

Agenda Date: August 25, 2011
Item Number: A1

Docket: UW-110917
Company Name: Suncadia Water Company, LLC

Staff: Jim Ward, Regulatory Analyst
Pam Smith, Consumer Protection Staff

Recommendation

Issue an Order to:

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Suncadia Water Company, LLC in Docket UW-110917 dated May 26, 2011.
2. Approve rates filed by Suncadia Water Company, LLC on March 25, 2011, as revised to staff recommended levels on August 11, 2011, to become effective September 1, 2011.
3. Approve a Water Usage True-up rate as filed by Suncadia Water Company, LLC on March 25, 2011, to become effective September 1, 2011, and to expire after collection of \$7,168 or after the expiration date of August 31, 2012.

Discussion

On March 25, 2011, Suncadia Water Company, LLC (Suncadia or company) filed with the Utilities and Transportation Commission (commission) a general rate increase that would generate \$159,341 (22.1 percent) additional annual revenue. The company also requests, through a separate surcharge, recovery of \$7,168 (less than 1 percent) as a true-up of water usage resulting from deferred accounting treatment approved in the company's last general rate case in Docket UW-081226. The company's last general rate increase became effective December 1, 2008. The company serves 1,154 customers (327 metered, 827 ready-to-serve) near Cle Elum, in Kittitas County.

Order 02 in Docket UW-081226, ordered Suncadia to file a general rate case when actual customer usage data is available for a twelve-month period, but no later than May 1, 2010. On April 30, 2010, Suncadia filed with the commission a petition seeking an extension of time until June 1, 2010, to file the required general rate case because key members of its accounting staff had other complex projects delayed or prolonged, which affected its ability to complete the general rate case. Prior to commission action on the petition, the company requested an additional extension. On May 28, 2010, Suncadia filed with the commission another petition seeking an additional extension of time until July 1, 2010, to file the required general rate case because key members of its accounting staff have not completed the complex task of preparing the general rate filing. The commission granted Suncadia's requests for an extension of time until July 1, 2010. Suncadia did not meet any of the filing deadlines. The stated effective date of the current filing is June 1, 2011.

On May 26, 2011, the commission issued an order suspending this filing for further review. After review, staff found the proposed rates would generate excessive revenues. Staff determined that the company's books and records supported a lower revenue requirement of \$45,919 (6.5

percent) additional annual revenue. Staff and the company have agreed to a revised rate design that would generate the additional \$45,919 revenue. On August 11, 2011, the company filed revised rates at the agreed levels.

When compared to the company's proposal, the revised rates lower the ready-to-serve and base charges, and also reduce usage rates associated with two of the three usage blocks. For the twelve-month test period, resulting monthly charges incurred by customers using the revised rates are less than monthly charges that customers would have paid using the proposed rates that were filed by the company with the commission and noticed to customers.

General Rate Increase

Suncadia filed its first general rate case July of 2008. That rate case established metered rates with a base charge, varying by the size of the meter, and one usage rate of all water consumed. This rate case establishes three usage blocks. Customers recommended a multiple rate block design during the last rate case, however staff did not believe that the company had sufficient data to justify a multiple rate block design at that time. The company now has additional usage data and more customers actually using water. Staff and the company believe this rate design meets the goal of multiple block rate design.

Staff has also considered customer comments on the rate design and believes the revised rate design is an additional step in addressing their concerns because it starts to allocate more fairly the water usage by customer class to the revenue generated by each customer class. The multiple rate blocks and inverted rates (higher rates for higher usage) for water usage will help promote conservation. The revised rate design also eliminates special irrigation rates, and treats service to the lodge the same as other metered customers, instead of making allocations based on equivalent residential units (ERUs). Consistent with the last rate case, the proposal does not address water provided to the golf courses because they are served by a separate water system.

Customer Comments

On April 11, 2011, the company notified its customers of the proposed rate increase by mail. The filing was suspended on May 26, 2011. Interested persons were advised of the revised rates and that the filing would be heard at the August 25, 2011, open meeting.

Three customer comments have been received. All oppose the requested increase. Consumer Protection staff advised the customers that they may access company documents pertinent to this rate case at www.utc.wa.gov/water, and that they may contact Pam Smith at 1-888-333-WUTC (9882) with questions or concerns.

General Comments

- The three customers believe the monthly Ready-To-Serve charge increase is too high. Of the three, two believe the fee is an unfair burden, one would like the fee abolished.
- **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 the

opportunity to earn a reasonable return on 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

| | Current Rate | Proposed Rate | Revised Rate |
|--|---------------------|----------------------|---------------------|
| Base Charge | | | |
| Ready-to-serve | \$19.85 | \$25.41 | \$21.00 |
| Base 1-inch Meter | \$41.79 | \$42.00 | \$36.00 |
| Base 1 1/2-inch Meter | N/A | \$84.00 | \$72.00 |
| Base 2-inch Meter | \$133.79 | \$134.40 | \$115.00 |
| Base 3-inch Meter | \$250.74 | \$252.00 | \$216.00 |
| Base 4-inch Meter | \$417.90 | \$420.00 | \$360.00 |
| Fire Protection | | | |
| Fire Protection Fee 1-inch | \$5.43 | \$3.91 | \$3.91 |
| Fire Protection Fee 2-inch | \$17.38 | \$12.50 | \$12.50 |
| Fire Protection Fee 3-inch | N/A | \$23.44 | \$23.44 |
| Fire Protection Fee 4-inch | \$54.30 | \$39.06 | \$39.06 |
| Fire Protection Fee 6-inch | \$107.00 | \$78.13 | \$78.13 |
| Fire Protection Fee 8-inch | \$171.20 | \$125.00 | \$125.00 |
| | Current Rate | Proposed Rate | Revised Rate |
| Consumption | | | |
| Usage 0 – 8,000 ^{1,2} Gallons | \$2.25 | \$2.75 | \$2.00 |
| Usage 8,000 – 9,000 ^{1,2} Gallons | \$2.25 | \$2.75 | \$3.80 |
| Usage 9,000 -16,000 ^{1,2} Gallons | \$2.25 | \$5.25 | \$3.80 |
| Usage 16,000 – 32,000 ^{1,2} Gallons | \$2.25 | \$5.25 | \$5.60 |
| Usage over 32,000 ^{1,2} Gallons | \$2.25 | \$6.00 | \$5.60 |

1 – Based on 1-inch meter classification, see company's tariff for upsize meter classification, usage blocks and rates.

2 – Based on "per 1,000 gallons".

Average Customer Charge Comparison

| Average 1-inch Monthly Usage 8,530 Gallons (1,140 cubic feet) | Current Rate | Proposed Rate | Revised Rate |
|--|---------------------|----------------------|---------------------|
| Base Meter Charge | \$41.79 | \$42.00 | \$36.00 |
| 0 - 8,000 Gallons | \$18.00 | \$22.00 | \$16.00 |
| 530 Gallons | \$1.19 | \$1.46 | \$2.01 |
| Average Monthly Bill | \$60.98 | \$65.46 | \$54.01 |
| Difference over current rates | | 7.3% | -11.4% |

Water Usage True-up

In the 2008 rate case, Suncadia proposed to use 2007 water purchased from Cle Elum to calculate the proposed usage charge for all potable water customers. Many customers believed this data was not representative of actual individual usage amounts. The company proposed, and

the commission approved, a true-up methodology, as set forth in Attachment D of staff's memo dated November 8, 2009, in Docket UW-081226:

“After reading meters for a period of twelve months, Suncadia Water will reconcile the difference between projected water usage and actual water usage for both the potable water system and the irrigation water system. An amount due or refund will be calculated the following month for the reconciled “true-up” amount. If there is a refund or amount due, the adjustment will be spread over the following twelve months unless the customer or company elects to pay it all at once.”

The company has now reconciled the usage data and provided a true-up accounting of water usage and revenue generated. The company has determined that it under collected revenues based on the actual usage. The company is now seeking to recover a total of \$7,168 due from rate payers. Staff has reviewed the true-up mechanism and agrees the Water Usage True-up rate, as filed by Suncadia Water Company, LLC on March 25, 2011, is appropriate and should become effective September 1, 2011, to expire after collection of \$7,168 or after the expiration date of August 31, 2012. Current and proposed monthly rates are shown below for the Water Usage True-up rates.

True-Up Rate Comparison

| Monthly Rate * | Current Rate | Proposed Rate |
|-----------------------|---------------------|----------------------|
| 1-inch meter | NA | \$0.81 |
| 2-inch meter | NA | \$5.10 |
| 3-inch meter | NA | \$11.06 |
| 4-inch meter | NA | \$34.63 |

*This charge expires after collection of \$7,168 or after the expiration date of August 31, 2012.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review 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 Water Usage True-up rates and revised general rates and charges are fair, just, reasonable, and sufficient.

Staff recommends that the commission:

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Suncadia Water Company, LLC in Docket UW-110917 dated May 26, 2011.
2. Approve rates filed by Suncadia Water Company, LLC on March 25, 2011, as revised to staff recommended levels on August 11, 2011, to become effective September 1, 2011.

3. Approve a Water Usage True-up rate as filed by Suncadia Water Company, LLC on March 25, 2011, to become effective September 1, 2011, and to expire after collection of \$7,168 or after the expiration date of August 31, 2012.