

Agenda Date: December 30, 2010  
Item Number: A8

**Docket:** **UW-101817**  
Company Name: Camano Hills Water Company

Staff: Jim Ward, Regulatory Analyst  
Dennis Shutler, Consumer Protection Staff

### **Recommendation**

Issue an order approving the surcharge filed by the Camano Hills Water Company on November 8, 2010, to become effective January 1, 2011, subject to conditions set forth below.

### **Background**

On November 8, 2010, Camano Hills Water Company, Inc. (Camano Hills or company) filed with the Utilities and Transportation Commission (commission) a tariff revision that would generate \$8,843 (8.3 percent) additional annual revenue. The company proposes to implement a Capital Improvement Surcharge of \$4.14 per month for all customers. The company serves 178 customers located in Island County. The company's last general rate increase was February 12, 2010.

Camano Hills filed the surcharge tariff to service 70 percent of a \$206,881 Drinking Water State Revolving Fund (DWSRF) loan approved by the Public Works Board (PWB). Proceeds from the loan will be used for a capital improvement project on the Company's water system.

The loan contract is a low-interest (1.5 percent), 20-year loan approved by the PWB on condition that Camano Hills obtains commission approval of rates to repay the loan and the company opens a bank account which will receive and retain the owner's equity payment and DWSRF surcharges paid by customers. This surcharge filing is intended to satisfy the first condition.

The DWSRF loan program provides low-interest loans to water systems for capital improvements that increase public health protection and compliance with drinking water regulations. The Department of Health (DOH) and the PWB jointly administer the DWSRF program. The DOH staff evaluates all loan applications and, using a scoring method designed to measure the health risk that each project will address, assigns points to each application. The applications are ranked according to their scores.

The PWB Staff determines the available funding for each annual loan cycle, and the ranked project list establishes the funding priority. Projects below the funding cutoff line do not receive funding. The PWB approves the final recommended funding list each spring. PWB Staff also conducts an underwriting and readiness-to-proceed evaluation of each approved loan project.

DOH is responsible for evaluating and approving Water System Plans (WSP) or Small Water System Management Programs (SWSMP), which are requirements of both the DOH and DWSRF loan projects. DWSRF loan projects must be included in a WSP or SWSMP. In

addition, the DOH evaluates and approves the project reports and construction documents for all DWSRF-funded loan projects.

Water samples from 2007 and 2008 showed that the arsenic level in the water in well No. 1 exceeded the maximum contaminant level of 10 parts per billion (ppb). The company researched and performed an engineering review to determine the best type of treatment to reduce contaminant levels below the 10 ppb level.

The company entered into a Bilateral Compliance Agreement with the DOH in 2008 to take the necessary steps to address the contamination. This project consists of constructing a building, installing water treatment equipment, an engineering pilot study, plans and approvals, modifications to existing piping and pump controls, and constructing a backwash infiltration pond.

In May 2009, Camano Hills applied to the PWB for a DWSRF loan. The project is included in the company's supplemental WSP that the DOH has reviewed. The arsenic treatment project ranked high enough to receive funding from the PWB.

The PWB Staff reviewed the company's financial information and concluded the proposed surcharge should generate sufficient funds to allow the company to repay approximately 70 percent of the DWSRF loan from surcharge revenue and 30 percent from owner's equity investment. Staff and the PWB Staff worked with the company to file the proposed surcharge.

The DOH has primary jurisdiction regarding water quality and quantity issues, including water system design, construction and maintenance, and it concluded that the proposed project is necessary for the company to meet water quality and quantity standards.

Staff has reviewed the company's supporting financial documents, books and records, including the cost estimates for the proposed project and the terms and conditions of the DWSRF loan. Staff concludes the low-interest, long-term DWSRF loan is an excellent funding option for both the customers and the company, and that the proposed surcharge is fair, just, reasonable and sufficient.

Repayment of the company's DWSRF loan relies on two revenue sources:

- Monthly surcharges paid by current and future customers; and
- Future equity investment by the owners.

To ensure that the company has sufficient revenue to service the DWSRF loan, staff recommends that commission approval of the surcharge should be subject to the following conditions:

- a) The surcharge applies to all water customers served by the company. The surcharge expires on December 31, 2030, or upon recovery of \$206,881 in principal, whichever occurs first.

- b) Monthly payments received from customers will first be allocated to the DWSRF loan reserve account and remaining amounts will be applied to normal operating expenses.
- c) The company will, within five business days of receipt, deposit all monthly and one-time surcharge payments in the DWSRF loan reserve account specified in condition (g) below.
- d) Surcharge funds will be deposited in a separate interest bearing account (if available).
- e) Funds received from the surcharge, including interest earned on the funds while held in a DWSRF loan reserve account, will be treated as contributions-in-aid-of – construction (CIAC).
- f) All funds received through the company's surcharge, including any interest earned on the funds while held in DWSRF loan reserve account, will be used to pay the DWSRF loan until the surcharge expires.
- g) Surcharge funds collected and interest earned upon such funds must be held in a separate DWSRF loan reserve account by the company for the benefit of customers. Such funds do not become the property of the company or company owners and may not be disbursed, alienated, attached, or otherwise encumbered by the company or its owners. In the event of a sale or transfer of the company, the trust obligations established in WAC 480-110 regarding any unspent surcharge funds will be transferred to the new owners of the company.
- h) Each month, the owners will invest a minimum of 30 percent of the annual loan payment (approximately \$300 monthly), beginning January 1, 2011, and every month thereafter, until the surcharge expires. These funds will be held in the same DWSRF loan reserve account specified in condition (g) above. Additional owner's equity investment may be required to make the annual DWSRF loan payment, if revenue from the surcharge is inadequate.
- i) The company must report the following DWSRF loan reserve account information to the commission within 45 days of the end of each calendar quarter:
  - i. Beginning balance;
  - ii. Amounts received, detailed by source;
  - iii. Amounts spent, detailed by project or expense;
  - iv. Ending balance;
  - v. Copy of bank statement(s) detailing loan reserve account for the quarter;
  - vi. Reconciliation of bank balance to general ledger.
- j) After 2012, excess funds held in the DWSRF loan reserve account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the

DWSRF loan. "Excess funds" means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.

- k) The company must maintain DWSRF records separate from normal daily operations, these include: revenues, expenses, assets, liabilities and equity in a manner that will allow the company to provide a detailed breakdown, by account, in its next rate case.

### **Customer Comments**

On November 8, 2010, the company notified its customers of the proposed rate increase by mail. Two customer comments have been received to date. Both customers are opposed to the proposed increase.

Consumer Protection staff advised customers that they may access company documents pertinent to this rate case [www.utc.wa.gov/water](http://www.utc.wa.gov/water), and that they may contact Dennis Shutler at 1-888-333-9882 with questions or concerns.

### **Filing Documents and Methodology**

- One customer believes the capital improvement surcharge should differ between residential and commercial customers, and that it should be based on usage.

#### **Staff Response**

To ensure the company has adequate funds to make the annual loan payment, the company proposes to charge all customers equally by applying a flat charge per month.

### **General Comment**

- One customer believes he should not have to pay for the improvements necessary to treat arsenic in the water.

#### **Staff Response**

The Department of Health has required the company to treat the water to remove arsenic. This capital improvement cost is proposed to be recovered by the company from all customers and equity investment.

The SRF surcharge will expire December 31, 2030, or upon recovery of \$206,881 loan principal plus interest charges and state excise taxes, whichever occurs first. Customers may make a one-time payment (within 90 days of effective date) of \$813.57 per customer and save interest costs.

### **Rate Comparison**

<b>Monthly Rate</b>	<b>Current Rate</b>	<b>Proposed Rate</b>
SRF Surcharge (Each Customer)	NA	\$4.14

**Average Monthly Bill Comparison**

Average Monthly Usage 849 cubic feet **	Current Rate	Proposed Rate
Base Charge – zero Allowance	\$23.00	\$23.00
849 cubic feet water usage	\$28.02	\$28.02
Average Monthly Bill	\$51.02	\$51.02
SRF Surcharge	NA	\$4.14
Average Monthly Bill	\$51.02	\$55.16
Increase From Current Rates		8.1%

\*\* General Rate Case UW-091751 February 12, 2010.

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review shows that the proposed filing is reasonable and required as part of the company's operations. The customer's comments do not change staff's opinion that the company's financial information support the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

**Conclusion**

Issue an order approving the surcharge filed by the Camano Hills Water Company on November 8, 2010, to become effective January 1, 2011, subject to conditions set forth above.