

Agenda Date: August 29, 2001
Item Number: **2E**

Docket: UW-010866

Company Name: American Water Resources, Inc.

Staff: Jim Ward, Revenue Requirements Specialist
Chris Vernon, Public Involvement Coordinator

Recommendation:

Dismiss the Complaint and Order Suspending the Tariff Revision filed by American Water Resources, Inc., in Docket UW-010866, and approve the revised surcharge and require reporting, effective September 1, 2001.

Discussion:

On June 14, 2001, American Water Resources, Inc., (AWR or Company) filed to extend the expiration date of a surcharge previously approved by the Commission to pay for additional costs incurred in performing capital improvements. At the July 11, 2001, Open Meeting, the Commission issued a Complaint and Order Suspending the tariff filing. AWR serves approximately 1,822 active customers in Lewis, Thurston, Pierce, and Grays Harbor County.

Effective May 1, 1999, the Commission approved the 1999 DOH Critical Item List Surcharge of \$4.54 per customer, per month for a period of five-years, and required the company to file quarterly reports with the Commission. This surcharge was approved based on construction cost **estimates** to fund capital improvements for 13 critical projects as required by the Department of Health (DOH).

AWR has completed work on the 13 critical projects but did not perform all of the work AWR proposed to include in the 13 critical projects originally approved by DOH. For example, the original approved work included installing service meters on five water systems, but AWR did not install any service meters as part of the work due to limited funds. DOH has accepted and approved all 13 critical projects because AWR completed all health-related improvements.

AWR states that actual construction costs exceeded the original estimates, even with less work completed. AWR has now submitted backup information on actual construction costs. That information shows that actual costs significantly exceed the original estimated costs, not all of work originally proposed was completed, and all projects were done by V.R. Fox Company, an affiliate of AWR. Staff has completed its review of the books and records of both AWR and V.R. Fox Company, and believes AWR has demonstrated that it should recover some additional construction costs, but less than the company requested in the June 14, 2001 filing.

The surcharge, as approved by the Commission in May 1999, was originally set to expire May 1, 2004, or upon recovery of the loan principal (\$380,350), plus loan fees, whichever occurred first. The revised surcharge would be collected from all customers of AWR and will be extended to December 31, 2006. AWR proposes to finance the additional costs and incorporate the original loan into one new loan. The new loan will be for an additional 20 months or upon recovery of the loan principal (\$406,273), plus loan fees, and will also carry a lower interest rate (7.25%) that will save the company and customers in total interest cost. The following table illustrates the extension of the surcharge based on the current surcharge of \$4.54 and 1,822 customers:

	<u>Current</u>	<u>Proposed</u>	<u>Revised</u>
Loan Principal	\$380,350	\$659,589	\$406,273
Interest Rate	9.29%	7.25%	7.25%
Expiration Date	05/01/2004	12/01/2009	12/31/2006
1999 DOH Critical Item List Surcharge	\$ 4.54	\$ 4.54	\$ 4.54

The Commission previously received ten comments regarding this filing. The customers who commented on this case either have not seen improvements to their own system or they are already satisfied with the system they have and do not wish to pay for improvements to other systems.

Surcharge collection and administration are subject to the provisions of WAC 480-110-455, water company funding mechanisms and specifically WAC 480-110-455 (4), accounting and reporting requirements.

The funds received as a result of the 1999 DOH Critical Item List Surcharge will be deposited into a separate reserve account exclusively for the purpose of making capital improvements identified as part of the Company's capital improvement plan approved by the Department of Health. This separate reserve account will be listed on all company financial records and will be considered a cash account asset (NARUC account #127). Expenditures from the reserve account will be treated as customer contributions for ratemaking purposes. AWR has agreed to provide quarterly reports. Staff has completed its review and the company has demonstrated that the revised surcharge is appropriate.

Conclusion:

Although the actual construction costs significantly exceed the original estimates and AWR awarded all contracts to an affiliate construction company, Staff concludes that AWR has demonstrated that it should recover some additional costs. By extending the expiration date of the current surcharge, customers will not see an immediate rate increase. Therefore, staff recommends that the Commission Dismiss the Complaint and Order Suspending the Tariff Revision filed by American Water Resources, Inc., in Docket UW-010866, approve the revised surcharge to become effective September 1, 2001, and require AWR to file quarterly reports on the surcharge collections and expenditures.