

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Request of)	DOCKET NO. UW-051336
)	
SOUTHGATE WATER SYSTEMS, INC.)	ORDER NO. 01
)	
)	
For a Revision of its Inverted Rate Structure)	ORDER AUTHORIZING ACCOUNTING TREATMENT
.....)	

I. BACKGROUND

- 1 On September 6, 2005, Southgate Water Systems, Inc. (Southgate or Company) filed tariff sheets with this Commission. The filing seeks Commission approval of a restructured, inverted metered rate. The Company is seeking this general rate increase to recover operating and capital cost associated with providing water service.

- 2 Southgate provides water service to approximately 44 customers in Benton County. Its customers are located on a single system. The Company has in the past experienced very high water usage in summer months and desires to meet Department of Health objectives and Company objectives in curtailing water usage consistent with water conservation goals.

II. MEMORANDUM

- 3 The proposed rate design is intended to generate "Base Revenue" as follows: \$124.70 per customer for the months of May through August, and \$46.25 per customer for the months of September through April. To mitigate the uncertainty of the Company's proposed rate design, less water usage included in the base charge

and inverted block rates, staff recommended, and the Company agreed to, the following conditions:

- Revenue exceeding the “Base Revenue” amount is defined as “Excess Revenue.”
- The Company will treat all “Excess Revenue” as Contributions in Aid of Construction (CIAC), and record that in a separate CIAC sub-account.
- To adjust for fluctuations between months due to weather variances and other causes, the Company can true up the revenue received compared to the “Base Revenue” on a monthly basis. Each month, any Excess Revenue will be added to an escrow account whereas any reduction of revenue below the base month will be removed from an escrow account with the corresponding entry to CIAC.
- Example: In month one there is excess revenue of \$1,000 over the “Base Revenue” and in the next two months there is a net negative amount in each month of \$200. In month one, \$1,000 would be added to the escrow account. In each of the two following months, the Company would be allowed to remove \$200 from the escrow account, with the corresponding entry to CIAC.

Month one - \$1,000

Month two - <\$200>

Month three - <\$200>

Net CIAC \$600 remaining in escrow

- Any net positive CIAC amounts following true up will be used only for conservation efforts to include educational materials provided to customers, conservation equipment provided to customers and additional source and capacity to serve customers.

- The Company will be required to provide quarterly reports to the Commission providing details on the excess revenue account balance.
 - After rates have been in effect for twelve months, the Company will file revised rates, using actual usage data, that are designed to generate the “Base Revenue.”
 - A final true up for all periods prior to the revised rates going into effect shall be accomplished, with any net positive amount used only for conservation efforts to include educational materials provided to customers, conservation equipment provided to customers and additional source and capacity to serve customers.
 - All excess revenue that has not been spent by July 1, 2007, will be refunded to customers.
- 4 The Company agrees that it will deposit the Excess Revenue monthly into a separate reserve account by the end of the month in which the payment is due. In addition, the Company will receive written approval from the Commission Secretary before making any disbursements of funds from the separate reserve account, excluding any true up disbursement amounts.

III. FINDINGS AND CONCLUSIONS

- 5 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service rules, regulations, practices, accounts, securities, and transfers of public service companies, including water companies. *RCW 80.01.040; Chapter 80.04 RCW; and Chapter 80.28 RCW.*

- 6 (2) Southgate is a water company and is a public service company subject to the jurisdiction of the Commission.
- 7 (3) On September 6, 2005, Southgate filed a set of proposed tariff revisions seeking approval of a revised inverted rate structure and accounting for the funds generated by that revised structure.
- 8 (4) The accounting treatment proposed for the funds is to treat any net positive balance compared to "Base Revenue" of the corresponding billing period(s) for the year 2004 as Contributions in Aid of Construction, to be used only for conservation efforts to include educational materials provided to customers, conservation equipment provided to customers and additional source and capacity to serve customers.
- 9 (5) The Company would true up the revenues received on a monthly and annual basis.
- 10 (6) The Company will re-file rates to ensure its inverted rate structure was revenue neutral using data gathered over twelve months of billing under the new inverted rate structure.
- 11 (7) The accounting treatment and true up mechanisms are reasonable and should be approved.
- 12 (8) Taking into account the size of this Company and the need to protect the customers and the Company during the course of this proposed interim inverted rate structure, the Company should be required to file reports with the Commission Staff showing the detail of actual revenues received and operating costs compared to the "Base Revenue" and expected operating costs. The reports should be submitted to Commission Staff within fifteen days of the date of the end of each calendar quarter.

- 13 (9) All funds deposited in the CIAC sub-account will be considered a regulatory liability until spent. If the CIAC sub-account has a positive balance after July 1, 2007, the Company will refund the balance to customers by bill credit beginning with the next billing cycle. If the CIAC sub-account has a negative balance, no recovery is authorized by this order.

IV. ORDER

THE COMMISSION ORDERS:

- 14 (1) The accounting treatment recommended by Staff, and agreed to by Southgate Water Systems, Inc., is authorized as described above in paragraphs 3 and 4 of this Order.
- 15 (2) Southgate Water Systems, Inc., shall file reports with commission staff as described in paragraph 12 of this Order.
- 16 (3) Southgate Water Systems, Inc., shall file a revised tariff by February 28, 2007.
- 17 (4) This Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 18 (5) The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 28th day of December, 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK H. SIDRAN, Chairman

PATRICK J. OSHIE, Commissioner