

Agenda Date: March 26, 2015
Item Number: A2

Docket: UW-150311
Company Name: Iliad Water Service, Inc.

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

Recommendation

Issue a Complaint and Order Suspending the Tariff Revision filed by Iliad Water Service, Inc., on February 23, 2015.

Discussion

On February 23, 2015, Iliad Water Service, Inc. (Iliad Water Service or company), filed a proposed rate increase that would generate \$25,141 (31.4 percent) additional annual revenue. The proposed rate increase was prompted by recovery of cost for corrosion control treatment plant installed and operating on the Alder Lake community water system. The proposed effective date is April 1, 2015. The company provides water service to approximately 111 residential customers on three water systems located in Pierce, Snohomish and Kitsap County.

The Alder Lake community water system is owned by Iliad Water Service. This water system serves 35 residential customers on a flat rate basis and is located near Eatonville by Alder Lake in southern Pierce County. The system's source of water is several wells with water quality issues. Prior to this filing, the company installed chlorination treatment in 2008 which is currently being recovered by a \$20.25 surcharge to be collected until June 2028. In 2007 the water company was notified that the testing results for lead and copper had exceeded the maximum contaminate level and would require appropriate corrosion control treatment.

In February 2011, the company received approval for the construction of a corrosion control facility. The corrosion control treatment system built and currently in service is injection of Sodium Hydroxide (NaOH) which is further diluted by a Merlin dilution system. This treatment system should achieve a target pH of 7.5. In July 2011, Department of Health issued a letter acknowledging receipt of the construction documents for the corrosion control facility indicating the project was completed.

The company has determined the overall cost of the corrosion control facility to be \$160,512 including taxes. The company has offered the 35 Alder Lake customers a choice between a one-time assessment of \$4,586 or financing the assessment with a 10-year contract at 8 1/2 percent interest. For customers choosing to finance the assessment, monthly payments will be approximately \$57 per month. Initially the company requested taxes of \$219 per customer to be paid up-front. The company has agreed to drop this up-front tax collection.

Commission staff has requested supporting documentation and the company has not completed a response to staff's data requests. Therefore, the company has not yet demonstrated it needs additional revenue and has not demonstrated the proposed rates are fair, just, reasonable and sufficient.

Customer Comments

On February 19, 2015, the company notified its customers by mail of the proposed surcharge. Customers were notified that they may access relevant documents about this surcharge 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. Staff received one comment, from a consumer opposed to the increase.

General Comments

- A customer stated that the proposed surcharge, along with the existing surcharge, will make it difficult for many customers on the water system.

Staff Response

The customer was advised that state law requires rates to be fair, just, reasonable and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Regulatory staff reviews filings to ensure that all rates and fees are appropriate.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate
2015 Treatment Surcharge	NA	\$57.00

Alder Lake
Monthly Residential Bill Comparison

Monthly Rates	Current Rate	Proposed Rate
Flat Rate Service	\$46.50	\$46.50
Chlorination Treatment Surcharge ⁽¹⁾⁽³⁾	\$20.25	\$20.25
Corrosion Control Treatment Surcharge ⁽²⁾⁽³⁾	NA	\$57.00
Water Bill Total	\$66.75	\$123.75
Increase From Current Rates - \$57.00		85.4%

- (1) Surcharge to expire June 1, 2028. (June 2008)
 (2) Surcharge to expire March 31, 2025. (April 2015)
 (3) State utility tax shall be assessed in addition to the surcharge.

Staff has asked the company for clarification on several issues:

- a. The documents provided by the company indicate that the corrosion control facility was completed and usable in July 2011. Why did the company wait until February 2015 to begin cost recovery?
- b. Staff normally takes the position that water companies will provide a 30 percent equity investment in projects using customer surcharges as a repayment source. Iliad Water Service has proposed a 100 percent customer surcharge as the only repayment source. Staff opposes this 100 percent customer surcharge funding method.
- c. The company has proposed to collect state utility tax up-front from customers prior to receiving the requested revenue. Staff opposes this up-front collection of taxes. The company has now indicated (March 9, 2015) that they will not seek collection of taxes up-front.
- d. Staff has reviewed the proposed cost and financing terms. The company has provided a copy of its 'direct cost job ledger' for a period of time from June 2, 2008 through April 28, 2014, for various accounts. The company has not provided specific cost details to substantiate the actual capital cost of the corrosion control facility for a capital recovery surcharge.

Additionally, staff's review of the customers' monthly billing with the new surcharge of \$57 shows the monthly bill appears unreasonable for water affordability based on the company's proposed cost and financing terms. Commonly, water utility bills should not exceed two percent of the median household income of the customers. Staff has reviewed Pierce County quick facts and found that for the 2009-2013 period, the county median annual household income was \$59,204. Two percent of this amount on a monthly basis equates to a maximum affordable amount for water service of \$98.66 monthly. The proposed monthly bill of \$123.75 exceeds this amount.

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