

Agenda Date: April 25, 2013
Item Number: A3

Docket: UW-130400
Company Name: Lehman Enterprises, Inc.

Staff: Jim Ward, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

Take no action, thereby allowing the revised rates and tariff revisions filed by Lehman Enterprises, Inc., on April 17, 2013, to become effective on May 1, 2013, by operation of law.

Discussion

On March 19, 2013, Lehman Enterprises, Inc. (company), filed with the Utilities and Transportation Commission (commission) a tariff revision that would increase rates and generate \$116,420 (47.1 percent) additional annual revenue. The proposed increase was prompted by increased costs for labor, testing, insurance and operations. The company serves 861 customers on ten water systems located in Island County. The proposed effective date is May 1, 2013. The company's last rate increase was effective on November 15, 2003.

Staff's review of the filing resulted in several adjustments. Staff removed an expense for Contractual Engineering that was actually a refund of a developer advance for construction. The company removed one-time repairs that staff added to assets because the items were additional capital plant. Staff also added depreciation to recognize capital expenses.

The company agreed with staff's adjustments and on April 17, 2013, the company filed revised rates at staff-recommended levels. The revised tariff revision would increase rates and generate \$63,649 (25.8 percent) additional annual revenue.

The company's current ready to serve and un-metered charges are artificially low. Both of these charges have been adjusted to reflect current rate design standards and billing practices. Also, the company proposes to change its rate design from five usage blocks to three usage blocks. With the average usage of 563 cubic feet per month, most customers should only cross into the higher second usage block during the summer months. See the Rate Comparison Table for more detail on rate design and usage blocks.

Customer Comments

On March 19, 2013, the company notified its customers of the proposed rate increase by mail. Staff received seven consumer comments, all opposed to the proposed rate increase. The customers were notified that documents related the proposed rate increase are available on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or jcupp@utc.wa.gov with questions or concerns.

Service Quality

- One customer believes the company should not be allowed to increase its rates because it cannot provide water during a power outage.

Staff Response

Staff explained that the company is not required to provide a generator, but customers may petition the company, and the company may allow customers to vote on a case-by-case basis on whether or not they want to pay to have a generator on their water system.

- One customer stated that the quality of his water is poor.

Staff response

Staff explained that water quality is regulated by the Washington Department of Health, and provided the agency's contact information.

Business Practices

- One customer believes the company should not be allowed to increase its rates because it does not provide fire hydrants.

Staff Response

Lehman Enterprises, Inc., operates ten water systems. The company explained that the Washington Department of Health requires fire hydrants on four of those systems, and hydrants are installed as required. Hydrants are not required on the other six systems.

General Comments

- All commenters believe the amount of the proposed increase is excessive.

Staff Response

Customers were advised that state law requires rates to be fair, just, and reasonable, while also allowing the company to recover reasonable operating expenses and earn a reasonable return on its investment. Regulatory staff reviews filings to ensure that all rates and fees are appropriate.

- One customer believes the open meeting for this case should be held on Whidbey Island.

Staff Response

Staff explained that this would be impractical because of the number of cases the commission handles at open meetings every year, for issues all over the state. Staff also explained how to attend an open meeting by telephone.

Current, proposed and revised rates are shown below for the general rate increase.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Ready to Serve Charge	\$5.00	\$17.50	\$17.50
Un-Metered Charge	\$17.50	\$32.50	\$26.75
Meter Base Charge	\$17.50	\$17.50	\$17.50
0 – 500 Cubic Feet	\$0.50*	\$1.50*	\$0.75*
501 – 1,000 Cubic Feet	\$1.00*	NA	NA
1,001 – 1,500 Cubic Feet	\$1.20*	NA	NA
501 – 1,499 Cubic Feet	NA	\$2.75*	\$1.80*
Over 1,500 Cubic Feet	NA	\$5.50*	\$4.00*
1,501 – 2,000 Cubic Feet	\$2.00*	NA	NA
2,001 – 3,000 Cubic Feet	\$2.50*	NA	NA
Over 3,000 Cubic Feet	\$3.00*	NA	NA

*All rates listed per 100 cubic feet and charged per cubic foot.
 All rates and charges subject to state utility tax.

Using the company’s proposed rates, an average customer would pay \$6.41 (29.6 percent) more than the current rates (see “Average Bill Comparison” table below). Using the revised rates, an average customer would pay \$1.84 (8.5 percent) more than current rates (see “Average Bill Comparison” table below). Current, proposed and revised average bills are shown below for comparison. Currently the company bills bi-monthly.

Average Monthly Bill Comparison

Average Monthly Usage 563 Cubic Feet	Current Rate	Proposed Rate	Revised Rate
Base Rate	\$17.50	\$17.50	\$17.50
0 – 500 Cubic Feet	\$2.50	\$7.50	\$3.75
501 – 563 Cubic Feet	\$0.63	\$1.73	\$1.13
Sub Total	\$20.63	\$26.73	\$22.38
State Utility Tax	\$1.04	\$1.34	\$1.13
Average Monthly Bill	\$21.67	\$28.08	\$23.51
Increase From Current Rates		\$6.41	\$1.84
		29.6%	8.5%

Conclusion

Commission staff has completed its review of the company’s supporting financial documents, books and records. Staff’s review of the filing shows that the revised expenses are reasonable and required as part of the company’s operation. The customers’ comments do not change staff’s

opinion that the company's financial information supports the revised revenue requirement, and the revised rates and charges are fair, just, reasonable and sufficient.

Staff recommends that the commission take no action, thereby allowing the revised rates and tariff revisions filed by Lehman Enterprises, Inc., on April 17, 2013, to become effective on May 1, 2013, by operation of law.