

Agenda Date: May 21, 2020  
Item Number: A6

**Docket:** UW-200397  
Company Name: Deer Meadows Water Company, Incorporated

Staff: Benjamin Sharbono, Regulatory Analyst  
John Cupp, Consumer Protection Staff

### **Recommendation**

Issue an Order allowing the surcharge filed April 30, 2020, by Deer Meadows Water Company, Incorporated, to become effective June 1, 2020, subject to conditions outlined in staff's memo.

For ease of reference these conditions are:

- (a) The surcharge must apply to all water customers served by the company and expire on November 30, 2020, or upon recovery of \$33,139, whichever comes first.
- (b) The company must treat funds received from the surcharge, including interest earned on the funds, as contributions-in-aid-of-construction (CIAC).
- (c) The company will remit funds received from the Surcharge funds to creditors monthly to payoff debts.
- (d) The company must report the following information to the commission within 60 days of the end of each calendar quarter per WAC 480-110-455(4):
  - i. Beginning balance;
  - ii. Amounts received, detailed by source;
  - iii. Amounts spent, detailed by expense;
  - iv. Ending balance; and,
  - v. Reconciliation of the bank balance to general ledger.
- (e) The company must provide documentation to the commission showing debts are fully paid at the end of the six-month period.

### **Discussion**

On April 30, 2020, Deer Meadows Water Company, Incorporated, (Deer Meadows or company) filed with the Washington Utilities and Transportation Commission (commission) a request for a

Surcharge rate. The proposed surcharge generates approximately \$33,139 (19.1 percent) additional revenue during its collection period.

Deer Meadows is seeking to recover through a surcharge the cost to replace a failed pump that is critical in the operation of the water system. The company serves approximately 369 customers in Lincoln County. Deer Meadows' last general rate increase was effective June 21, 2016, for \$3,875 (2.8 percent) additional annual revenue.<sup>1</sup>

In providing pre-filing assistance to the company, commission staff (staff) proposed allowing the company to recover 100 percent of the expense through a surcharge for emergency repairs. Staff's proposal of full recovery focuses on ensuring the company owners are able to cover future repairs on an aging system while not unreasonably increasing customer charges over a long period..

The revenue requirement increase of \$33,139 includes capital of \$31,495 that was incurred for the emergency replacement of a pump and \$1,644 in taxes and fees associated with revenue generated by the surcharge. The company stated in a survey letter sent to customers it is willing to forfeit collecting interest incurred if allowed to collect the surcharge over a six-month period.

As part of the review, staff requested and received copies of the invoices related to the repairs, copies of the credit card statement showing payment, and documents detailing the loan from an owner to the company. Staff found the information sufficient to determine the costs associated with the repair.

Invoices provided to staff show the original 100-horsepower pump had sustained damage and was "outdated and not rebuildable." The company replaced the pump with a 75-horsepower pump. The company also installed a "Franklin Submonitor," a device used to prevent damage to pumps.<sup>2</sup>

Staff determined through interviews with the equipment contractor and company owner, that the failure of the original pump was unexpected and it's failure limited the company's ability to provide water service to its customers. Therefore, staff concludes that the pump's failure constituted an emergency that required its immediate replacement. WAC 480-110-455(2)(iii) allows surcharges to be implemented for extraordinary maintenance expenses, and the company has requested a surcharge rather than a general rate filing. Surcharges are subject to accounting

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<sup>1</sup> See memo in Docket [UW-160502](#)

<sup>2</sup> See <https://franklinwater.com/media/116303/M1470-SubMonitor-Data-Sheet-0212-WEB.pdf>. The device model on the invoice is not specified. Link shows Franklin Submonitor for up to 200 horsepower pump.

and reporting requirements under WAC 480-110-455(4) and staff recommends the commission place the following conditions on the surcharge filed by Deer Meadows:

- (a) The surcharge must apply to all water customers served by the company and expire on November 30, 2020, or upon recovery of \$33,139 whichever comes first.
- (b) The company must treat funds received from the surcharge, including interest earned on the funds, as contributions-in-aid-of-construction (CIAC).
- (c) The company will remit funds received from the Surcharge funds to creditors monthly to payoff debts.
- (d) The company must report the following information to the commission within 60 days of the end of each calendar quarter per WAC 480-110-455(4):
  - vi. Beginning balance;
  - vii. Amounts received, detailed by source;
  - viii. Amounts spent, detailed by expense;
  - ix. Ending balance; and,
  - x. Reconciliation of the bank balance to general ledger.
- (e) The company must provide documentation to the commission showing debts are fully paid at the end of the six-month period.

**Rate Comparison**

Service	Current Rate	Proposed Rate	Percent increase
Well Surcharge	NA	\$14.97 */**	100.0%
Monthly Bill***	\$38.17	\$38.17	0.0%
<b>Total</b>	<b>\$38.17</b>	<b>\$53.14</b>	<b>39.2%</b>

\* The surcharge will expire on the earlier of the collection of \$33,139 or November 30, 2020.

\*\* Customers may choose to make a one-time payment of \$89.81.

\*\*\* Monthly Bill from UW-160502 Memo Average Bill Comparison.

**Customer Comments**

On April 22, 2020, the company notified its customers by mail of the proposed surcharge. Customers were notified that they may access relevant documents about this surcharge on the

commission's website, and that they may contact John Cupp at 1-888-333-9882 or john.cupp@utc.wa.gov with questions or concerns. Staff received six consumer comments regarding opposed to the surcharge.

### **General Comments**

Four customers feel it was irresponsible of the company to not have a reserve fund set aside for projects like this. Several customers feel the rates are already too high and they should not have to pay an additional surcharge.

### **Staff Response**

Staff explained that reserve funds are not allowed. Staff also explained that if a surcharge is allowed by the commission, the money will be deposited into an account in which the company will have to report the balance, amounts received, amounts spent, and other information.

Staff informed customers that state law requires rates to be fair, just, reasonable, and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Customers were also told that commission staff performs a thorough review of rate filings to ensure all rates and fees are appropriate.

### **Conclusion**

Commission staff has completed its review of the company's supporting financial documents, books, and records and determined that the expenses are reasonable and required as part of the company's operation. The company's financial information supports the revenue requirement and the proposed surcharge.

### **Recommendation**

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