



ATTORNEY GENERAL OF WASHINGTON

Public Counsel

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April 5, 2021

SENT VIA WUTC WEB PORTAL

Mark L. Johnson
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Re: Pedersen Family, LLC General Rate Increase
Docket UW-210123

Dear Mr. Johnson:

The Public Counsel Unit of the Washington State Attorney General's Office ("Public Counsel") respectfully submits these comments in advance of the April 8, 2021, Open Meeting. These comments address Pedersen Family, LLC's proposed general rate increase, which requests adoption of a new tariff WN U-3. Pedersen Family provides service to approximately 234 customers on four water systems located near Sequim. Public Counsel requested information from the Company during our review of the filing. We appreciate the Company's prompt responses to our informal data requests, which allowed us to better understand the Company's filing.

Public Counsel's Recommendation

Public Counsel recommends that the Commission reject the Company's filing and require the Company to refile its tariff sheets to reflect a phased-in increase. While it appears that the Company has demonstrated its proposed rates to be sufficient based on its increased costs and investments, the 97.9 percent increase requested also appears to be the highest-percentage one-time revenue increase requested during the state's current COVID-19 emergency. As a result, the requested increase will result in unreasonable rate shock to customers. Accordingly, the Commission should follow its long-standing practice to avoid and mitigate rate shock by adopting a three-year phased rate plan:

1. The first year would implement 55 percent of the total increase;
2. The second year would implement an additional 22 percent; and
3. The third year would implement the remaining portion of the rate increase.

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Public Counsel is concerned with the amount of increase being placed on customers, especially in the midst of the COVID-19 pandemic. Public Counsel understands that the Company has not applied for a rate increase in seven years and that the rate increase is driven by increased costs over that time, including labor, testing, operations, property taxes, and capital investments. However, this rate increase would essentially double customers' bills. If approved, the rate increase would generate \$52,961, a 97.9 percent increase in annual revenue, with the average monthly bill increasing by \$16.44. Public Counsel believes this is too substantial of an increase to place on customers at one time.

In order to avoid rate shock and mitigate the impact on customers, Public Counsel strongly recommends the Commission adopt a phased approach for this increase, in line with a recent Order in another docket, designed to gradually introduce the rate increase to water customers over the next three years, while also providing the Company with the rate relief it needs.

In responses to Public Counsel's informal discovery, the Company disclosed that it received just two responses to the customer notice. The Company shared that both comments expressed concern, but that after discussion both became supportive of the rate change. With more than 200 ratepayers, the customers who contacted the Company represent under one percent of all customers. While some customers may be able to absorb a 97.9 percent increase, other customers may not be able to successfully weather such a large increase, especially after a year of COVID-19 pandemic-related economic stresses. As State of Washington Labor Economist Jim Vleming noted in his March 2021 update on Clallam County:

The year 2020 was yet another year of inertia as growth has proven to be a challenge in Clallam County. Then in March the Covid pandemic hit and the economy slipped into reverse. The preliminary 2020 nonfarm job totals averaged 22,290, the lowest county total since 2014 (22,200). The leisure and hospitality sector was impacted by the pandemic, as were payrolls in goods producers and government.¹

In addition, Staff's Open Meeting Memo filed on April 5, 2021, notes the impacts the COVID-19 pandemic has had on past due customer accounts. The Staff memo indicates the Company received CARES Act funds sufficient for it to forgive 30 delinquent accounts for past due balances incurred exclusively during the time period from the onset of the pandemic through November 30, 2020.² With 234 customer accounts, 30 of these having become delinquent indicates that nearly 13 percent of the Company's customers will struggle with the requested increase.

In developing our recommendation, Public Counsel examined the Commission's guidance contained in its Order 01 in Docket UW-180801. In that docket, Summit View Water Works had not submitted a rate increase in the 12 years since it had come under Commission regulation, and filed a proposed 34.4 percent rate increase to cover costs the Commission found to be just and sufficient. In its Discussion and Decision, the Commission stated:

¹ Jim Vleming, *Clallam County Profile*, WASHINGTON STATE EMPLOYMENT SECURITY DEPARTMENT, <https://esd.wa.gov/labormarketinfo/county-profiles/clallam> (last updated Mar. 2021).

² Docket UW-210123 Memo 01, ¶ 2 (Apr. 5, 2021).

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The request for increased rates presented in this docket presents us with a difficult dilemma. The Company has demonstrated that it has experienced increased costs and made necessary investments that justify an increase in rates, rates that would be just and sufficient for the Company. However, as the Company has not requested an increase in rates in the 12 years since it came under Commission regulation, the resulting increase in rates is significant and could result in rate shock for customers. **Under our guiding statutes, we must establish rates that are fair, just, reasonable and sufficient for both the Company and its customers.**³

The percentage increase in the current docket represents almost three times that sought by Summit View. The Commission expressed that it was “keenly aware of the impact the proposed 34.4 percent increase would have on domestic water customers.” The Commission identified rate shock as a primary concern when considering requested rate increases. To address potential rate shock, the Commission implements rate changes gradually to avoid rate shock.⁴ The Commission stated: “Concern about rate shock to the domestic water customers of Summit View is warranted in this case. An immediate 34.4 percent increase to the rates of these ratepayers is inconsistent with the Commission’s long-standing consideration of gradualism in rates.”⁵

Public Counsel recognizes that an immediate 97.9 percent increase to the rates of Pedersen Family, LLC’s ratepayers would be equally inconsistent with this long-standing consideration of gradualism.

The Commission found that implementing the entire 34.4 percent increase for Summit View was not fair, just, or reasonable. Commission Staff in that case recommended that the Commission phase in the rate increase over three years, with 55 percent of the increase occurring in the first year, 22 percent of the increase occurring in the second year, and 22 percent of the increase occurring in the third year. The Commission found that Staff’s recommendation to phase in the rate increase would result in fair, just, and reasonable rates while also being fair and sufficient for the Company to fully recover its costs.⁶

Similar treatment is warranted here. Public Counsel recommends the Commission order phased in rates in this docket to satisfy its goals of protecting customers from rate shock while providing fair and sufficient rates for the Company.

Regarding the Company’s proposed new and increased connection-related ancillary charges, Public Counsel understands that Staff has been satisfied that the Company designed these solely to capture costs of future connections from new customers only, in line with past Commission

³ *Wash. Util. & Transp. Comm’n v. Summit View Water Works*, Docket UW-180801, Order 01: Allowing Revised Rates to Become Effective Subject to Conditions, ¶ 9 (Oct. 22, 2018) (emphasis added).

⁴ *Id.*, ¶ 10.

⁵ *Id.*, ¶ 11.

⁶ *Id.*, ¶ 12.

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guidance that “all customers with new connections pay the company's facilities charges and connection charges to offset the capital costs and provide funds for upgrades directly benefiting the new customer”⁷ Public Counsel therefore has no objection to their approval, to go into effect with the first phase of the rate plan.

With Washington residents and businesses attempting to recover from the financial strains of the COVID-19 State of Emergency, Public Counsel believes that solutions like phased-in rates are more beneficial than ever. In this way, the Commission can support small regulated businesses that now find themselves in need, while at the same time lessening the risk that ratepayers will experience this as one more devastating economic burden during a pandemic year that has been full of them.

Public Counsel appreciates the opportunity to submit these comments. Public Counsel also plans to offer brief oral comments at the Open Meeting on April 8th. If you have any questions about this filing, please contact Lisa Gafken at (206) 464-6595 or via email at Lisa.Gafken@atg.wa.gov.

Sincerely,

Lisa W. Gafken

/s/

LISA W. GAFKEN
Assistant Attorney General
Public Counsel Unit Chief
(206) 464-6595

⁷ *Wash. Util. & Transp. Comm'n v. Roche Harbor Water Sys.*, Docket UW-080562, Order 03: Order Dismissing Complaint and Order Suspending Tariff Revisions; Allowing Tariff Revisions, ¶ 5 (July 31, 2008).