

Agenda Date: March 24, 2011  
Item Numbers: A4 and A5

Dockets: UW-110436, UW-101543  
Company Name: Olympic Water and Sewer, Inc.

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

### **Recommendations**

1. Issue an order in Docket UW-110436, filed March 7, 2011, authorizing Olympic Water and Sewer, Inc., to defer amounts associated with drilling Well No. 17, and the investigation and remediation of soil contamination discovered while drilling Well No. 17, all into account 186, Miscellaneous Deferred Debits, subject to conditions set forth below.
2. Dismiss the Complaint and Order Suspending the Tariff Revision in Docket UW-101543 filed by Olympic Water and Sewer, Inc., on September 15, 2010, and allow Olympic Water and Sewer, Inc., to withdraw the tariff revision filed in Docket UW-101543.

### **Discussion**

On September 15, 2010, Olympic Water and Sewer, Inc. (Olympic or company), filed a tariff revision to its currently effective tariff that would generate \$182,097 (25 percent) in additional annual revenue. The stated effective date was October 20, 2010. According to the company, the filing was prompted by increases in operating costs including repair and maintenance, water rights and administrative services. The tariff revision proposed to increase the metered usage block rates and introduce a third meter usage block. The company serves 1,623 connections on a single water system located near Port Ludlow in Jefferson County. The company's last rate increase was effective May 22, 2008.

On October 6, 2010, the company extended the effective date until December 17, 2010. At the commission's open meeting on December 16, 2010, staff had not yet completed its review of information received. The commission suspended the tariff revision as the company had not demonstrated the proposed rates were fair, just, reasonable and sufficient.

Staff's subsequent review of Olympic's books, records and supporting documents showed a large portion of the proposed rate increase resulted from the \$32,794 construction costs and \$18,500 in legal costs related to drilling Well No. 17 and the investigation of soil contamination discovered while drilling Well No. 17. Well No. 17 was unusable for production due to soil contamination discovered by Olympic during the drilling. Because investigation and remediation of the contamination costs are unknown and on-going, staff removed those costs from the rate case. Olympic revised its allocations from its parent company, reducing expenses by \$23,565. Staff adjusted interest expense to properly reflect rate base and federal and state taxes to properly reflect revenues.

The result of these adjustments is that the company has not demonstrated it needs additional revenue. On March 9, 2011, the company requested, and staff concurs, that the commission dismiss the Complaint and Order Suspending the Tariff Revision in Docket UW-101543 filed by Olympic on September 15, 2010, and allow Olympic to withdraw the tariff revision. The withdrawal letter filed by the company is conditioned upon the commission approving the accounting petition filed in this case and docketed under UW-110436. If the withdrawal is allowed, the rates for water service will remain unchanged.

On March 7, 2011, Olympic filed a petition in Docket UW-110436 requesting an accounting order authorizing deferred accounting treatment for costs associated with drilling Well No. 17, and the investigation and remediation of soil contamination discovered while drilling Well No. 17. Costs may include, but are not limited to, actual well drilling, consulting, engineering, legal fees, testing and other costs associated with the investigation and remediation of soil contamination discovered while drilling Well No. 17. Deferred accounting will preserve Olympic's ability to seek recovery of those costs at a later time.

Staff concurs with the company's request for deferred accounting treatment. However, the commission should consider cost recovery only after the responsibilities for drilling, investigation and remediation costs incurred have been finalized for insurance companies and other third parties. Therefore, Staff recommends, and the company's petition concurs, that the following conditions should apply in order to properly identify all deferred costs:

1. The recognized accounting period for deferral shall begin on January 1, 2009, and end with the completion of remediation and meeting the requirements set forth by the Department of Health, Department of Ecology and U. S. Environmental Protection Agency, if any.
2. Deferred amounts will accrue interest at 9.3 percent (staff's calculated weighted cost of capital for Docket UW-101543). This accrual starts when each payment is made or received.
3. Deferred costs incurred prior to discovering soil contamination will be separated and recorded as Well No. 17 drilling cost. These costs include, but are not limited to drilling, engineering and legal costs.
4. Deferred costs incurred after discovering soil contamination will be separated and recorded as soil contamination investigation or remediation cost. These costs may include, but are not limited to, engineering fees, other consultant fees, legal fees, and other remediation-related costs such as testing and monitoring.
5. Deferred amounts will include payments received from insurance providers or other third parties as compensation or contribution for Well No. 17 drilling, and soil contamination investigation and remediation costs. These payments will accrue interest at 9.3 percent from when the payment is received.

6. The company will record all deferred costs and third party payments in account 186, Miscellaneous Deferred Debits.
7. The tax benefits of the deferred costs will also be accrued with rate determinations to be determined with the cost recovery.
8. a - The company may file tariff revisions to recover Well No. 17 drilling and soil contamination investigation costs when the costs are known and measurable and the responsibilities for costs have been finalized between any insurance provider or other third party.  
b - The company may file tariff revisions to recover soil contamination remediation costs when the costs are known and measurable and the responsibilities for costs have been finalized between any insurance provider or other third party.
9. Allowance of a deferred accounting petition makes no determination of ratemaking treatment of any deferred cost and does not constitute regulatory assurance that the deferred debit will be recovered, in whole or part, in any future rate proceeding.
10. Deferred accounting treatment does not determine whether any of the company's decisions or incurred costs associated with drilling Well No. 17, or with investigating or remediating soil contamination were prudent, whether or not the company exercised due diligence in pursuing compensation from third parties for soil contamination, what portion of costs, if any, should customers ultimately bear, or how those costs, if any, should be recovered. All of these issues will be considered by the commission during any tariff revision proceeding in which the company seeks to recover deferred costs.
11. The company must file a report with the commission every six months that summarizes the deferred amounts incurred in items (3), (4) and (5), any remaining issues to be resolved regarding the investigation and remediation of soil contamination and expected timelines to resolve each of those issues.

### **Customer Comments**

On September 16, 2010, the company notified its customers of the proposed rate increase by mail. Sixteen customer comments were received in the general rate case, all opposed to the proposed increase.

On March 9, 2011, Consumer Protection staff advised customers on the interested persons list of the status of the rate case and the filing of the accounting petition. Staff has received no comments on the withdrawal of the rate case or the filing of the accounting petition. Included in comments on the rate case were questions about costs related to Well No. 17, which the accounting petition attempts to address.

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

### **Conclusion**

The company has filed to withdraw the rate case conditioned upon the commission approving the petition for accounting order filed in this case and docketed under UW-110436. If the withdrawal is allowed, the rates for water service will remain unchanged.

The company has filed a petition for accounting order for deferred accounting treatment of Well No. 17 costs which staff agrees to subject to the conditions listed above.

Staff recommends an order to only defer these costs and does not request a determination of ratemaking treatment at this time. Issues to be decided in the future rate proceeding include the prudence of the expenditures, the amortization of the deferred costs, and the amount, if any, allocated to customers per the allocation method approved by the commission at the time.

### **Recommendations**

1. Issue an order in Docket UW-110436, filed March 7, 2011, authorizing Olympic Water and Sewer, Inc., to defer amounts associated with drilling Well No. 17, and the investigation and remediation of soil contamination discovered while drilling Well No. 17, all into account 186, Miscellaneous Deferred Debits, subject to conditions set forth above.
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