

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

AQUARIUS UTILITIES, LLC,

Petitioner,

For A Surcharge Tariff To Service Four
Drinking Water State Revolving Fund
Loans

DOCKET UW-160337

ORDER 01

ORDER GRANTING SURCHARGE
TARIFF

BACKGROUND

- 1 On March 25, 2016, Aquarius Utilities, LLC, (Aquarius or Company) filed with the Washington Utilities and Transportation Commission (Commission) a revision to its currently effective Tariff WN U-01, designated as Second Revision Sheet No. 27 canceling First Revision Sheet No. 27. The stated effective date is May 1, 2016.
- 2 Aquarius filed the revised surcharge rate to service \$2,056,214 in Drinking Water State Revolving Fund (DWSRF) loans approved by the Public Works Board (PWB). Proceeds from the loans were used for capital improvement projects on each of the Company's four water systems. The Company serves 930 customers located in Clallam, Kitsap and Mason counties.
- 3 The loan contracts are low-interest (1.5 percent), 20-year loans approved by the PWB on condition that, prior to September 9, 2008, Aquarius obtains Commission approval of rates to repay the loans. This revised surcharge rate filing satisfied that condition.
- 4 The DWSRF loan program provides low-interest loans to water systems around the state for capital improvements that increase public health protection and compliance with drinking water regulations. The Department of Health (DOH) and the PWB jointly administer the DWSRF program. The DOH staff evaluates all loan applications and, using a scoring method designed to measure the health risk that each project will address, assigns points to each application. The applications are then ranked according to their scores.
- 5 The PWB staff determines the available funding for each annual loan cycle, and the ranked project list shows this funding cutoff. Projects below the funding cutoff line do

not receive funding. The Public Works Board approves the final recommended funding list each spring. PWB staff also conducts an underwriting and readiness-to-proceed evaluation of each approved loan project.

6 DOH is responsible for evaluating and approving Water System Plans (WSP) or Small Water System Management Programs (SWSMP), which are requirements of both the DOH and DWSRF loan projects. DWSRF loan projects must be included in a WSP or SWSMP. In addition, the DOH evaluates and approves the project reports and construction documents for all DWSRF-funded loan projects.

7 On March 25, 2016, Aquarius notified its customers of the revised surcharge rate by mail. The Commission has received 6 customer comments on this filing.

8 Staff has reviewed the Company's supporting financial documents, books and records, including the proposed estimates for the repayment of the DWSRF loans. Staff believes the revised surcharge rate and additional owner equity investment are fair, just, reasonable and sufficient.

9 Aquarius and Staff have determined a new rate design in which both the company and the customers will contribute toward the SRF loan repayments. The customers will receive about a 16 percent increase in the monthly surcharge. The company will also provide additional owner equity of about 16 percent.

FINDINGS AND CONCLUSIONS

10 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including water companies. RCW 80.01.040, RCW 80.04, RCW 80.08, RCW 80.12, RCW 80.16 and RCW 80.28.

11 (2) Aquarius is a water company and a public service company subject to Commission jurisdiction.

12 (3) This matter came before the Commission at its regularly scheduled meeting on April 28, 2016.

- 13 (4) WAC 480-110-455 allows companies to file surcharge tariffs including that for which Aquarius seeks approval.
- 14 (5) Staff has reviewed the tariff revisions Aquarius filed in Docket UW-160337 and revised on April 22, 2016, including related work papers.
- 15 (6) The Company's DWSRF loan repayment proposal relies on three revenue sources: monthly surcharges paid by current and future customers, facilities charges paid by future customers and future equity investment by the owner. To ensure that the Company has sufficient revenue to service the four DWSRF loans, and because the revenue streams from the unknown future customers and future owner investment are not certain, Staff recommends that Commission approval of the revised surcharge rate should be subject to the following conditions:
- a) The surcharge applies to all water customers served by the Company. The surcharge expires on December 31, 2028, or upon recovery of \$2,056,214 in principal, whichever occurs first.
 - b) Funds received from the surcharge, including interest earned on the funds while held in a reserve account, will be treated as contributions in aid of construction.
 - c) All future funds received through the Company's facilities charge (current tariff and contracts), including any interest earned on the funds while held in a reserve account, will be used to pay the four DWSRF loans until the surcharge expires.
 - d) Surcharge funds and facilities charge funds collected and interest earned upon such funds must be held in a separate DWSRF loan reserve bank 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 or facilities charge funds will be transferred to the new owner of the Company.
 - e) The owner will invest a minimum of \$11,320 annually by July 1 of each year, beginning in 2016, and every year thereafter, until the surcharge expires. These funds will be held in the same DWSRF loan reserve bank

account specified in condition (d) above. Additional owner's equity investment may be required to make the annual DWSRF loan payment, if revenue from the surcharge and the facilities charges is inadequate.

- f) The Company must report the following DWSRF loan reserve bank account information to the Commission within 45 days of the end of the calendar quarter:
 - 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.

- g) After 2016, excess funds held in the DWSRF loan reserve bank account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the DWSRF loans. "Excess funds" means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.

- 16 (7) After reviewing Aquarius's tariff revisions filed in Docket UW-160337 on March 25, 2016, revised on April 22, 2016, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the proposed revised surcharge rate and additional owner equity investment should be granted for the following reasons:
- a. The Department of Health WAC 246-290-420 requires that water service be maintained at all times to prevent health and safety risks to customers. These four projects funded by the DWSRF loans will help ensure adequate water supply.

 - b. The PWB provides government-funded, low-interest loans and requires an assurance of repayment. This revised surcharge rate, subject to the recommended conditions, would satisfy that condition.

 - c. The DWSRF loan is necessary to allow the Company to pay for the storage tank projects. The proposed revised surcharge rate will allow the Company to repay the loan by recovering the cost of the storage tank projects from its customers.

ORDER

THE COMMISSION ORDERS:

- 17 (1) Aquarius Utilities, LLC's request for a revised surcharge rate to service
\$2,056,214 in Drinking Water State Revolving Fund loans approved by the Public
Works Board, is granted.
- 18 (2) This authorization is subject to conditions (a) through (g) set forth in paragraph 15
of this Order.
- 19 (3) This Order shall not affect the Commission's authority over rates, services,
accounts, valuations, estimates, or determination of costs, on any matters that may
come before it. Nor shall this Order granting a revised surcharge rate be construed
as an agreement to any estimate or determination of costs, or any valuation of
property claimed or asserted.
- 20 (4) The Commission retains jurisdiction over the subject matter and Aquarius
Utilities, LLC, to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective April 28, 2016.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner