



ATTORNEY GENERAL OF WASHINGTON

Public Counsel

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December 20, 2021

SENT VIA WEB PORTAL

Amanda Maxwell
 Executive Director and Secretary
 Washington Utilities and Transportation Commission
 P. O. Box 47250
 Olympia, WA 98504-7250

Re: *LakeLand Village Water Company General Rate Case,*
 Docket UW-210744

Dear Director Maxwell:

The Public Counsel Unit of the Washington State Attorney General's Office ("Public Counsel") respectfully submits these comments in regard to LakeLand Village Water Company's (or "Company") request to raise customer rates, effective January 1, 2021. Public Counsel appreciates the opportunity to comment.

The Company originally requested to increase annual revenues by \$82,743 (30.7 percent). The Company subsequently updated its tarrif to reflect an increase in annual revenue of \$46,281 (17.2 percent) over a two-year period; \$38,506 in the first year and the full \$46,281 in the second year (a \$7,775 increase over the first year). The Company's last general rate increase became effective on January 1, 2011.

Public Counsel's Recommendation

Spread the rate increase over an increased number of periods to reduce customer rate shock.

Public Counsel understands the necessity for the Company to meet expenses in order to maintain safe and reliable service for its customers, in addition to the opportunity to earn a fair return. The Company has demonstrated that costs have increased significantly since the last rate increase, 11 years ago. In particular, the Company expects significant increases for salary and operations expenses. The necessity to meet increased expenses does not mitigate the shock of increasing rates so significantly, however, particularly since they have remained steady for more than a decade.

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To: Amanda Maxwell, Executive Director and Secretary
Re: LakeLand Village General Rate Case, Docket UW-210744
Date: December 20, 2021
Page 2 of 4

The Company's filing also includes several new and increased customer fees. While it is reasonable to charge fees based on direct cost causation, the addition of new and significantly higher fees only exacerbates the impact of significantly higher rates on customers.

The public comments described in Staff's memo reflect customers' concern about rate shock. All of the comments submitted to the Commission "feel the proposed amount is excessive."¹ In addition to the overall impacts of the current public health crisis, many of the customers are on "fixed incomes" and are "senior citizens."² Although the Company's requests to cover expenses appear reasonable, that does not change the fact that individuals on a limited or fixed income carefully budget their monthly expenses and a major change to those expenses poses challenges, particularly since their water rates have been static for a decade.

Customers will bear increased expenses for essential utility service while the COVID-19 pandemic and associated economic fallout persists. The Staff memo notes that balances from past due accounts have increased by approximately \$4,500 in the test year compared to typical amounts recorded in recent years.³ This is likely because customers are facing hardship related to the pandemic. Implementing rate increases without proper mitigation could drive more customers into arrears while public health and economic recovery is in progress.

Public Counsel supports Staff's recommendation to use part of the excessive revenue collected from customers due to the availability of Paycheck Protection Plan funds for salary expenses to reduce the year one revenue increase. In order to further mitigate the rate shock associated with the Company's request, the Commission should consider expanding the recommended two-year rate plan. For example, the increase could be spread over three years. This will allow the Company to recover costs while allowing customers to adjust their monthly budgets. Furthermore, this will allow additional time for federal relief funds to flow to customers who qualify for water rate assistance. At the very least, the rate increase could be incrementally added every six months over the currently recommended two-year period.

¹ Docket UW-210744, Staff Memo at 4.

² *Id.*

³ Docket UW-210744, Staff Memo at 2.

ATTORNEY GENERAL OF WASHINGTON

To: Amanda Maxwell, Executive Director and Secretary
Re: LakeLand Village General Rate Case, Docket UW-210744
Date: December 20, 2021
Page 3 of 4

Public Counsel's Recommendation

The Commission should reevaluate the calculation of return on owner equity for water companies. Market conditions have changed since the effective policy was set in 2002.

The Company requests a 12.0 percent return on owner equity in this case. In response to an informal data request, the Company explained that they requested 12.0 percent return on owner equity because it was directed by the Commission. Upon further investigation, the Commission has set return on equity (ROE) for water utilities at 12.0 percent for nearly 20 years based on the outcome of a General Rate Case filed in 2001.⁴

Public Counsel recognizes that the Company's request does not necessarily reflect a 12.0 percent return for the owners. As a result, the customers will not be providing this level of return in the near term. However, the Commission should re-evaluate the basis for water utility ROEs since the current 12.0 percent recommendation for all water utilities was set more than 20 years ago.

Return on equity for regulated utilities should be set at an amount to simulate the conditions of a competitive market. Furthermore, the *Bluefield*⁵ and *Hope*⁶ standards require that a fair ROE should be (1) comparable to what investors expect on investments of similar risk in a competitive environment, (2) adequate to maintain financial integrity, and (3) sufficient to attract capital. With this in mind, it is critical that the authorized ROE for all regulated utilities, including water utilities, reflect current market conditions. It is safe to say that market risk and overall conditions have shifted since the Commission set the 12.0 percent ROE in Docket UW-010877. Generically applying a 12.0 percent ROE since 2001 without any reevaluation of market conditions is neither just nor reasonable. As such, it is critical that the Commission examine evidence of market conditions to develop a fair, just, and reasonable ROE for all water utilities serving Washington customers. Public Counsel does not recommend a specific methodology at this time, but requests that the Commission open a policy docket, stakeholder collaborative, or rulemaking to evaluate current policy and develop means to set ROEs that actually reflect evidence and market conditions while acknowledging the dynamics of large and small water companies.

⁴ See *Wash. Utils. & Transp. Comm'n v. Rainier View Water Co.*, Docket UW-010877, Sixth Supplemental Order, ¶ 105 (July 12, 2002).

⁵ *Bluefield Water Works and Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923) ("Bluefield").

⁶ *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944) ("Hope").

ATTORNEY GENERAL OF WASHINGTON

To: Amanda Maxwell, Executive Director and Secretary
Re: LakeLand Village General Rate Case, Docket UW-210744
Date: December 20, 2021
Page 4 of 4

Public Counsel appreciates the opportunity to submit these comments. If you have any questions about this filing, please contact Nina Suetake, (206) 389-2055 or Nina.Suetake@ATG.WA.GOV, or Corey Dahl, (206) 464-6380 or Corey.Dahl@ATG.WA.GOV.

Sincerely,



/s/
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NMS/CJD/CM