

Agenda Date: November 24, 2010
Item Number: A1

Docket: UW-101365
Company Name: Crosswoods Water Company, Inc.

Staff: Amy White, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendation

Issue an Order to:

1. Allow the revised rates filed by Crosswoods Water Company, Inc., on October 8, 2010, in Docket UW-101365 to become effective December 1, 2010; and
2. Grant an exemption from WAC 480-110-425, Customer Notice, and require the company to notify customers of increases on or before the next billing cycle, or, in the alternative, allow the company to demonstrate that it has already notified the customers of the revised rates,

Discussion

On August 11, 2010, Crosswoods Water Company, Inc., (Crosswoods or company) filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$8,077 (23 percent) in annual additional operating revenue. The proposed rates were prompted by increases in chemicals, testing, and a contract for a certified water system operator related to new hypochlorination equipment. The company's last general rate increase became effective September 1, 2008. Crosswoods serves 127 customers near Oak Harbor in Island County.

Staff examined the operating expenses the company reported related to the hypochlorination equipment and made minor adjustments. Staff also found that the company had used accelerated depreciation for income tax purposes and had incorrectly carried those amounts over for regulatory reporting, resulting in a very low rate base. Staff adjusted the company's rate base and equity to reflect regulatory depreciation rates and allowed a return on these items.

Also on August 11, 2010, Crosswoods filed for a surcharge to recover construction costs of \$25,462 for hypochlorination equipment required by the Department of Health. The construction was financed by loans from the company's two major stockholders. Crosswoods filed for a five year term on the surcharge with a monthly payment of \$3.80 per customer. As filed, the surcharge would generate \$5,791 (16.6 percent) in annual additional revenue.

Staff also reviewed construction expenses for the new treatment equipment and found that these expenses had been incurred by the company as required by the Department of Health. Staff and the company also agreed on a total construction cost for the hypochlorination equipment of \$25,686, rather than the \$25,462 in the original filing.

Staff and the company agreed to a revised revenue requirement of \$9,531 (26.8 percent) in additional annual operating revenue and to a revised annual revenue requirement amount of \$5,845 (16.7 percent) related to the construction surcharge. On October 8, 2010, the company filed revised rates at staff-recommended levels. The company extended the effective date of the tariff pages to December 1, 2010.

Staff's revised rate design differs from the company's original proposal to customers since it includes a new third water usage block to promote water conservation. A customer using 797 cubic feet (the calculated company-wide monthly average water usage) of water per month would pay \$5.19 (22.7 percent) more per month using the revised rates instead of \$5.30 (23.2 percent) more using the original rates proposed by the company (see "Average Bill Comparison" table below). Each customer would also pay an additional \$3.84 (16.7 percent) per month more for the construction surcharge for the five years the surcharge would be in effect instead of \$3.80 (16.6 percent) more using the original rates proposed by the company.

Customer Comments

On August 13, 2010, the company notified its customers of the proposed rate increases. The commission received no customer comments on this filing. The company filed revised rates on October 8, 2010, after reaching agreement with staff. Crosswoods represents it notified the customers of the revised rates after reaching agreement with staff but the company has not yet filed a copy of the second customer notice with the commission. Because the revised rates are higher than the rates stated in the original customers notice, Crossroads must notify customers of the revised rates. Such notification may be made with less than the thirty days notice required by WAC 480-110-425, but must be made in the next billing cycle. Staff recommends that Crossroads be relieved of the obligation to notify customers in the next billing cycle if the company provides a copy of the purported second customer notice.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Base Rate (3/4-inch meter, zero allowance)	\$13.85	\$19.15	\$17.70
0-500 cubic feet, per 100 cubic feet	\$ 1.00	\$ 1.00	\$ 1.15
501 – 1000 cubic feet, per 100 cubic feet	\$ 1.35	\$ 1.35	\$ 1.55
Over 1000 cubic feet, per 100 cubic feet	\$ 1.35	\$ 1.35	\$ 2.25
Capital Surcharge	NA	\$ 3.80	\$ 3.84

Average Bill Comparison

Average Monthly Usage 797 cubic feet	Current Rate	Proposed Rate	Revised Rate
Base Rate (3/4-inch meter, zero allowance)	\$13.85	\$19.15	\$17.70
0 – 500 Cubic Feet	\$ 5.00	\$ 5.00	\$ 5.75
501 – 797 Cubic Feet	\$ 4.01	\$ 4.01	\$ 4.60
Subtotal, Water Use Bill	\$22.86	\$28.16	\$28.05
Increase from Current Rate		23.2%	22.7%
Surcharge for Construction		\$ 3.80	\$ 3.84
Increase from Current Rate		16.6%	16.7%
Total, Water Use and Surcharge	\$22.86	\$31.96	\$31.89
Total Increase from Current Rate		39.8%	39.4%

Conclusion

Commission staff has completed its review of the company’s supporting financial documents, books and records. Staff’s review shows that both the operating expenses and the construction expenses related to the surcharge are reasonable and required as part of the company’s operation. The company’s financial information supports the revised revenue requirement and the construction surcharge and the revised rates and charges are fair, just, reasonable, and sufficient.

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