

Agenda Date: March 28, 2013
Item Number: A2

Docket: UW-130290
Company Name: Swift Asset Management, Inc., dba Marvin Road Water Company

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

Recommendation

1. Allow the revised rates and tariff revision filed on March 18, 2013, by Swift Asset Management, Inc., dba Marvin Road Water Company to become effective on March 29, 2013, by operation of law.
2. Grant Swift Asset Management, Inc., dba Marvin Road Water Company's request for exemption from portions of WAC 480-07-530(4), work paper filing requirements.
3. Issue an order requiring Swift Asset Management, Inc., dba Marvin Road Water Company to provide quarterly reporting in compliance with WAC 480-110-455(4), Accounting and Reporting Requirements.

Discussion

On February 25, 2013, Swift Asset Management, Inc., dba Marvin Road Water Company (company) filed with the Utilities and Transportation Commission (commission) a tariff revision that would increase rates and generate \$36,845 (26.4 percent) additional annual revenue. The proposed three-year surcharge is designed to recover the cost of a failed water distribution line, expenses for emergency temporary repairs, emergency field repairs and to replace corrosion control treatment media. The proposed effective date is March 29, 2013. The company provides water service to 246 customers on three water systems located in Thurston County. The company's last rate increase was effective on April 1, 2004.

The company's filing asks for an exemption from portions of WAC 480-07-530(4), work paper filing requirements. The company notes that the revenues and expenses are for a specific purpose and that all of the work papers required by WAC 480-07-530 are not necessary.

This matter came before the commission on March 14, 2013, for comments from the public and to address the company's request the proposed tariffs to become effective on March 15, 2013, on Less than Statutory Notice (LSN). The commission received no comments and took no action on the company's LSN request because the company had extended the effective date of its tariff to March 29, 2013.

The proposed surcharge consists of several parts:

1. Recover \$24,197 cost incurred between January 2011 and November 2012 for normal repairs and emergency repairs (including temporary, above-ground pipe to repair a water main break in June 2012) on the Hawk Acres water system (ID# 34505K).
2. Estimated \$57,341 to replace temporary above-ground pipe that the company installed in part 1 with below-ground permanent pipe. By letter dated October 8, 2012, the Department of Health identified this as a “significant deficiency” and stated that this “should be completed by October 31, 2012”.
3. Estimated \$5,493 cost to replace corrosion control media on the Horsfall water system (ID# 31845T), which has not lasted as long as originally projected.
4. Financing costs.

Staff’s review of the filing finds that some items the company proposed to include in the surcharge are recurring and, therefore, should be recovered in general rates, not a surcharge. The company provided invoices for emergency repairs that spanned several years and all three of the water systems owned by the company. None of the repairs are subject to a commission order granting deferred accounting treatment. Therefore, staff only considers the emergency repair items during 2012, the test period. Staff’s review of this portion of the surcharge recovery totals \$20,979.

Staff agrees with the cost to replace the temporary, above-ground pipe that the company installed in part 1 with below-ground permanent pipe, which totals \$57,341.

Staff removed the corrosion control media replacement for the Horsfall water system (\$5,493) because corrosion control media requires replacement every two to three years and should be treated as a normal expense and recovered through normal rates.

Staff’s total cost of recovery for emergency repairs and new construction is \$78,320. Using the company’s proposed debt and equity funding, the projected total financing cost would be \$6,875 over the three-year surcharge period. The company will also collect state utility tax applicable to the surcharge revenue. The surcharge is set to expire in three years or after collection of \$89,479, whichever occurs first.

The company asked for an exemption from portions of WAC 480-07-530(4), work paper filing requirements. This section requires the company to file revenue impacts to classes of customers, financial statements, restating and pro forma adjustments to the financial statements, water usage statistics, separate regulated activities from non-regulated actives, and provide information on affiliated transactions. The company supported this filing with adequate work papers to determine the surcharge and its impact on customers, but not the additional information required by the rule. Staff agrees with the company’s request and recommends that the commission grant the request.

On March 18, 2013, the company filed revised rates at staff-recommended levels. The filing includes agreed revised surcharge items and is set to recover \$89,479. The revised tariff revision would increase rates and generate \$29,826 (21.3 percent) additional annual revenue.

Customer Comments

On February 8, 2013, the company notified its customers of the proposed surcharge by mail. Staff received five consumer comments, which opposed the surcharge. On March 14, 2013, the commission heard customer comments at its open meeting. One customer commented. Customers were notified that they may access relevant documents about this surcharge on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or jcupp@utc.wa.gov with questions or concerns.

General Comments

- The company already collects a surcharge of \$15.35 per month. The addition of the proposed surcharge would be a burden on customers.

Staff Response

The customers were advised that state law requires rates to be fair, just, reasonable, and sufficient to allow the company to recover reasonable operating expenses and earn a reasonable return on its investment. Regulatory staff reviews filings to ensure that all rates and fees are appropriate.

Current, proposed and revised rates are shown below for the general rate increase.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
EME Surcharge	NA	\$12.36	\$10.10

Using the company's proposed rates, a customer would pay \$12.36 (25.4 percent) more than the current rates (see "Average Bill Comparison" table below). Using the revised rates, a customer would pay \$10.10 (20.8 percent) more than current rates (see "Average Bill Comparison" table below). Current, proposed and revised average bills are shown below for comparison. The company has a State Revolving Fund Loan surcharge of \$15.35 per month, set to expire March 29, 2016.

Average Bill Comparison

Average Monthly Usage 838 Cubic Feet	Current Rate	Proposed Rate	Revised Rate
Base Rate	\$22.00	\$22.00	\$22.00
0 – 838 Cubic Feet	\$11.31	\$11.31	\$11.31
SRF Surcharge *	\$15.35	\$15.35	\$15.35
EME Surcharge **	NA	\$12.36	\$10.10
Average Monthly Bill	\$48.66	\$61.02	\$58.76
Increase From Current Rates		\$12.36	\$10.10
		25.4%	20.8%

* To expire April 1, 2024, or upon recovery of \$722,029.

** To expire March 29, 2016, or upon recovery of \$89,479.

Conclusion

Commission staff has completed its review of the company’s supporting financial documents, books and records. Staff’s review of the filing shows that the expenses are reasonable and required as part of the company’s operation. The customers’ comments do not change staff’s opinion that the company’s financial information supports the revised revenue requirement, and the revised rates and charges are fair, just, reasonable and sufficient.

Staff recommends that the commission issue an Order to:

1. Allow the revised rates and tariff revision filed on March 18, 2013, by Swift Asset Management, Inc., dba Marvin Road Water Company to become effective on March 29, 2013, by operation of law.
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