, INC.,  Petitioner,  For Approval of a Surcharge to Service a Drinking Water State Revolving Fund Loan  . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | )  ) ) ) ) ) )  ) )  )  ) | DOCKET UW-101817  ORDER 01  ORDER APPROVING SURCHARGE |

# BACKGROUND

1. On November 8, 2010,Camano Hills Water Company, Inc. (Camano Hills or Company)filed with the Washington Utilities and Transportation Commission (Commission) a revision to its currently effective Tariff WN U-1, designated as First Revision Sheet No. 2 canceling Original Sheet No. 2; Original Sheet No. 26. The stated effective date is January 1, 2011.
2. Camano Hills filed the surcharge tariff to service a $206,881 Drinking Water State Revolving Fund (DWSRF) loan approved by the Public Works Board (PWB). Proceeds from the loan will be used for a capital improvement project on the Company’s water system. The Company serves 178 customers located in Island County.
3. The loan contract is a low-interest (1.5 percent), 20-year loan approved by the PWB on condition that, Camano Hills obtains Commission approval of rates to repay the loan and the Company opens a bank account which will receive and retain the owner’s equity payment and DWSRF surcharges paid by customers. This surcharge filing is intended to satisfy the first condition.
4. The DWSRF loan program provides low-interest loans to water systems for capital improvements that increase public health protection and compliance with drinking water regulations. The Department of Health (DOH) and the PWB jointly administer the DWSRF program. The DOH Staff evaluates all loan applications and, using a scoring method designed to measure the health risk that each project will address, assigns points to each application. The applications are ranked according to their scores.
5. The PWB Staff determines the available funding for each annual loan cycle, and the ranked project list establishes the funding priority. Projects below the funding cutoff line do not receive funding. The PWB approves the final recommended funding list each spring. PWB Staff also conducts an underwriting and readiness-to-proceed evaluation of each approved loan project.
6. DOH is responsible for evaluating and approving Water System Plans (WSP) or Small Water System Management Programs (SWSMP), which are requirements of both the DOH and DWSRF loan projects. DWSRF loan projects must be included in a WSP or SWSMP. In addition, the DOH evaluates and approves the project reports and construction documents for all DWSRF-funded loan projects.
7. Water samples from 2007 and 2008 showed that the arsenic level in the water in well No. 1 exceeded the maximum contaminant level of 10 parts per billion (ppb). The Company researched and performed an engineering review to determine the best type of treatment to reduce contaminant levels below the 10 ppb level.
8. The Company entered into a Bilateral Compliance Agreement with the DOH in 2008 to take the necessary steps to address the contamination. This project consists of constructing a building, installing water treatment equipment, an engineering pilot study, plans and approvals, modifications to existing piping and pump controls, and constructing a backwash infiltration pond.
9. In May 2009, Camano Hills applied to the PWB for a DWSRF loan. The project is included in the Company’s supplemental WSP that the DOH has reviewed. The arsenic treatment project ranked high enough to receive funding from the PWB.
10. The PWB Staff reviewed the Company’s financial information and concluded the proposed surcharge should generate sufficient funds to allow the Company to repay approximately 70 percent of the DWSRF loan from surcharge revenue and 30 percent from owner’s equity investment. Staff and the PWB Staff worked with the Company to file the proposed surcharge.
11. On November 8, 2010, Camano Hills notified its customers of the surcharge by mail. The Commission has received two customer comments on this filing. Both customers oppose the surcharge. One customer believes the surcharge should be applied to the water usage and not a flat add-on charge. The customer additionally believes that different customer classes or meter sizes should pay higher amounts for the surcharge.
12. Staff responded to these customer comments individually and in its November 8, 2010, memorandum. Staff respectfully disagreed with the customers’ opinions. The proposed surcharge will service part of the loan for a capital improvement project required by the DOH to meet Safe Drinking Water Act requirements.
13. The DOH has primary jurisdiction regarding water quality and quantity issues, including water system design, construction and maintenance, and it concluded that the proposed project is necessary for the Company to meet water quality and quantity standards.
14. Staff has reviewed the Company’s supporting financial documents, books and records, including the cost estimates for the proposed project and the terms and conditions of the DWSRF loan. Staff concludes the low-interest, long-term DWSRF loan is an excellent funding option for both the customers and the Company, and that the proposed surcharge is fair, just, reasonable and sufficient.
15. Repayment of the Company’s DWSRF loan relies on two revenue sources:

* Monthly surcharges paid by current and future customers; and
* Future equity investment by the owners.

1. To ensure that the Company has sufficient revenue to service the DWSRF loan, Staff recommends that Commission approval of the surcharge should be subject to the following conditions:
2. The surcharge applies to all water customers served by the Company. The surcharge expires on December 31, 2030, or upon recovery of $206,881 in principal, whichever occurs first.
3. Monthly payments received from customers will first be allocated to the DWSRF loan reserve account and remaining amounts will be applied to normal operating expenses.
4. The Company will, within five business days of receipt, deposit all monthly and one-time surcharge payments in the DWSRF loan reserve account specified in condition (g) below.
5. Surcharge funds will be deposited in a separate interest bearing account (if available).
6. Funds received from the surcharge, including interest earned on the funds while held in a DWSRF loan reserve account, will be treated as contributions-in-aid-of-construction (CIAC).
7. All funds received through the Company’s surcharge including any interest earned on the funds while held in DWSRF loan reserve account, will be used to pay the DWSRF loan until the surcharge expires.
8. Surcharge funds collected and interest earned upon such funds must be held in a separate DWSRF loan reserve account by the Company for the benefit of customers. Such funds do not become the property of the Company or Company owners and may not be disbursed, alienated, attached, or otherwise encumbered by the Company or its owners. In the event of a sale or transfer of the Company, the trust obligations established in WAC 480-110 regarding any unspent surcharge funds will be transferred to the new owners of the Company.
9. Each month, the owners will invest a minimum of 30 percent of the annual loan payment (approximately $300 monthly), beginning January 1, 2011, and every month thereafter, until the surcharge expires. These funds will be held in the same DWSRF loan reserve account specified in condition (g) above. Additional owner’s equity investment may be required to make the annual DWSRF loan payment, if revenue from the surcharge is inadequate.
10. The Company must report the following DWSRF loan reserve account information to the Commission within 45 days of the end of each calendar quarter:
    1. Beginning balance;
    2. Amounts received, detailed by source;
    3. Amounts spent, detailed by project or expense;
    4. Ending balance;
    5. Copy of bank statement(s) detailing loan reserve account for the quarter;
    6. Reconciliation of bank balance to general ledger.
11. After 2012, excess funds held in the DWSRF loan reserve account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the DWSRF loan. “Excess funds” means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.
12. The Company must maintain DWSRF records separate from normal daily operations, these include: revenues, expenses, assets, liabilities and equity in a manner that will allow the Company to provide a detailed breakdown, by account, in its next rate case.

# FINDINGS AND CONCLUSIONS

1. (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including water companies. RCW 80.01.040, RCW 80.04, RCW 80.08, RCW 80.12, RCW 80.16 and RCW 80.28.
2. (2) Camano Hills is a water company and a public service company subject to Commission jurisdiction.
3. (3) This matter came before the Commission at its regularly scheduled meeting on December 30, 2010.
4. (4) WAC 480-110-455 allows companies to file surcharge tariffs including that for which Camano Hills seeks approval. No company may collect a surcharge or facilities charge except by Commission order or approval.
5. (5) Staff has reviewed the tariff revisions Camano Hills filed in Docket UW-101817 including related work papers.
6. (6) The surcharge tariff in this docket is to fund a capital project required by the Department of Health as part of a Bilateral Compliance Agreement.

1. (7) The Company’s DWSRF loan repayment proposal relies on two revenue sources: monthly surcharge paid by current and future customers, and future equity investment by the owners. To ensure that the Company has sufficient revenue to service the DWSRF loan, Staff recommends that Commission approval of the surcharge should be subject to the following conditions:
2. The surcharge applies to all water customers served by the Company. The surcharge expires on December 31, 2030, or upon recovery of $206,881 in principal, whichever occurs first.
3. Monthly payments received from customers will first be allocated to the DWSRF loan reserve account and remaining amounts will be applied to normal operating expenses.
4. The Company will, within five business days of receipt, deposit all monthly and one-time surcharge payments in the DWSRF loan reserve account specified in condition (g) below.
5. Surcharge funds will be deposited in a separate interest bearing account (if available).
6. Funds received from the surcharge, including interest earned on the funds while held in a DWSRF loan reserve account, will be treated as contributions-in-aid-of-construction (CIAC).
7. All funds received through the Company’s surcharge including any interest earned on the funds while held in DWSRF loan reserve account, will be used to pay the DWSRF loan until the surcharge expires.
8. Surcharge funds collected and interest earned upon such funds must be held in a separate DWSRF loan reserve account by the Company for the benefit of customers. Such funds do not become the property of the Company or Company owners and may not be disbursed, alienated, attached, or otherwise encumbered by the Company or its owners. In the event of a sale or transfer of the Company, the trust obligations established in WAC 480-110 regarding any unspent surcharge funds will be transferred to the new owners of the Company.
9. Each month, the owners will invest a minimum of 30 percent of the annual loan payment (approximately $300 monthly), beginning January 1, 2011, and every month thereafter, until the surcharge expires. These funds will be held in the same DWSRF loan reserve account specified in condition (g) above. Additional owner’s equity investment may be required to make the annual DWSRF loan payment, if revenue from the surcharge is inadequate.
10. The Company must report the following DWSRF loan reserve account information to the Commission within 45 days of the end of each calendar quarter:
    1. Beginning balance;
    2. Amounts received, detailed by source;
    3. Amounts spent, detailed by project or expense;
    4. Ending balance;
    5. Copy of bank statement(s) detailing loan reserve account for the quarter;
    6. Reconciliation of bank balance to general ledger.
11. After 2012, excess funds held in the DWSRF loan reserve account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the DWSRF loan. “Excess funds” means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.
12. The Company must maintain DWSRF records separate from normal daily operations, these include: revenues, expenses, assets, liabilities and equity in a manner that will allow the Company to provide a detailed breakdown, by account, in its next rate case.
13. (8) After reviewing Camano Hills’stariff revisions filed in Docket UW-101817 on November 8, 2010, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the proposed surcharge should be granted, subject to conditions (a) through (k) set forth in paragraph 23 of this Order, for the following reasons:
    1. The Department of Health WAC 246-290-310 states the Company shall be responsible for complying with the standards of water quality identified in this section. This project funded by the DWSRF loan will help ensure standards of water quality and adequate water supply.
    2. The PWB provides government-funded, low-interest loans and requires an assurance of repayment. This surcharge, subject to the recommended conditions, would satisfy that condition.
    3. The DWSRF loan is necessary to allow the Company to pay for the water treatment project. The proposed surcharge will allow the Company to repay the loan by recovering 70 percent of the cost of the water treatment project from its customers. The remaining 30 percent of the cost will be provided by owners’ equity investment.

O R D E R

**THE COMMISSION ORDERS:**

1. (1) Camano Hills Water Company, Inc.’s surcharge filed on November 8, 2010, is approved to become effective January 1, 2011, subject to conditions (a) through (k) set forth in paragraph 23 of this Order.
2. (2) This Order shall not affect the Commission’s authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting a surcharge be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
3. (3) The Commission retains jurisdiction over the subject matter and Camano Hills Water Company, Inc.,to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective December 30, 2010.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner