

Agenda Date: October 24, 2019  
Item Number: A4

**Docket:** UW-190798  
Company Name: Northwest Water Services, LLC

Staff: Scott Sevall, Regulatory Analyst  
John Cupp, Consumer Protection Staff

**Recommendation**

Allow the tariff revisions filed by Northwest Water Services, LLC on September 20, 2019, and as revised on October 17, 2019, to become effective on November 1, 2019, by operation of law.

**Discussion**

On September 20, 2019, Northwest Water Services, LLC (NWS or company) filed tariff revisions with the Utilities and Transportation Commission (commission) that would generate approximately \$80,557 (33 percent) additional annual revenue. Northwest Water Services, LLC serves 437 customers in Snohomish, Skagit, and Island counties. The filing is prompted by purchases in new assets, and other general operating expenses. The company's last general rate increase of \$24,000 (24.5 percent) additional annual revenue became effective March 1, 2018.

The company's tariff is currently not uniform for all of the water systems they own. Silver Lake Water system has historical rates that are different than the rest of the water systems owned by NWS. This filing seeks single tariff pricing, under one uniform tariff rate, for all water systems currently owned by NWS. The primary reason for this rate increase is the company's investment into new plant to serve customers. All the systems owned by NWS are listed in the table below:

<b>Water Systems</b>		
<u>Name</u>	<u>DOH number</u>	<u>County</u>
Cedarhearth	96889D	Island
Silver Lake Water	79245N	Island
Bacus Road #1	64327Y	Skagit
Blanchard Knob	AC712E	Skagit
Rolf Bruun	08915H	Skagit
Skagit River Colony	592443	Skagit
Lake Alyson	50691R	Snohomish
Tjetland	17475C	Snohomish

In the last two years NWS has invested in new assets to improve or maintain their customers' service. The company has replaced broken pipes and pumps on almost all of their systems. This is encouraging given the state of these water systems when NWS acquired them. However, NWS now proposes to make significant investment into their company by adding treatment to the Silver Lake Water system. The treatment is to address customer complaints to the company about iron and manganese issues on the Silver Lake Water system. The treatment system will also add chlorination. The cost of this project is estimated at a total of \$280,000 and the debt

obligation for the company for this project will add about \$3,000 per month to expenses for the next 10 years. This means \$6.87 per customer per month ( $3,000/437 = 6.87$ ) of this increase covers the debt obligation associated with the new treatment plant. Commission staff (staff) has completed its review of the companies' supporting financial documents, books and records. Staff's review found that the companies' proposed rates would result in excessive revenue. Staff and the company agreed to a revised revenue requirement of approximately \$68,000 (29 percent) additional annual revenue. On October 17, 2019, NWS filed revised tariff pages with revised rates at staff recommended levels.

**Rate Comparison**

<b>Current Rates</b>				
<b>NWS Tariff for all systems excluding Silverlake</b>				
	Base Rate	Block 1 0-5,000 Gallons	Block 2 5,001-10,000 Gallons	Block 3 10,001+ Gallons
¾ inch meter	\$35.00	\$1.50 per 1,000	\$2.50 per 1,000	\$3.50 per 1,000
<b>Silverlake Water System</b>				
	Base Rate	Block 1 0-6,000 Gallons	Block 2 6,001-12,000 Gallons	Block 3 12,001+ Gallons
¾ inch meter	\$35.00	\$1.00 per 1,000	\$2.00 per 1,000	\$2.50 per 1,000
<b>Company Proposed Rates</b>				
<b>Phase 1 (November 1, 2019- April 30, 2020)</b>				
	Base Rate	Block 1 0-802 cu.ft.	Block 2 803-1604 cu.ft.	Block 3 1605+ cu.ft.
¾ inch meter	\$43.00	\$1.00 per 100 cu.ft.	\$2.00 per 100 cu.ft.	\$2.50 per 100 cu.ft.
<b>Phase 2 (May 1, 2020)</b>				
	Base Rate	Block 1 0-521 cu.ft.	Block 2 522-869 cu.ft.	Block 3 870+ cu.ft.
¾ inch meter	\$43.00	\$2.06 per 100 cu.ft.	\$2.81 per 100 cu.ft.	\$3.37 per 100 cu.ft.
<b>Staff Revised Rates</b>				
	Base Rate	Block 1 0-668 cu.ft.	Block 2 669-1337 cu.ft.	Block 3 1338+ cu.ft.
¾ inch meter	\$43.00	\$1.30 per 100 cu.ft.	\$2.40 per 100 cu.ft.	\$4.00 per 100 cu.ft.

\*note: 5,000 gallons equals 668 cu.ft. (winter avg.) and 10,000 gallons equals 1,337 cu.ft. (summer avg.)

Staff's revised rates guarantee the company the cash flow to make the monthly payments on the new loan associated with the Silver Lake Water System treatment plant by increasing the base rate to cover the added cost. Staff's revised rate design creates a single usage block structure for all systems (Silver Lake Water System had a different block structure). Usage blocks are converted from gallons to cubic feet (668 cubic feet equals 5,000 gallons), this conversion does not change the amount of water that a customer can use in each block (with the single exception of Silver Lake). The revised single tariff usage rates are designed to minimize the rate effect on low water users (those who do not exceed the first block of usage). The single tariff rates will apply to all customers.

While the investments in question are directly for the Silver Lake water system, which is the largest single system (215 customers) in NWS, under single tariff pricing advocated by staff, Silver Lake investments would be shared company-wide and affect rates for all customers served by NWS. Customers outside of Silver Lake may object to this policy, however, single tariff pricing allows for costs eventually borne by other, smaller NWS systems, to be shared over a larger base when system upgrades must be made to smaller systems. Furthermore, the financing for this project is a company liability, where company cashflow, finances, and assets have been evaluated by the financial institution by considering the whole size of NWS, not just the Silver Lake system. Limiting the customer base from which NWS could charge to cover these costs would only increase risk of raising capital for this project or future projects. The chart below shows the impact to customers.

<b>Bill Compare</b>						
	Current		Staff Revised		Percentage change	
	Winter	Summer	Winter	Summer	Winter	Summer
All systems (except Silver Lake Water System)	\$42.50	\$55.00	\$51.68	\$67.73	21%	23%
Silver Lake Water System	\$40.00	\$49.00	\$51.68	\$67.73	29%	38%

\*note: usage for calculations in the table are winter and summer average use

### **Customer Comments**

On September 20, 2019, the company notified its customers by mail of the proposed rate increase. Customers were advised that they may access relevant documents about this rate increase on the commission’s website, and that they may contact John Cupp at (888) 333-9882 or john.cupp@utc.wa.gov with questions or concerns. Staff received nine consumer comments opposed to the proposed rate increase and one in favor.

### **General Comments**

Customers feel the requested rates are excessive and that the company raises its rates too often.

#### **Staff Response**

Staff informed customers 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. Customers were also told that commission staff performs a thorough review of rate filings to ensure all rates and fees are appropriate.

One customer said water was contaminated and “unusable for almost two months.”

Staff attempted to contact the customer for more information and has not received a response. The company said it has owned the system since 2016, and the event the customer described must have taken place before then. Department of Health shows no open compliance action on the system.

**Conclusion**

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