

Agenda Date: May 28, 2009
Item Number: A7

REVISED May 26, 2009

Docket: UW-090516
Company Name: Cristalina LLC

Staff: Amy White, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendation

Grant Cristalina LLC's request for a surcharge to service a \$555,500 Drinking Water State Revolving Fund loan approved by the Public Works Board, subject to conditions (a) through (g) set forth in staff's memorandum.

Discussion

On April 8, 2009, Cristalina LLC (Cristalina or company) filed with the Utilities and Transportation Commission (commission) a surcharge to service a \$555,500 Drinking Water State Revolving Fund (DWSRF) loan approved by the Public Works Board (PWB). Proceeds from the loan will be used for capital improvement projects such as metering all connections, installing a new generator, improving system controls, and increasing water storage. The system is at full capacity and no new customers are anticipated. The company serves 84 customers in a subdivision in Ravensdale, located in eastern King County.

There are no meters on the water system and the company charges all customers \$45 per month. The proposed surcharge is \$32 per month per customer, and would generate \$32,256 (71.1 percent) in additional annual revenue.

The loan contract is for a low interest (1.5 percent), 20-year loan approved by the PWB with the condition that Cristalina obtain commission approval of rates to repay the loan. This surcharge filing, if approved, meets that condition.

Staff has reviewed the cost estimates for the proposed projects, the terms and conditions of the DWSRF loan, and believes the proposed surcharge tariff Cristalina 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 June 1, 2029, or upon recovery of \$555,000 in principal, 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 and facilities charge funds (if any) 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 or facilities charge funds will be transferred to the new owner of the company.

- d) The water company must report the following information to the commission within 45 days of the end of each 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.
- e) The company will immediately deposit any one-time 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 DWSRF loan. "Excess funds" means money accumulated in the separate reserve account in excess of 10 percent of the DWSRF loan payment for the following year.
- g) Upon completion of the construction projects, which is expected by November 2009 according to the company's DWSRF loan application, the company shall provide the commission with a complete accounting of all expenses. Cristalina must file the report no later than March 30, 2010, so the surcharge amount can be adjusted to the actual costs of all projects, not to exceed the original loan amount of \$555,000.

In addition, staff's initial review of company's financial information showed that the company's current \$45 flat rate may generate more revenue than the company requires to pay reasonable operating expenses and earn a reasonable return. Thus, Cristalina's rates may be unjust and unreasonable. Staff is working with Cristalina to make a new tariff filing regarding general rates. If the company does not file a general rate case, staff will recommend that the Commission file a complaint against the company's rates.

Customer Comments

Two customer comments have been received to date; both are opposed to the proposed increase. Please note: Customers often address several issues of concern within one comment. Therefore, subtotals may not equal the total number of comments submitted.

Consumer Protection staff advised customers that they may access company documents pertinent to this rate case at www.utc.wa.gov, and www.utc.wa.gov/water and that they may contact Dennis Shutler at 1-888-333-9882 with questions or concerns.

Filing Documents and Methodology Comments

- One customer commented how improved maintenance, water pressure and a back-up generator were promised during the last rate increase and this promise was not kept. Now the company promises the same upgrades and wants another rate increase. This customer wonders why the revenue from the last rate increase wasn't used for the upgrades as promised.

Staff Response

The company became regulated with the UTC effective February 15, 2003. The company has not filed for any rate changes in the interim. Staff cannot comment on rate increases that became effective prior to regulation of the company. The commission requires that a rate surcharge increase approved to fund a capital improvement must be used for the specific capital improvement.

Service Quality Comments

- One customer believed he had poor water pressure.

Staff Response

This customer did not know the water pressure at his residence and whether the water pressure had ever been tested. Staff advised the customer to contact the company to request a water pressure test.

Business Practice Comments

- One customer commented on the company's need for water meters. This customer does not believe the company needs a meter to shut off the water of those customers who refuse to pay when there are legal channels the company may pursue.

Staff Response

This customer was advised that water meters are a tool for both water companies and its customers to establish a customer's usage pattern and to encourage conservation.

- One customer believes the company intends to sell this water system to Covington Water and wants the system users to pay for the upgrades necessary to make it more attractive to sell.

Staff Response

Staff has no information regarding this issue and cannot comment. Covington Water District is not regulated by the commission.

General Comment

- One customer believes the amount of the increase is excessive and it will create a hardship on the water system's customers.

Staff Response

Customers were advised that state law requires rates to be fair and reasonable for customers, and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment.

- One customer stated the company should pay for upgrades or enhancements to the water system, that they are supplying a service and it is the company's responsibility to ensure it is delivering safe and satisfactory water. Further, that it is unfair for consumers to have to fund the loan that makes them follow the requirements of the state and satisfy the company's obligations to its customers.

Staff Response

Customers were advised that state law requires rates to be fair and reasonable for customers, but sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment.

Surcharge Rate Schedule

Time Period	Proposed Surcharge Rate
Monthly surcharge June 1, 2009 – June 1, 2029 *	\$32.00
One-time payment * (within 90 days of filing approval)	\$6,607.00
*With surcharge to be recalculated based on actual construction costs in a new filing by the company no later than March 31, 2010	

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review shows that the estimated construction expenses are reasonable and required as part of the company's operations. The company's financial information supports the proposed surcharge request and the proposed surcharge is fair, just, reasonable, and sufficient.

Conclusion

Grant Cristalina LLC's request for a surcharge to service a \$555,500 Drinking Water State Revolving Fund loan approved by the Public Works Board, subject to conditions (a) through (g) set forth in staff's memorandum.