

Agenda Date: August 29, 2007
Item Number: **A6**

Docket: **UW-070944**
Company Name: Rosario Utilities, LLC

Staff: Jim Ward, Regulatory Analyst
John Cupp, Regulatory Analyst
Lynda Johnson, Consumer Program Specialist

Recommendations

1. Issue a Complaint and Order Suspending the Tariff Revisions filed by Rosario Utilities, LLC.
2. Grant the request for Less Than Statutory Notice to file staff recommended revised rates to become effective September 1, 2007.
3. Allow temporary rates at the staff recommended revised rates to become effective September 1, 2007, subject to refund.

Background

Rosario Utilities, LLC (Rosario Utilities or company) is a regulated water utility providing service near Eastsound, on Orcas Island in San Juan County. Rosario Utilities has 198 customers receiving water service and 88 customers on “ready-to-serve” status.

In December 2006, Rosario Utilities and Washington Water Service Company (Washington Water Service) met with commission staff to discuss the commission’s general rate increase process and the possible sale and transfer of Rosario Utilities to Washington Water Service.

On April 2, 2007, Rosario Utilities and Washington Water Service held a meeting for Rosario Utilities’ customers on Orcas Island. About 60 people attended the meeting. Commission staff participated by conference call from Olympia. The purpose of the meeting was to answer customer questions regarding the company’s proposed general rate increase and to introduce personnel from Washington Water Service, who had begun negotiations to purchase Rosario Utilities’ water system assets. Rosario Utilities responded to customer questions and provided financial documents so that customers would have a better understanding about the proposal.

During that meeting, staff explained to customers the rate filing process and the sale and transfer process. Customers asked questions about the former capital improvement surcharge (which expired this year) and about the capacity of the company’s water treatment system.

Rosario Utilities notified its customers of its proposed rate increase by mail on May 10, 2007, and filed its tariff changes with the commission on May 11, 2007, with a proposed effective date of July 1, 2007. Rosario Utilities has since extended the effective date of the revised rates to September 22, 2007.

The commission received customer comments at two open meetings: on May 23, 2007, four customers attended and participated in person, and another group of customers participated on the telephone conference bridge; on June 6, 2007, two customers attended and participated in person, and several other customers participated on the telephone conference bridge.

On June 14, 2007, staff attended a meeting with customers at Rosario Resort sponsored by Rosario Utilities and Washington Water Service. This second public meeting sponsored by the companies was held to respond to customers' comments and questions regarding the proposed rate increase and the proposed sale and transfer. Approximately 108 customers attended this meeting.

On June 22, 2007, Rosario Utilities and Washington Water Service filed a joint application for the sale and transfer of Rosario Utilities' water system assets, which is Docket UW-071357.

Discussion

As noted above, on May 11, 2007, Rosario Utilities filed a general rate increase seeking \$147,586 in additional revenue per year; a 62 percent increase in revenues. According to the company, the filing was necessary to offset higher operating costs and to update the rate base for capital improvements that replaced aging plant and/or improved the reliability of the water system. The company's last general rate increase became effective August 2002.

Customer Comments:

More than 150 customers have attended company-sponsored meetings and/or commission open meetings to ask questions and make comments. The commission also received 95 written comments expressing opinions or concerns on a variety of issues regarding both the rate case and the sale and transfer of the water system assets to Washington Water Service.

To facilitate staff's understanding and consideration of customer concerns and questions, staff reviewed all of these comments. Staff then included as Attachment A to this memorandum a summary of these customers' concerns and questions, followed by staff's analysis and staff's actions in response.

The company has also responded in writing to specific customer questions. The company's response is attached as Attachment B.

Staff believes that all issues have been reasonably considered and addressed, and the company's revised rate increase can move forward.

Revenue Requirement:

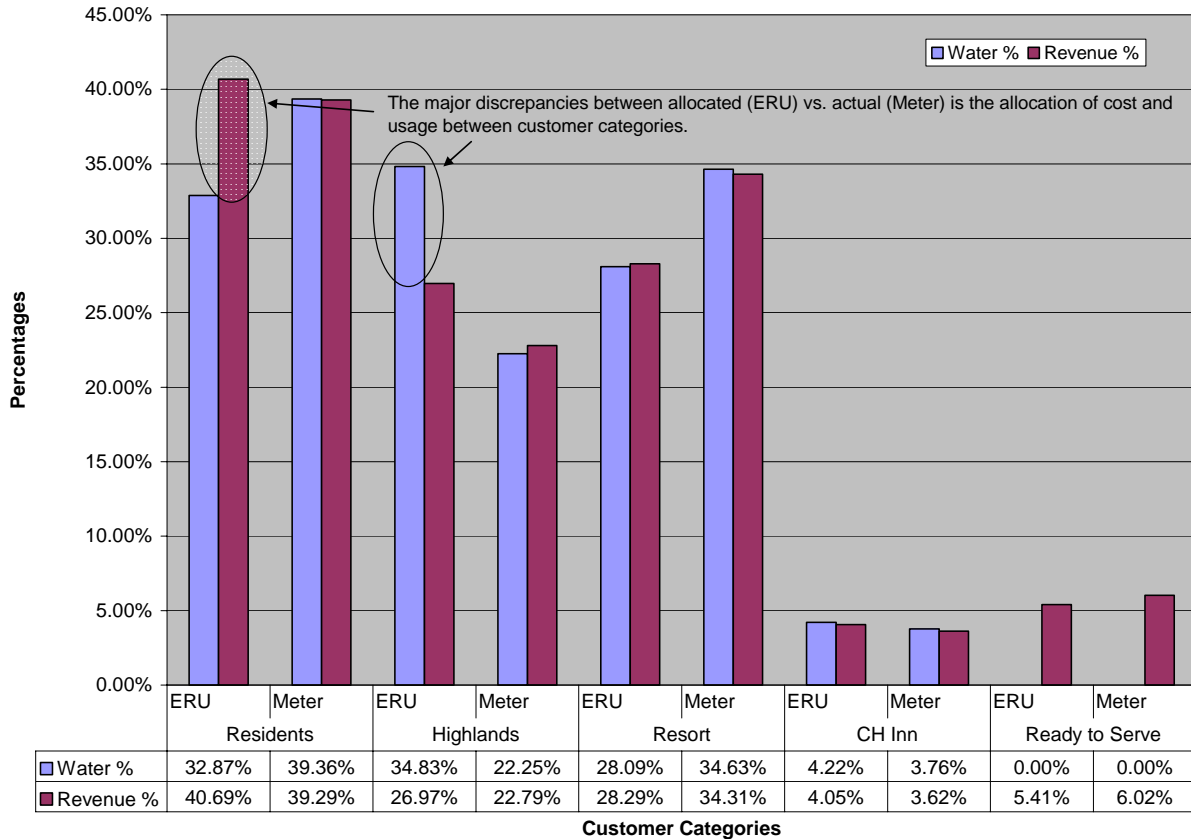
The company requests a rate increase that would increase annual revenue by \$147,586 (62 percent), for a total of \$384,326 in annual revenue. Staff audited the company's financial books, records, general ledger and receipts for expenses and capital improvements. Staff concludes that the company's financial records, with appropriate ratemaking adjustments, justify a total revenue need of \$402,826 total annual revenue. In other words, the company could have justified rates that would increase revenue by \$166,546 (70 percent) per year, or \$18,960 more than the company requested. Staff's results of operations analysis is contained in attached Attachment C.

Rate Design:

The company's original proposed rates were based on Equivalent Residential Units (ERU's), which is the method the commission approved in the 2002 rate case. However, since then, the company has installed meters to all customers and collected actual usage data. Consequently, it is no longer necessary to use ERU's for rate design. Indeed, customers have said they believe rates based on ERU's may not assign appropriate costs to customers who actually use the most water.

Staff reviewed the relationship between the amount of water used and the amount of revenue paid for each customer category. We found that the "Residents" category used proportionately less water than it paid and the "Highlands" category used proportionately more water than it paid.

**Comparison of Water Usage and Revenue by Customer Categories
 Allocated (ERU) vs. Actual (Meter)**



Staff agrees with customers on this point. Rates based on historic water usage data will better assign costs to all customers. Therefore, staff recommends a rate design based on water usage data.

Rate Comparison

BASE CHARGE			
Meter Size	Current Rates (ERU)	Proposed Rates (ERU)	Revised Rates (Meter)
Bulk ¾ inch	\$25.00	\$38.45	N/A
¾ inch	\$29.75	\$43.20	\$21.92
1 inch	N/A	N/A	\$36.61
1 ½ inch	N/A	N/A	\$72.99
2 inch	N/A	N/A	\$219.20
Ready to Serve	\$12.00	\$24.00	\$21.92

USAGE RATES *			
Monthly Usage	Current Rates (ERU)	Proposed Rates (ERU)	Revised Rates (Meter)
0-3,000 gallons, per 100 gal	\$0.22**	\$0.52	\$0.83
3,001-6,000 gallons, per 100 gal	\$0.34**	\$0.55	\$0.83
6,001-7,500 gallons, per 100 gal	\$0.34**	\$0.55	\$1.56
7,501-18,000 gallons, per 100 gal	\$0.47**	\$0.66	\$1.56
18,001 or more gallons, per 100 gal	\$0.47**	\$0.66	\$1.87

* Usage rate table shown for ¾ inch meter. Other meter sizes use different usage blocks.

** Company tariff written in per gallon and charged per gallon

ERU = Equivalent Residential Unit

gal = gallon of water (7.48 gallons of water = 1 cubic foot)

Staff worked with the company to develop a metered rate design that uses historic meter usage data, accommodates different meter sizes, generates the company’s revenue requirement and allocates costs to the actual users (by customer category) by equating the calculation of “percentage water used” to “percentage revenue generated.” Staff adjusted usage data to correct mathematical errors, misread meters and leaking pipes.

For example, the Orcas Highlands Homeowners Association (HOA) experienced a loss of water due to water leaking from pipes over an extended period. During November 2006, the company replaced a 2-inch meter pipe that serviced the HOA. To develop an appropriate rate design, staff needed to avoid using inaccurate usage data caused by the leaks in the HOA pipe before it was replaced. Staff therefore adjusted all of the 2006 monthly usage data before the pipe replacement in November to reflect more reasonable usage levels.

Conclusion

Staff concludes that Rosario Utilities has demonstrated it needs the additional revenues it requested. However, an alternative rate design should be used to collect the revenue requirement. Staff therefore recommends the company ask the commission to approve revised rates, based on historical usage data. Staff recommends the commission approve the company’s request that the revised rates become effective September 1, 2007, on less than statutory notice (LSN). The revised rates, compared to the original rate proposal, will increase some customer’s monthly bill and decrease some customer’s monthly bills. See Attachment D – Rate Comparison Proposed to Revised. On August 23, 2007, the company notified customers of the agreed revised rates by mail.

Customers deserve the opportunity to comment on the revised rates and the commission should

consider all information, including any additional customer comments on the revised rates, in deciding whether to approve the revised rates. Therefore, staff recommends that the commission allow the revised rates to become effective on a temporary basis, subject to refund, on less than statutory notice, to allow customers the opportunity to comment.

Specifically, staff recommends that the commission:

1. Issue a Complaint and Order Suspending the Tariff Revisions filed by Rosario Utilities, LLC.
2. Grant the request for Less Than Statutory Notice to file staff recommended revised rates to become effective September 1, 2007.
3. Allow temporary rates at the staff recommended revised rates to become effective September 1, 2007, subject to refund.

Attachments:

- Attachment A - Customer Comments - Staff Response
- Attachment B - Company Response to Customer Comments
- Attachment C - Results of Operations
- Attachment D - Rate Comparison - Proposed to Revised