

Agenda Date: September 11, 2008
Item Number: A35 - Attachment

Docket: UW-081259
Company Name: Fircroft, Inc.

Staff: Jim Ward, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Staff's Summary of Customer Comments Broken-down by Category and Staff's Responses

1. Company Financial Records and Staff Audit Results; Customer Comments:

- a) Customer requested financial statements from the company in order to be able to review and comment on Fircroft's proposed rate increase. The customer was provided with a list of expenses from the company for the period July 1, 2007, through June 30, 2008.
- b) Customer asked for the company's profit and loss and budget versus actual statements for the years 2004 through 2008. Fircroft replied that they do not prepare budget versus actual statements and that financial data for periods prior to July 2007 do not exist.
- c) Customer believes that Fircroft's heavy investment to repair and upgrade the water system in 2007 and 2008 was necessary. It is the customer's opinion that these expenses are one-time expenses and may need to be adjusted out when considering the amount of expense allowed that justifies the rate increase.
- d) Customer feels that expenses for insurance and electricity reported by the company appear high. In addition, the company reported amounts in the expense category of gifts. Expenses in this gift category may include political donations which should not be charged to the customer.
- e) Fircroft's labor expenses may also contain one-time expenses and thus may need to be adjusted when calculating the rate increase.

Staff Response: Staff reviews one year of financial information to determine reasonable annual operating costs. The company has provided information for the test period of July 1, 2007 to June 30, 2008. The test period is used to develop rates. Staff has posted all material requested and received from the company to the Commission's web site and advised customers who have requested that information of its availability. Staff has asked the company about other financial information and the company simply does not have the requested information prior to July 2007.

Staff conducts its own independent audit of the company's financial records. Consumer Protection and Communication Staff advised customers that they have access to everything the company has filed with the Commission through "Records Center" or the Commission's web site (<http://www.utc.wa.gov>) and that they may contact Dennis Shutler at 360-664-1108.

Staff agrees that one-time expenses are not appropriate to recover in rates. However, “investment,” means long term costs that are capitalized and depreciated. Staff adjusted expenses categorized as repairs as capital improvements which will spread these expenses over a period of time. Staff has also reduced the amount allowed for insurance expense. Staff reviewed the expense category of gifts and re-categorized this expense to wages since it was bonuses paid to employees at year’s end. Staff has reviewed the company’s labor expenses and concluded that the overall wage expense is appropriate.

2. **Rate Design Customer Comments:**

- a) A customer expressed concerns that the company may over-connect customers and that the system would therefore face water shortages.
- b) A customer feels that under the proposed rates a ready to serve customer’s (inactive member) increase would go from \$15 per month to \$32 per month. The increase of \$17 per month is well over 100 percent, compared to a 20-30 percent increase for other users, which the customer believes is excessive.

Staff Response: The Department of Health (DOH) has primary jurisdiction over customer connections and water quantity. Rate designs should include a conservation component. The rate design is based on the company’s revenue requirement allocated to all customers and based on historical water usage. In this case, Staff notes that as the amount of water usage goes up, the corresponding price per 1,000 gallons also goes up. Staff believes the revised rate design is fair, just and reasonable and addresses conservation efforts.

Basic rate design assumes all customers have the same size meter. For this company, several customers have up-size meters, since the capacity of an up-size meter is greater than basic meters Staff uses an up-size meter factor to determine base charges. The up-size meter factor is based on flow capacity of the larger meter as shown below.

Meter Size	Flow in GPM	Meter Factor
5/8 x 3/4 inch	30	1
1 inch	50	1.67
1.5 inch	100	3.33
2 inch	160	5.33

GPM = Gallons per Minute

Revised rates have been calculated to set meter base charges and ready-to-serve charges equal to each other. Rate design does not attempt to allocate company plant fixed cost versus operating variable cost.