

Agenda Date: April 10, 2002
Item Number: 2C

Docket: UW-020168

Company Name: Washington Water Service Company

Staff: Danny P. Kermode, Regulatory Analyst
Penny Hansen, Public Involvement Coordinator
Tani Thurston, Regulatory Analyst

Recommendation:

Dismiss the Complaint and Order Suspending the Tariff Revisions in Docket UW-020168 and allow Washington Water Service's revised Tariff WN U-1, to become effective on April 11, 2002.

Discussion:

On February 11, 2002, Washington Water Service Company (Washington Water or Company) filed for a general rate increase to increase annual revenues by \$1,163,800 or 30.5%. Under the Company's proposal, test year revenue of \$3,761,400 would be increased to \$4,925,201. Washington Water's most recent rate increase was in February, 2001. Washington Water serves approximately 13,000 customers on 173 systems in Pierce, Thurston, Kitsap, King, Clallum, Jefferson, and Mason Counties. On March 13, 2002, the Commission entered a Complaint and Order Suspending Tariff Revisions pending an investigation by Staff to determine whether the revisions were fair, just and reasonable.

Staff has completed its investigation of the Company's books and records and found that the Company has justified \$1,010,000 of its requested \$1,163,800 requested rate increase. The revised rates produce a 26.5% increase in annual revenues, this is in contrast to the 30.5% increase proposed by the Company in its original filing. In addition, as a result of a review of the Company's proposed rate structure, the Company has, in consultation with Staff, proposed to no longer charge its Ready-to-Serve fee to over 140 of its customers.

Of the \$1,010,000 increase \$476,950 (47%) is due to an increase in payroll costs such as salaries, wages, health insurance and pension costs. The revised rates also include \$117,000 annual expense related to preparing its required Water System Plans. Water System Plans are comprehensive planning documents required by the Washington Department of Health, which address water conservation, water quality monitoring and emergency response, among other things. The plans must detail ten years of planned capital improvements and upgrades to the Company's water systems and the projected financing sources. Water System Plans must be prepared by a licensed engineer for each separate system owned by the Company. Staff's investigation showed that the Company's average investment in water plant serving its customers since the last case increased by \$1,500,000.

The Commission received 122 letters opposed and one letter in support of the proposed increase. Those opposed believe the proposed increase is excessive. Some customers expressed frustration that even though they have conserved water, their water bills are increasing. Staff notes that conservation does reduce an individual customer's water bill by decreasing the usage portion of their total water bill, conservation also helps protect a limited natural resource from depletion. However on a system wide basis, reduced usage effects only the variable costs associated with the delivery of the water to the customer. The related fixed costs that do not change with usage, such as depreciation and

financing costs, remain constant and must be spread over a smaller usage base causing increased rates.

Many customers stated they would be in favor of a smaller incremental increase consistent with the increase in the cost of living. Some customers felt the Company should look for methods to absorb some of the operating costs, including the cost of the required Water System Plans, in order to reduce the size of the requested increase in rates.

Staff attended two public meetings that Washington Water held, one in Port Orchard and another in Issaquah, between the two meetings, a total of approximately one hundred customers attended. At the meetings some customers voiced their concern over water testing costs and the use of a uniform tariff for all of the Company's systems. Many of the customers that attended felt that each of the 173 water systems should have their rates determined separately. Staff continues to support a uniform rate structure because it provides for risk distribution among all the Company's customers and also effectively deals with small-system viability issues. Difficulties associated with multi-system tariffs include increased rate case activity and cost allocation problems. Also, similar costs would have a disproportionate impact on individual customers located on each of the different systems.

Costs associated with services provided by the Company's California parent was also discussed at the public meetings. Staff's review of the expenses showed an overall benefit in Washington Water's relationship with California Water Service. For example, in an analysis of health insurance costs, Staff found that, when compared to pre-merger costs, the per employee premium decreased \$2,085 annually.

The Commission's Consumer Affairs staff has received comments from customers regarding water quality and water pressure problems. One customer stated the copper in their water pipes is being stripped out. The Company stated the state Department of Health is requiring the Company to install corrosion control treatment facilities to reduce the water absorbing the copper from the pipes. The Company has scheduled this treatment on this customer's system to be on line on or before October 2002. Commission staff contacted the state Department of Health who is investigating this issue.

Another customer stated they are having continual problems with bubbles in the water and are experiencing low water pressure. The Company determined which well the "bubbles" or milky water is coming from. The well is currently plumbed so all water goes through the pressure tank at this site. During longer pump running periods, the air is drawn from the tank as water passes through it. The Company will be re-plumbing this site so the well pumps directly into the water system and not through the pressure tank. The Company expects to complete this work by the middle of April, 2002. Regarding this customer's water pressure, the Company performed a static pressure test resulting at 75 lbs of pressure. In addition, the Company performed a flow pressure test resulting at 70 lbs of pressure. The minimum pounds required for water pressure is 30 lbs. Commission staff contacted the state Department of Health who verified this information.

One customer of the Harbor District inquired about the location of the generators which were paid for by an approved surcharge. The surcharge the customer is referring to was approved in October of 1997 as part of a comprehensive Company-wide plan to provide back-up generators. Prior to the approval of the surcharge the Company performed a survey in which the majority of its customers said they were willing to pay an additional amount for generators. Staff investigated and found the Company purchased 15 generators that are permanently installed on the various Harbor District water

systems. Another 90 portable generators were purchased and are located at the Harbor District office in Gig Harbor and can be delivered to systems that are affected by outages.

A sample of the current and proposed monthly rates are provided below:

Flat Rates

	<u>Current</u>	<u>Proposed</u>	<u>Revised</u>	<u>Percent</u>
Harbor District Residential	\$18.00	\$23.20	\$23.20	29% increase
South Sound District Residential	17.10	23.20	23.20	36% increase
Sunshine Acres & Rondelay Meadows Residential	26.00	23.20	23.20	12% decrease
Ready-to-serve	\$8.00	10.30	0.00	100% decrease

Metered Rates

<u>Harbor District</u>	<u>Current</u>	<u>Proposed</u>	<u>Revised</u>	
Base Rate				
¾ Inch Meter	\$11.50	\$15.48	\$15.04	
Usage included	None	None	None	
Usage Charge				
0-400 Cubic ft	\$0.90	\$1.45	1.40	
401-1400 Cubic ft	1.08	1.55	1.55	
Over 1400 Cubic ft	1.16	1.80	1.70	
Bill for 1,200 cf of usage	\$23.74	\$33.68	\$33.04	39% increase
<u>South Sound District</u>				
Base Rate				
¾ Inch Meter	\$15.43	\$15.48	\$15.04	
Usage included	None	None	None	
Usage Charge				
0-400 Cubic ft	\$1.36	\$1.45	1.40	

South Sound District (continued)

	<u>Current</u>	<u>Proposed</u>	<u>Revised</u>	
401-1400 Cubic ft	1.36	1.55	1.55	
Over 1400 Cubic ft	1.36	1.80	1.70	
Safe Drinking Water Surcharge	1.00	-0-	-0-	
Bill for 1,200 cf of usage	\$32.75	\$33.68	\$33.04	1% increase

Staff recommends the Commission Dismiss the Complaint and Order Suspending the Tariff Revisions in Docket UW-020168 and grant Washington Water's revised Tariff WN U-1, to be effective on April 11, 2002.