

REVISED

Agenda Date: May 26, 2004

Item Number: A1

Docket: UW-040651

Company Name: Canterwood Water Company, Inc.

Staff: Danny Kermode, Regulatory Analyst

Recommendation:

Issue an *Order Authorizing Accounting Treatment* and allow the Tariff Revisions filed by Canterwood Water Company, Inc., in Docket UW-040651 to become effective May 27, 2004.

Discussion:

On April 7, 2004, Canterwood Water Company, Inc., (Canterwood or Company) filed to change several charges and to implement new charges. The Company serves approximately 600 residential customers in Pierce County near Gig Harbor.

The filing clarifies the company's rules on discontinuance of service, broadens the rules on Cross Connection Control with includes new charges for premises inspections and adds a new rule on unauthorized use of service. The Company has increased its ancillary charges to reflect an increase in its contracted labor costs.

The most significant portion of the filing is the Company's proposal to restructure its inverted rates to affect water consumption of its high usage customers. The Company proposes an increase in the commodity charge for usage over 4,000 cubic feet by \$2.00 (133 percent) per 100 cubic feet. Based upon historical usage data and assuming no elasticity, the average water bill for customers using 4,000 cubic feet or more will increase 76 percent, however, some customers may see increases up to 127 percent. The proposed change in its rate structure would produce a 25% increase in revenue, again assuming no elasticity, of approximately \$66,000 over current revenue levels. (See Appendix A for a summary of the proposed changes.)

The Company expects that with the significant increase in the commodity charge, water usage will decrease. However, Staff believes it is not clear to what degree, if any, customer water usage will change. Customers have discussed with Staff their concern that the Company may have a windfall if the proposed rates become effective and water usage is not reduced to the degree the company expects or if there is a reduction, the reduction will be short-lived. In response to customer and Staff concerns, the Company And Staff have agreed on a method that would track revenues generated by the new rate structure on a monthly basis. The revenue amounts exceeding 2002 revenue levels would be placed in escrow monthly and trued up each quarter. The money remaining in escrow would be used to increase source and supply capacities of the water system. The excess funds would be considered Contributions in Aid of Construction and would be used in the benefit of the rate payers by increasing the company's capacity to provide water. Funds would be expended from the account only after Commission approval.

As part of the agreement, Canterwood must file revised rates no later than December 31, 2005. In addition, if the funds collected are not expended on capital projects by December 31, 2006, the Company will refund the unspent funds to its customers as a credit to their bills.

Therefore, Staff recommends that the Commission issue an *Order Authorizing Accounting Treatment* and, allow the Tariff Revisions filed by Canterwood Water Company, Inc., in Docket UW-040651 to become effective May 27, 2004.

- Appendix A -

<u>Metered Rate Service</u>	<u>Current</u>	<u>Monthly Meter Rate Proposed</u>	<u>Monthly Meter Rate Change</u>	<u>Proposed Change</u>	<u>Percent Change</u>
<u>Base Rate - zero allowance:</u>					
3/4 inch meter Existing	\$ 16.70	\$ 16.50	(0.20)	(1.2%)	decr.
1 inch meter	\$ 28.39	\$ 28.05	(0.34)	(1.2%)	decr
1.5 inch meter	\$ 55.11	\$ 54.45	(0.66)	(1.2%)	decr
2 inch meter	\$ 88.51	\$ 87.45	(1.06)	(1.2%)	decr
3 inch meter	\$ 167.00	\$ 165.00	(2.00)	(1.2%)	decr
<u>Usage Rate (per 100 cubic feet)</u>					
0 to 1,000 cubic feet	\$ 0.75	\$ 0.75	(0.00)	0%	
1,001 to 1,500 cubic feet	\$ 1.00	\$ 0.75	(0.25)	(25%)	decr
1,501 to 2,000 cubic feet	\$ 1.00	\$ 1.25	0.25	25%	incr.
2001 to 4,000 cubic feet	\$ 1.25	\$ 1.25	(0.00)	0%	
Over 4,000 cubic feet	\$ 1.50	\$ 3.50	2.00	133%	incr.
(Average usage: 2,399 cubic feet/mo.)					

<u>Ancillary Charges</u>	<u>Current</u>	<u>Proposed</u>
Reconnection	\$ 35.00	\$ 42.50
Disconnect Visit	\$ 35.00	\$ 42.50
Service Visit	\$ 30.00	\$ 53.50
Certificate of Water Availability	\$ 70.00	\$ 210.00*
*Includes cost of required fire hydrant flow test.		
Cross Connection Control Inspection	\$ 0.00	\$ 85.00 per hour