

Agenda Date: September 26, 2019
Item Number: A2

Docket: UW-190712
Company Name: Company Seventy-Nine d/b/a Red Mountain Water Association

Staff: Benjamin Sharbono, Regulatory Analyst
Jim Ward, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

Take no action, allowing the tariff WN U-2, filed on August 23, 2019, as revised on September 20, 2019, to go into effect October 1, 2019, by operation of law.

Discussion

On August 23, 2019, Company Seventy-Nine d/b/a Red Mountain Water Association (Red Mountain or company) filed with the Washington Utilities and Transportation Commission (commission) a general rate increase. The proposed increase would generate approximately \$15,060 (25 percent) additional annual revenue.

The reason for the increase is due to increased operating costs, which consist primarily of labor and electricity costs. The company serves 85 residential customers on a water system in Benton County. The company's last general rate increase was effective June 1, 2009, for \$10,000 (20 percent) additional annual revenue.

Commission staff's (staff) review of documents provided by the company justified an annual revenue increase of \$8,136 (13.5 percent). Much of the reduction in the requested revenue increase was in wages from the affiliate company AllPro, Inc., which included substantial overhead expenses. Staff excluded these overhead expenses as not specific to the water company operations.

The company and staff discussed and agreed that the test year repair expenses were abnormally high during the test year. The company revised their expenses using a 3-year average of repair expenses.

Also affecting the revenue requirement was depreciation of assets. The company and staff identified several assets in the depreciation schedule that were no longer used and useful. Staff also adjusted lives based on company input, including shortening lives on pumps due to the company's experience with pump failures.

The company proposed only to change the usage rate charges, leaving usage blocks at current levels. Based on current customer usage information, the current usage block structure is excessive and does not promote conservation. Though the current usage Block 1 (winter average

usage) is 8,000 gallons, which staff believes is high, given the arid regional climate of the system, is reasonable. To affect conservation efforts, staff is proposing changing the Block 2 cap.

Usage Block 2 currently tops at 80,000 gallons. Staff proposes moving closer to the actual summer average usage by reducing Block 2 by 15,000 gallons per month to 65,000 gallons, approximately a 19 percent reduction. Staff proposes increasing the Block 2 usage rate from \$0.91 to \$1.00 per 1,000 gallons.

Further encouraging conservation, decreasing Block 3's usage threshold to 65,000 shifts a greater portion of high volume users into the higher block. Staff proposes the usage Block 3 rate per 1,000-gallons should increase by 15 percent from \$1.00 to \$1.15. See the table below. The company agreed to staff's proposed changes.

After reviewing the rate case and discussions with Red Mountain, staff and company agreed to replace the tariff WN U-1 with complete and updated WN U-2, modernizing and expanding the information and rules to meet current regulatory requirements, especially cross connection control.

Meter Rate Schedule

| Monthly Rate | Current Rate * | Proposed Rate * | Revised Rate * |
|--|----------------|-----------------|----------------|
| Current base rate 1-inch meter | \$19.00 | \$23.00 | \$21.00 |
| Current Usage Block 1 0 – 8,000 Gallons*** | \$0.75 | \$0.91 | \$0.80 |
| Current Usage Block 2 8,001 – 80,000 Gallons | \$0.91 | \$1.15 | \$1.00 |
| Revised Usage Block 2 8,001 – 65,000 Gallons | | | \$1.00 |
| Current Usage Block 3 Over 80,001 Gallons | \$1.00 | \$1.25 | \$1.15 |
| Revised Usage Block 3 Over 65,001 Gallons | | | \$1.15 |
| 1 ½-Inch Meter | | | |
| Current base rate 1 ½-inch meter | \$31.00 | \$39.00 | \$42.00 |
| Current Usage Block 1 0 – 16,000 Gallons*** | \$0.75 | \$0.91 | \$0.80 |
| Current Usage Block 2 16,001 – 160,000 Gallons | \$0.91 | \$1.15 | \$1.00 |
| Revised Usage Block 2 16,001 – 130,000 Gallons | | | \$1.00 |
| Current Usage Block 3 Over 160,001 Gallons | \$1.00 | \$1.25 | \$1.15 |
| Revised Usage Block 3 Over 130,001 Gallons | | | \$1.15 |

* Rates are per 1000 gallons of usage.

** Other meter size usage blocks are found in the tariff.

*** 1,000 gallons equals approximately 134 cubic feet

The commission standard conversion factor for the 1 ½-inch meter size is 2 times the 1-inch rate. Red Mountain is currently factoring the rates at 1.6 times the 1-inch rate. Applying the standard conversion factor increased the base charge for 1 ½-inch meters above the proposed rate noticed to customers. This will affect 8 of the company's 85 customers.

Monthly Residential Bill Comparison

| Monthly Average 35,934 Gallons | Current Rate | Proposed Rate | Revised Rate |
|--|---------------------|----------------------|---------------------|
| 1-inch Metered Service Base | \$19.00 | \$23.00 | \$21.00 |
| Current Usage Block 1 0 – 8,000 Gallons | \$6.00 | \$7.60 | \$6.40 |
| Current Usage Block 2 8,000 – 80,000 Gallons | \$25.42 | \$32.12 | |
| Revised Usage Block 2 8,000 – 65,000 Gallons | | | \$27.93 |
| Current Usage Block 3 Over 80,001 Gallons | \$0.00 | \$0.00 | |
| Revised Usage Block 3 Over 65,001 Gallons | | | \$0.00 |
| Water Bill Total | \$50.42 | \$62.72 | \$55.33 |
| Increase From Current Rates | | \$12.30 24.4% | \$4.91 9.75% |

Although the average water bill shows a 9.75 percent increase, with the company revenue requirement increasing by 13.5 percent, the proposed changes to Block 3 will allow the company to earn the total revenue requirement based on current usage data. While staff is attempting to encourage conservation, staff believes any reduction in usage will help extend the lives of pump equipment and reduce operations costs, such as power. Additionally, staff believes the cost of water per 1,000-gallon unit is not significant enough to substantially impact water usage habits; however, increasing the rates further would over generate returns for the company.

The company has no additional surcharges, fees, or rates affecting standard customer usage bills.

Customer Comments

On August 29, 2019, the company notified its customers of the proposed rate increase by mail. Staff received one consumer comment opposing the proposed rate increase. The customer was notified that they may access relevant documents about this rate increase on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or john.cupp@utc.wa.gov with questions or concerns.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, books, and records. Staff has been able to determine that the revised operating expenses are reasonable and required as part of the company's operation. The company's financial information does support the revised revenue requirement, and the revised rates and charges.

Recommendation

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