

Agenda Date: April 10, 2008
Item Number: A3

Docket: UW-080312
Company Name: Olympic Water & Sewer, Inc.

Staff: Jim Ward, Regulatory Analyst
Dennis Shutler, Consumer Affairs Specialist

Recommendation

1. Issue a Complaint and Order Suspending the Tariff Revisions filed by Olympic Water & Sewer, Inc.; and
2. Allow temporary rates at the staff recommended revised rates to become effective April 22, 2008, on a temporary basis, subject to refund.

Discussion

On February 15, 2008, Olympic Water & Sewer, Inc., (Olympic or company), filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$258,905 (50 percent) in additional revenue per year. Olympic serves 1,625 customers near Port Ludlow located in Jefferson County. The proposed revisions are prompted by higher costs for power, labor, fuel, and laboratory testing. This filing removes the 600 cubic feet of water allowance currently included with the base charge.

The company notified its customers of the rate increase by mail on February 11, 2008. The commission received nine comments on this filing. Olympics' last general rate filing decreased rates and became effective in 1994. All customers receive metered service.

On March 6, 2008, staff attended a public meeting with the company and its customers in Port Ludlow, Washington. Approximately 35 customers attended the public meeting and commented on the proposed rate increase. Summarizing comments that customers sent to the commission and comments received by staff at the public meeting, customers are most concerned about:

The Size of the Increase – Although staff understands the customers' concerns regarding the amount of the increase, staff does not explicitly consider the amount of the increase in preparing recommendations. Staff's goal is to recommend the "right" rates that will allow the company to recover its operating expenses and earn a reasonable rate of return (profit).

Water System Plan Considerations – Staff received several customer comments about the company's water system plan. Customers believe that the plan update was not filed in a timely manner. Customers also believe that the plan considers information that has not been supported by additional data. Adequate flow and pressure have been questioned as not meeting standards in all locations of the water system service area. The Department of Health (DOH) has jurisdiction over water system plans. Staff consulted with DOH on the water

system plan provided by the company. DOH approved the water system plan in December 2007. The water system is in substantial compliance with all DOH requirements.

Company Reserve Accounts – Customers believe that the company should maintain separate reserve accounts to fund future projects and capital upgrades. The commission can allow the company to establish a “reserve account” (RCW 80.28.022) exclusively for the purposes of making capital improvements approved by the DOH as a part of a long-range plan (water system plan), or required by the department to assure compliance with federal or state drinking water regulations, or to perform construction or maintenance required by the department of ecology to secure safety to life and property under RCW 43.21A.064. The commission can also, on its own motion and after hearing, order a company to establish a reserve account. Reserve accounts are normally funded by a surcharge, which requires prior commission approval. After reviewing the company’s records, staff found no reserve accounts for future projects and capital upgrades. Establishing a reserve account would require customers to pay an extra amount to be set aside for future plant and future customer benefits.

Company separation of water and sewer operations – Several customers commented about employees of the company performing both water and sewer functions. The company is set up as a water and sewer company and uses common employees and equipment for both operations. Staff’s review noted that the company has employees that are certified and used in both water and sewer functions. Accounting for time and cost starts with each employee’s time sheet that clearly shows hours attributed to water and sewer work. This cost separation continues through the payroll and accounting allocations of expenses. Staff has reviewed these allocations and agrees with company that the allocations are proper.

Staff’s review of Olympics’ operations revealed that the company’s proposed rates were excessive. Staff and the company have agreed to a revised revenue requirement of \$185,446 (36 percent) additional revenue per year, and a revised rate design. On April 4, 2008, the company filed revised rates at the staff recommended level.

Rate Comparison

| Monthly Rates | Current Rates | Proposed Rates | Revised Rates |
|---|----------------------|-----------------------|----------------------|
| Base Charge 3/4 x 5/8 inch (with 600 cu ft) | \$20.50 | N/A | N/A |
| Base Charge 3/4 x 5/8 inch (zero allowance) | N/A | \$20.25 | \$18.25 |
| Over 600 cu ft | \$0.0190 per cu ft | N/A | N/A |
| 0 to 1,000 cu ft | N/A | \$0.0251 per cu ft | \$0.0225 per cu ft |
| Over 1,000 cu ft | N/A | \$0.0365 per cu ft | \$0.0335 per cu ft |

Notes: cu ft = cubic feet 1 cu ft = 7.48 gallons

Rate Comparison

| Monthly Rates | Current Rates | Proposed Rates | Revised Rates |
|------------------------|----------------------|-----------------------|----------------------|
| Base Charge 1 inch | \$34.24 | \$32.82 | \$30.48 |
| Base Charge 1 1/2 inch | \$68.27 | \$67.43 | \$60.77 |
| Base Charge 2 inch | \$109.27 | \$107.93 | \$97.27 |
| Base Charge 3 inch | \$205.00 | \$202.50 | \$182.50 |

Notes: cu ft = cubic feet 1 cu ft = 7.48 gallons

Average Customer Charge Comparison

| Average Monthly Usage 1,555 Cubic Feet | Current Rates | Proposed Rates | Revised Rates |
|---|----------------------|-----------------------|----------------------|
| Base Charge 3/4 x 5/8 inch (with 600 cu ft) | \$20.50 | N/A | N/A |
| Base Charge 3/4 x 5/8 inch (zero allowance) | N/A | \$20.25 | \$18.25 |
| 600 cu ft | N/A | \$15.06 | \$13.50 |
| 400 cu ft | \$7.60 | \$10.04 | \$9.00 |
| 555 cu ft | \$10.55 | \$20.26 | \$18.59 |
| Average Monthly Bill | \$38.65 | \$65.61 | \$59.34 |

Notes: cu ft = cubic feet 1 cu ft = 7.48 gallons

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 operations. The company's financial information supports the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

Conclusion

Although the company filed revised rates at lower levels, customers have not yet been advised that staff and the company have agreed to revised rates and, as such, have not had the opportunity to comment on the revised rates. Customers deserve to know about, and comment on, the revised rates. The commission should consider all information, including any additional customer comments on the revised rates, in deciding whether to approve the revised rates on a permanent basis. Therefore, staff recommends the commission:

1. Issue a Complaint and Order Suspending the Tariff Revisions filed by Olympic Water & Sewer, Inc.; and
2. Allow temporary rates at the staff recommended revised rates to become effective April 22, 2008, on a temporary basis, subject to refund.