

Agenda Date: May 11, 2017  
Item Number: A2

**Docket:** UW-170216  
Company Name: H&R Waterworks, Inc.

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

### **Recommendation**

Issue an Order allowing the tariff sheets filed by H&R Waterworks, Inc. in Docket UW-170216 to become effective June 1, 2017, by operation of law, subject to conditions (a) through (g) set forth in staff's memorandum.

### **Background**

On March 31, 2017, H&R Waterworks, Inc. (H&R Waterworks or company) filed with the Utilities and Transportation Commission (commission) a tariff revision adding a conservation rate to its tariff. The conservation rate would apply to a water system where water usage threatens to exceed the company's water rights for that system. The conservation rate would be implemented for the period of May 1 through October 31 of each year. The company serves 4,115 customers on various systems in Thurston, Mason, Kitsap, Pierce, Lewis, and King Counties.

The Department of Ecology (DOE) sets several limits on water withdrawal from wells. One is the instantaneous amount of water being used as measured in gallons per minute. The company has designed and sized pumps and pipes to limit this amount of water withdrawal. The other limit is the annual amount of water that is withdrawn from the well. This limit is normally based on acre feet of water withdrawn. An acre-foot is defined as the volume of one acre of surface area to a depth of one foot and equals 325,853 gallons. This annual amount can be exceeded if customers continue to use water over a longer period of time rather than a short period of use.

Over the last several years, the company has experienced increased water usage on several water systems. In June and July of 2015 and several times in 2016, the company conducted a series of community water use efficiency workshops with customers to address water use and ways to achieve better efficiency. To address water overuse, the company discussed monthly water budgets, issued general requests for water use reduction, and in several cases issued mandatory water use restrictions, all after the water system had exceeded available water rights. Such mandates in conjunction with high water bills, (as a result of greater water use) were not enough to deter overuse and the systems approached, and some exceeded, the water rights as issued by DOE.

In 2016, the company proposed and filed a tariff revision that would have implemented monthly water budgets. These budgets would be implemented on water systems that approached or exceeded their DOE water rights. The monthly budgets would have provided for the installation of water flow restrictors to limit the quantity that a customer could draw from the water system.

This drastic provision for exceeding a monthly water budget and the calculation of a monthly water budget on a per customer basis were highly debated and upon further review by the company, withdrawn. Refer to Docket UW-161035 for additional discussion of staff's review of that filing.

The company claims that with customer meetings, proposed restrictions, and the current tariffed three-tier increasing rate structure, conservation both inside and outside the home has not been enough to prevent exceedance of water rights. Working with existing rules and practices, the company believes the next step is to provide a tool for customers to monitor usage before overuse occurs. The tool the company believes will best keep customers and the company within available water rights is a conservation rate for excessive water usage.

Staff has reviewed the company's proposed tariff and conservation rate. Water conservation rates are not new. Other water companies have successfully used conservation rates and reduced overall water usage during high-use seasons.

The third block usage rates would change from \$2.81 per 100 cubic feet over 2,000 cubic feet of usage to \$5.00 per 100 cubic feet of water usage. This is a 78 percent increase in the third block usage rate. If customers continued to use water at the same usage amounts as from 2016, the company could generate in excess of \$39,000 additional revenue for the summer months of May through October.

Funds generated<sup>1</sup> from Schedule No. 3 C shall only be used for the following conservation-oriented items in the sequence listed below;

- (1) Hiring of non-company consultant(s) including groundwater, legal and engineering to provide conservation program review, to provide advice and expert analysis, to include billing software updates, customer education and advice and provide a report on final recommendations to the commission within 60 days of hiring,
- (2) Billing software upgrades to develop individual customer water use budgets with 'rollover' provisions, additional rate blocks,
- (3) Water system equipment, modifications, staffing, notices and customer surveys,
- (4) Where feasible, efforts to obtain additional water rights to benefit affected water systems.

The proposed Conservation Rate tariff is reasonable and should be approved, subject to the following conditions:

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<sup>1</sup> Funds generated is defined as the amount of funds generated by the difference between regular rates \$2.81 and the conservation rate of \$5.00 per 100 cubic feet of water used in the third usage block of greater than 2,000 cubic feet.

- (a) This conservation rate (Schedule No. 3 C) shall apply to all customers on water systems served by the company that have exceeded or are within 5 percent of the applicable water rights for that water system. The conservation rate will be in effect during the period of May 1 through October 31 of each year.
- (b) Funds received from the conservation rate, including interest earned on the funds while held in a separate reserve account, will be treated as contributions in aid of construction. Funds collected may only be used for items listed above in the sequenced order.
- (c) Conservation rate funds collected and interest earned upon such funds must be held in a separate 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 conservation rate funds will be transferred to the new owner of the company.
- (d) The company must report the following information to the commission within 60 days of the end of each calendar quarter:
  - i. Beginning balance;
  - ii. Amounts received, detailed by water system source;
  - iii. Amounts spent, detailed by project or expense;
  - iv. Ending balance;
  - v. Reconciliation of bank balance to general ledger.
- (e) The company will immediately deposit all monthly funds received and related to the conservation rate in the same separate reserve account specified in condition (c) above.
- (f) The \$5.00 conservation rate will expire with the billing which include all consumption through October 31, 2019. At that time the company may file to reinstate the conservation rate. The company may propose and file any other conservation plan at any time.
- (g) Excess funds held in the separate account will be distributed equally, by billing credit, at the end of three (3) years (October 31, 2019) to the customers on the systems from which the funds were collected.

### **Customer Comments**

On March 31, 2017, the company notified its customers by mail of the proposed conservation rate increase. Customers were notified that they may access relevant documents about this rate increase 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 20 consumer comments, all opposed to the proposed rate increase.

### **Business Practices**

Eight customers, from Conifer Village, Riverwood, and Countrywood Estates said their system had adequate water rights until they were interconnected with systems that use excessive amounts of water, causing all of the interconnected systems to exceed water rights. They believe the conservation rate should not apply to their system because as a stand-alone system they are not exceeding their original water right.

### **Staff Response**

Staff understands these concerns; however, the commission does not regulate water rights or the interconnection of water systems. Staff must treat the interconnected systems as a single system in reference to water rights.

### **General Comments**

Many customers feel the increase from \$2.81 to \$5.00 for usage over 2,000 cubic feet in a month is excessive. Several customers believe the conservation rate should only apply to customers who are exceeding their annual budget, based on their accumulated monthly usage. Four customers believe the proposed conservation rate is just a way for the company to make more money.

### **Staff Response**

Staff believes a rate of \$5.00 per hundred cubic feet will be effective in reducing usage. The company does not currently have the software to record usage to the level of detail the customers want. Staff recommends conditions for earnings resulting from the conservation rate that will add such capability to the company's billing software.

### **Rates**

<b>Monthly Rate</b>	<b>Current Rate*</b>	<b>Proposed Rate*</b>
Base Charge 3/4 inch meter	\$ 20.33	\$ 20.33
Block 1: 0 – 700 cubic feet	\$ 1.36	\$ 1.36
Block 2: 701 – 2,000 cubic feet	\$ 2.31	\$ 2.31
Block 3: over 2,000 cubic feet	\$ 2.81	\$ 5.00

\*per 100 cubic feet

The conservation rate would apply for the period of May 1 through October 31 of each year, which are the June through November billing periods.

Staff has completed its review of the company's filing, supporting financial documents, books, and records. Staff's review shows that the proposed conservation rate, as agreed to by the company's revised tariff filing is fair, just, and reasonable, and will provide a method for encouraging water conservation to prevent systems from exceeding their water rights.

**Recommendation**

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