

Agenda Date: February 10, 2011  
Item Number: A1

Docket: UW-110107  
Company Name: Summit View Water Works, LLC

Staff: Amy White, Regulatory Analyst  
John Cupp, Consumer Protection Staff

### **Recommendations**

Issue a Complaint and Order Suspending the tariff revisions filed by Summit View Water Works, LLC, on January 12, 2011, and January 24, 2011.

### **Discussion**

On January 12, 2011, Summit View Water Works, LLC (Summit View or company), filed tariff revisions adding a new facilities construction surcharge to apply to both existing and new customers, and a facilities charge to be assessed to only new customers. The company filed revisions to its tariff index page on January 24, 2011. The stated effective date for both charges is February 12, 2011. The company serves 85 residential customers near Kennewick in Benton County.

Summit View's existing well is nearing capacity. The company's approved Water System Plan includes a new well that will (1) provide additional capacity for growth and (2) provide increased reliability and a redundant water source to benefit all current customers. The company provided bids and estimates showing that the new well will cost approximately \$230,000 and construction will take place in 2011. The company proposes to split the cost of the new well evenly between current customers and future customers.

Summit View has a \$115,000 loan (15 years, 6.25 percent interest) from Candy Mountain Limited Liability Company (Candy Mountain), an affiliated development company owned by the same principals as the water company. The loan is structured with an annual repayment schedule that is tailored to the more irregular connection payments related to lot sales in the development. The company proposes a \$1,000 facilities charge for all new customers to service this loan. The company assumes that there will be 15 new customers annually who will generate \$15,000 in additional annual revenue.

Summit View has a commitment from a commercial bank to loan the company \$115,000 (15 years, variable-rate interest starting at 6.25 percent). The company proposes an \$11.60 per month facilities construction surcharge for all customers to service this loan. This loan carries a monthly repayment schedule, thus matching the monthly collection cycle. The facilities construction surcharge is expected to generate approximately \$11,832 in additional annual revenue (12.1 percent).

The following is a comparison of the company's current and proposed tariff facilities charges:

<u>Fee</u>	<u>Current Charge</u>	<u>Proposed Charge</u>
<b>One-Time Charges for New Customers</b>		
Service Connection Charge	\$1,500	\$1,500
Facilities Charge	NA	\$1,000
<b>Total Charge for New Customers</b>	<b>\$1,500</b>	<b>\$2,500</b>
<b>Monthly Charges for All Customers</b>		
Facilities Construction Surcharge	NA	\$11.60

### **Customer Comments**

On January 10, the company notified its customers of the proposed facilities construction surcharge by mail. Forty-six comments have been received to date; all are opposed to the surcharge.

Consumer Protection staff informed customers that analysis of the request is at a very preliminary stage. We do not have enough information from the company to provide thorough responses to some of their comments. Staff also advised customers that they may access company documents filed in this case at [www.utc.wa.gov/water](http://www.utc.wa.gov/water), and that they may contact John Cupp at 1-888-333-WUTC (9882) with their questions or concerns.

### **Filing Documents and Methodology Comments**

Forty-two customers sent identical comment letters. The four remaining comments are related to these same issues. Below are their comments followed by staffs' response:

- Customers believe the current well is more than adequate to supply the existing homes. The Department of Ecology permit approved the well for up to 100 homes.

#### **Staff Response:**

Staff is aware that the existing well is permitted to serve up to 100 homes and that the well currently serves about 85 customers.

- Customers state that the proposed rate surcharge will unfairly impose a rate increase of 15 to 25 percent on existing customers. They believe current water rates are comparable to rates in other similar communities in the area.

#### **Staff Response:**

The surcharge will generate 12.1 percent in additional annual revenue. Each company's rates are based on its own costs, and are not based on the rates of other or nearby companies.

- Summit View Water Works, LLC, Candy Mountain, LLC, and Tri City Development Corporation are registered as sharing an "Affiliated Interest." Together they represent the real estate developers of the Summit View neighborhood. Customers believe there is an

inherent conflict of interest by expecting that the existing homeowners pay any part of the cost enabling the further development of this area for the profit of the developers.

**Staff Response:**

Staff is aware of the affiliated interests. The company has filed and disclosed this information as required by the commission. Staff will consider this in their analysis.

- There are more than 200 lots remaining to be sold in the Summit View neighborhood. The developer proposes that, in addition to the current hook-up charge of \$1,500, each new lot will be assessed an additional \$1,000 facilities charge. The additional \$1,000 fee alone will generate more than \$200,000 for the developer. This approaches the total cost of the new well.

**Staff Response:**

The company projects 115 new customers will be served by the new well during the next phases of the development. Staff has requested that the company provide a build-out schedule by development phase in order to understand the growth projections.

- The customers do not believe that Summit View Water Works should pass on these costs to existing homeowners. Current residents should not be required to subsidize the real estate developer's expansion project. The burden of financing an additional well should be the responsibility of the real estate developer.

**Staff Response:**

Staff will consider this in their analysis.

Since the facilities charge involves only future customers who are developing new property not currently served by the company, the company states it is not possible to know in advance who is affected by the filing. Therefore, no customer notice was prepared or sent to any other customers regarding the facilities charge.

The company did send notice regarding the proposed monthly facilities construction surcharge to current customers on the system.

Staff has not yet received responses to data requests. Therefore, the company has not demonstrated the need for the additional revenue and has not demonstrated the proposed rates are fair, just, reasonable and sufficient.

**Conclusion**

Issue a Complaint and Order Suspending the tariff revisions filed by Summit View Water Works, LLC, on January 12, 2011, and January 24, 2011.