

Agenda Date: August 31, 2005
Item Number:

Dockets: UW-051062
Company Names: H&R Waterworks, Inc.

Staff: Jim Ward, Regulatory Analyst

Recommendation:

Allow the revised rate filing in Docket UW-051062, to become effective September 1, 2005.

Discussion:

On July 11, 2005, H&R Waterworks, Inc., (H&R Waterworks or Company) filed a general rate increase of approximately \$256,808 (22%) plus business and occupation taxes. On August 29, 2005, the company filed revised rates designed to produce an additional \$131,400 (12%) plus business and occupation taxes per year. H&R Waterworks is located in Tumwater and will serve approximately 2,888 customers on about 116 water systems in Thurston, Mason, Lewis, Kitsap and Pierce Counties.

On December 2, 2004, H&R Waterworks, Inc., (H & R Waterworks or Company) merged with Meadows Water System, LLC, Quail Run Water Company, Inc., Tall Timbers Water Systems, LLC, Timberline Village Water Company, Inc., The Water Company of Washington, LLC, Transitions Water Service, LLC, and Utility Management Services, LLC. The Commission regulated all of the water companies and all of these companies had common ownership.

Rates for the above listed water companies are being brought to parity in this filing. The resulting increase or decrease in monthly water bills depends on the old rates for services and if the new rates are higher or lower. All rates and services are shown on Attachment 2. A comparison of current, proposed and revised customer billings is shown on Attachment 3. Attachment 3 uses average water consumption for each former water company and shows the average water bill using the different rates. The monthly charge, based upon the average customer usage, varies from a decrease of 3.9% to an increase of 36.5%. The Company states the reason for the revenue increase is to recover full costs of operations for all water customers under a single tariff.

Utility Management Services, LLC (UMS), one of the former separate companies, provided management services to both regulated and non-regulated water companies and performed utility related construction work for both regulated and nonregulated water companies. Commission approved settlements in previous rate cases allocated

UMS operating costs of 80% to regulated companies and 20% to non-regulated activities. Since the merger of the companies, H&R Waterworks has stopped performing utility related construction work and cut back extensively the number of non-regulated management contracts. H & R Waterworks provides management contract work for only five non-regulated water systems. These five water systems will continue with service until construction and upgrade contracts are completed and a suitable new management service can be arranged. In the future, H&R Waterworks plans to provide service and management to its own regulated water systems. H & R Waterworks has not reduced any UMS operating costs or resources, labor or assets.

The customers were notified of this proposed rate change by H&R Waterworks. The Public Involvement team received comments and questions from 41 H&R Waterworks customers. All who commented stated they oppose the rate increase and consider the increase "excessive" and "unwarranted." Many customers feel it is unfair that they should have to pay the same rate as customers on systems which are more expensive to operate and maintain.

Almost half of the comments came from customers who own cabins on the Timberline Village Water Company water system and only use water for a short time during the year. These customers are very concerned about the possibility of paying over \$40 per month for water for very little usage. A few part-time customers on the Deschutes Village system voiced the same concern.

H&R Waterworks claims the benefits of these mergers included expanded financial resources and water quality staff and equipment to provide all aspects of water system repair and operations. H&R Waterworks also notes that regulatory agencies and customers will be dealing with one company instead of seven. H&R Waterworks has also merged Utility Management Services (UMS) a non-regulated company that provides Satellite Management Agency (SMA) functions recognized by the Department of Health and technical staff for all prior operations of the above listed regulated water companies.

Staff has reviewed the supporting documentation filed by H & R Waterworks, reviewed the Company's books and records, and believe the revised rates filed by the Company are fair, just and reasonable. Those rates are designed to generate revenue sufficient to cover reasonable operating expenses and provide the Company with an opportunity to earn a reasonable return. The revised rates reflect average costs to serve the 116 water systems operated by H & R Waterworks and will apply to all customers on all water systems. Uniform rates are consistent with a rate setting method known as Single Tariff

Pricing, which the Commission has used consistently for water companies that operate multiple water systems. In fact, four of the previous seven water companies operated multiple water systems and the Commission set uniform rates for each of those water companies. Staff recommends the Commission use Single Tariff Pricing in this docket.

Staff recommends that the Commission allow the revised rate filing in Docket UW-051062, to become effective September 1, 2005.

Attachments (3)