

Agenda Date: December 22, 2016
Item Number: A3

Docket: UW-161232
Company Name: Rainier View Water Company, Inc.

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

Recommendations

1. Approve extension of the Surcharge tariff, thereby allowing the rates proposed by Rainier View Water Company, Inc., to become effective December 31, 2016.
2. Issue an order to grant Rainier View Water Company, Inc.'s request for a surcharge to provide funding for capital improvements, subject to conditions (a) through (g) set forth in staff's memorandum.

Discussion

On November 21, 2016, Rainier View Water Company, Inc. (Rainier View or company) filed with the Utilities and Transportation Commission (commission) an extension of the treatment surcharge tariff to fund capital improvements. The proposed surcharge extension would generate approximately \$157,048 (2.8 percent) additional annual revenue for an additional six years. The purpose of this filing is to allow the company to install manganese and iron treatment facilities at four additional locations in the Southwood and Graham service area.

The current Treatment Surcharge is \$.75 cents per month per service connection, which the company proposes to extend until July 31, 2025 or until the company collects \$1,740,034 for principle, interest, taxes and fees, whichever is reached first. The company proposes to fund any remaining amounts with operating revenues or equity. Rainier View provides water service to approximately 17,350 customers served on 26 water systems located in Pierce County and two water systems located in Kitsap County.

The capital projects include four water treatment plants that have multiple benefits. The first being that customers have asked for cleaner water and through treatment that goal can be met. The company has proposed to use modular-based off-the-shelf treatment units with a known history. An additional benefit of treatment is reduced wastage from flushing water lines. In the areas of customer concerns, the company has previously flushed water lines to remove sediment and discoloration. This flushing wastes water and provides no consumption by the customers or use for the company. The water treatment systems will have some waste water, however, the volume of waste water will be much less than flushing volumes. The water company is also seeking ways to use the flushed water for other purposes. Flushing water during summer months also raises the overall water system consumption and contributes to the need to meet peak water demands with a more expensive source.

On June 30, 2014, Rainier View filed for a surcharge of \$.75 per customer to provide funds for loan repayment to Cobank. The loan proceeds were used for six Manganese and Iron Treatment projects. The six projects are known as Behm Well, Madrona Well, Cascade Highland, Muck Creek, Emerald Terrace and Shining Mountain Well (Southwood).

The estimated cost at that time was \$979,835. The surcharge proposed to generate approximately \$156,127 annually and run for a period of five years, expiring on July 31, 2019. The surcharge would provide approximately \$797,745, with the company funding the remaining amount and any cost differences. The six projects were completed in 2014 and final cost was \$1,060,057.

On November 21, 2016, the company filed to extend the collection period of the surcharge by six years. The additional time would generate about \$157,048 annually to fund a portion of four new Manganese and Iron Treatment Projects. The four projects are known as Laureldel Well, Southwood 1 Well, Fir Meadows and Centennial Elementary Well. These four additional well treatment projects are scheduled to be completed in 2017. The new proposed ending date of the surcharge is July 31, 2025. The monthly surcharge amount of \$.75 will not change, only the termination date will be extended.

Several wells located in various locations of the Sound-Southwood service area have manganese and iron concentrations. These contaminants are considered secondary contaminants and are not health threatening. Secondary contaminants are based on aesthetic and cosmetic effects. Water with concentrations of manganese and iron typically stain clothes and may result in "smelly" water at certain times of the year.

Staff has reviewed the cost estimates for the proposed four additional treatment projects and believes the proposed surcharge extension Rainier View requests is reasonable and should be granted, subject to the following conditions:

- a) This surcharge is to apply to all water customers served by the company. The surcharge will expire on July 31, 2025, or upon collection of \$1,740,034 for principal, interest, taxes and fees, whichever occurs first.
- b) Funds received from the surcharge, including interest earned on the funds while held in a separate reserve account, will be treated as contributions in aid of construction.
- c) Surcharge 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 surcharge funds will be transferred to the new owner of the company.
- d) The water company must report the following information to the commission within 60 days of the end of each calendar quarter per WAC 480-110-455(4):
 - i. Beginning balance;
 - ii. Amounts received, detailed by 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 payments related to the surcharge in the same separate reserve account specified in condition (c) above.
- f) Excess funds held in the separate reserve account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the loan. “Excess funds” means money accumulated in the separate reserve account in excess of 10 percent of the loan payment for the following year.
- g) Upon completion of the construction projects, which is expected by January 2018, according to the company’s responses, the company shall provide the commission with a complete accounting of all expenses.

Surcharge Rate Schedule

Monthly Rate	Current Rate	Proposed Rate
2016 Treatment Surcharge *	\$0.75	\$0.75

*Surcharge shall expire on July 31, 2025, or upon the collection of \$1,740,034 in principal, interest, taxes and fees, whichever occurs first.

Customer Comments

On November 30, 2016, the company notified its customers by mail of the proposed surcharge extension. 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 consumer comment, opposed to the proposed surcharge extension.

General Comments

One customer commented, saying the company should have to save money for projects before starting construction rather than impose a surcharge.

Staff Response

Regulated water companies have several methods available to them for funding projects, one of which is a surcharge.

In addition to the comment about the surcharge, staff received two complaints about brown water from customers in the same housing development. The customers are on the company’s Southwood water system. Consumer Protection staff investigated and shared its findings with the customers.

Elevated levels of manganese are the cause of the discolored water. Per the Environmental Protection Agency, manganese is a secondary contaminant and is not considered a health threat. The Department of Health responded to the staff inquiry, stating “The company has taken steps to install treatment on the wells that have elevated iron or manganese. Treatment is currently in place at five locations at the Southwood water system. Two additional treatment plants have been approved, but are yet to be constructed.”

The company responded to staff and explained it is working to install a filtration system on a problem well, which will remove manganese. This well has been shut down until the treatment is online, which is expected to be spring or early summer 2017.

Staff received two additional inquiries from customers complaining about the quality of their water. Staff reached out to these customers and did not get a response.

Conclusion

1. Approve extension of the Surcharge tariff, thereby allowing the rates proposed by Rainier View Water Company, Inc., to become effective December 31, 2016.
2. Issue an order to grant Rainier View Water Company, Inc.’s request for a surcharge to provide funding for a capital improvements, subject to conditions (a) through (g) set forth in staff’s memorandum.