



**STATE OF WASHINGTON**  
**UTILITIES AND TRANSPORTATION COMMISSION**  
*1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250*  
*(360) 664-1160 • [www.utc.wa.gov](http://www.utc.wa.gov)*

September 19, 2014

**NOTICE OF OPPORTUNITY TO FILE WRITTEN COMMENTS**  
**(By Friday, October 24, 2014)**  
**and**  
**NOTICE OF WORKSHOP**  
**(Set for Friday, November 21, 2014, at 9:30 a.m.)**

Re: Rulemaking to Consider Adoption of Rules Relating to Water Companies, Docket UW-143295

TO ALL INTERESTED PERSONS:

On September 17, 2014, the Washington Utilities and Transportation Commission (Commission) filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to consider adoption of rules within WAC 480-110 to improve the financial and management capacity of water companies, provide incentives for companies to make appropriate investments and for viable companies or public entities to acquire struggling water systems that have the potential to be stabilized and improved through consolidation and investment. The Commission filed the CR-101 under Docket UW-143295.

The CR-101, as filed with the Code Reviser, is available for inspection on the Commission's website at <http://www.utc.wa.gov/143295>. If you are unable to access the Commission's web page and would like a copy of the CR-101 mailed to you, please contact the Records Center at (360) 664-1234.

The Commission regulates private water companies operating within Washington State that have 100 or more connections or if the utility charges more than \$557 a year per customer. The Commission currently regulates 70 private water companies ranging from those serving only 7 customers to those with over 17,000 customers. The majority of regulated companies (56 percent) are small water systems with fewer than 200 customers. These companies find it extremely difficult to generate sufficient revenue or raise enough

capital to make and maintain capital improvements in the systems, comply with safe drinking water standards and be financially and managerially viable.

The standard method for regulating the rates of utilities – rate base, rate-of-return regulation – does not appear to create sufficient financial incentives for small water companies to invest in the water system. With little equity (investor funds) available for investment, the companies tend to choose to pay for system improvements either through debt (which is difficult to finance when there is no equity to serve as collateral) or through customer surcharges. In some cases, the debt is acquired through government loan programs, which leaves the taxpayer at risk. If customers pay for the infrastructure through surcharges, there is a risk that the owners of the company will receive a windfall profit if they sell the water system, as the owners did not actually invest in the infrastructure.

To address the problem of under-investment by companies in their water systems, the Commission is interested in developing rules to establish financial and managerial standards. The standards would give both the agency and the companies a clear understanding of what is required to own and operate a financially and managerially sound water company. The Commission is also interested in developing regulatory incentives for companies to make equity investments in their water systems and for viable companies or public entities to acquire struggling water systems that have the potential to be stabilized and improved through consolidation and investment.

The Commission is seeking written comments from interested persons related to rules to enhance the financial and management capacity of water companies and encourage equity investment in the water systems. While the Commission does not want to unduly limit comments, responses to the following questions would be most helpful:

1. What are your primary sources of funding for addressing:
  - a. Regular system operation and maintenance?
  - b. Emergency repairs?
  - c. System equipment replacement, improvement or expansion?
  - d. System equipment investment to comply with state or federal water quality requirements?
2. The Commission is interested in encouraging equity investment in water systems, in combination with obtaining loans or using customer monies (surcharges or facility charges) to finance plant repairs, replacements or improvements. What changes in Commission rules, policies or practices would encourage you to invest your own funds as equity, or encourage other investors to invest equity in your company? What are the current barriers to making investments in your system?
3. In setting the tariff rates of other regulated utilities, the Commission considers the ratio of equity (owner investment) to debt (loans) capital for funding the rate base

- on which the company can earn a return. For water companies, the Commission has required owner investment as a condition of approving tariff changes to pay for State Revolving Fund loans, with a goal of achieving 30 percent equity investment in the projects being financed. In some cases, the investment has been made immediately, in other cases following a long-term annual investment plan. The Commission would appreciate comments on that policy, and the impact of extending that policy to general rate cases.
4. Commission regulations allow companies to build a reserve or surcharge account using customer contributions in aid of construction, customer surcharges or facility charges. The agency has found in some cases that the reserve accounts do not have sufficient safeguards to ensure the money is used for the intended purpose. What are your views on requiring reserve or surcharge funds to be placed in a trust account, escrow account, lock box or protected by surety bonds, to reduce opportunities for misuse or embezzlement?
  5. What changes in Commission rules, policies or practices would encourage your company to expand your customer base or acquire other water systems or water companies to take advantage of economies of scale? What changes would you recommend to facilitate recovery of costs in acquiring and rehabilitating water systems?
  6. Does your company currently operate or manage water systems for another company or water utility? If so, how many? If not, is your company operated or managed by another company or water utility?
  7. ***For companies not currently regulated by the Commission:*** What effect, if any, does coming under Commission regulation have on your willingness to make system improvements, acquire additional water systems, or expand your company's customer base?

The Commission invites initial written comments on these and other issues related to developing rules to improve the financial and management capacity of water companies, provide incentives for companies to make appropriate investments and for viable companies to acquire struggling water systems that have the potential to be stabilized and improved through consolidation and investment. The Commission will conduct a workshop on November 21, 2014, to address these issues.

## **WRITTEN COMMENTS**

Written comments on the CR-101 inquiry must be filed with the Commission no later than **5:00 p.m., Friday, October 24, 2014**. The Commission requests that comments be provided in electronic format to enhance public access, for ease of providing comments, to reduce the need for paper copies, and to facilitate quotations from the comments. You may submit comments via the Commission's Web portal at [www.utc.wa.gov/e-filing](http://www.utc.wa.gov/e-filing) or

by electronic mail to the Commission's Records Center at [records@utc.wa.gov](mailto:records@utc.wa.gov). Please include:

- The docket numbers of this proceeding (Docket UW-143295).
- The commenting party's name.
- The title and date of the comment or comments.

An alternative method for submitting comments is mailing or delivering an electronic copy to the Commission's Records Center on a flash drive, compact disk, or 3 ½ inch, IBM-formatted, high-density disk, in .pdf Adobe Acrobat format or in Word 97 or later format. Include all of the information requested above. The Commission will post on its web site all comments that are provided in electronic format. The web site is located at <http://www.utc.wa.gov/143295>.

If you are unable to file your comments electronically the Commission will accept a paper document. If you have questions regarding this rulemaking, you may contact staff lead, Chris Rose, at (360) 664-1303, or by email at [crose@utc.wa.gov](mailto:crose@utc.wa.gov).

## STAKEHOLDER WORKSHOP

In addition to filing written comments, interested persons are invited to attend a stakeholder workshop on **Friday, November 21, 2014, beginning at 9:30 a.m., in Room 206, Richard Hemstad Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington**. At the workshop, Commission staff will review and discuss comments with the stakeholders.

Stakeholders will have further opportunity for comment. Information about the schedule and other aspects of the rulemaking, including comments, will be posted on the Commission's website as it becomes available. If you wish to receive further information on this rulemaking you may:

- Call the Commission's Records Center at (360) 664-1234
- Email the Commission at [records@utc.wa.gov](mailto:records@utc.wa.gov)
- Mail written comments to the address below

When contacting the Commission, please refer to Docket UW-143295 to ensure that you are placed on the appropriate service list. The Commission's mailing address is:

Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive S.W.  
P.O. Box 47250  
Olympia, WA 98504-7250

**NOTICE**

**If you do not want to comment now, but do want to receive future information about this rulemaking, please notify the Executive Director and Secretary in one of the ways described above and ask to be included on the mailing list for Docket UW-143295. If you do not do this, you might not receive further information about this rulemaking.**

STEVEN V. KING  
Executive Director and Secretary