

Agenda Date: March 12, 2009  
Item Number: A3

**Docket:** UW-090154  
Company Name: South Bainbridge Water System, Inc.

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

### **Recommendation**

Take no action, thereby allowing the revised rates to become effective March 15, 2009, by operation of law.

### **Background**

On January 28, 2009, South Bainbridge Water System, Inc., (South Bainbridge or company), filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$225,804 (47.7 percent) in additional annual revenue. The company serves 1,238 customers on the south end of Bainbridge Island in Kitsap County. The proposed rates are prompted by increases in labor, testing and operating expenses. The original proposed effective date was March 1, 2009. The company's last general rate increase became effective in February 1999. The company's unaudited 2007 Annual Report shows the company lost \$47,848 on \$468,031 revenue.

On January 28, 2009, the company notified its customers of the rate increase by mail. The commission has received numerous customer comments on this filing as of March 5, 2009. Customers are opposed to the amount of the increase and question company operating practices.

In its notice to customers, the company notes that it is asking for an immediate rate increase of \$5.72. This increase would be added to the current base charge and Ready-to-Serve charge resulting in a proposed Base Meter charge of \$25.72 and proposed Ready-to-Serve charge of \$23.22. These charges would be temporary, while the full rate request is under review. The effective date of this immediate portion of the increase was proposed to be March 1, 2009.

At the February 26, 2009, open meeting the company extended the effective date until March 15, 2009, to allow additional time for the staff to complete its audit.

### **Customer Comments**

A total of 52 customer comments have been received to date; 44 opposed, five undecided and one in favor of the proposed increase. Please note: Customers often address several issues of concern within one comment. Therefore, subtotals may not equal the total number of comments submitted.

Consumer Protection staff advised customers that they may access company documents pertinent to this rate case at [utc.wa.gov](http://utc.wa.gov), and [utc.wa.gov/water](http://utc.wa.gov/water) and that they may contact Dennis Shutler toll-free at 1-888-333-9882 with questions or concerns.

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

- Nine customers believe they are being required to supplement the company's costs and losses in its association with the company's Blossom Hill commercial development project.

#### **Staff Response**

In a letter to staff the company attorney states that the current water company owners are not part of the development known as Blossom Hill. The water company owners did, as individuals, sell a parcel of land to the company building the Blossom Hill development.

- Two customers inquired about the duration of this "temporary" increase.

#### **Staff Response**

On February 26, 2009, the company extended the effective date until March 15, 2009 to provide staff time to complete its review.

### **Business Practices Comments**

- One customer asked if the water company can sell more service connections than the system can serve.

#### **Staff Response**

The customer was advised the Department of Health (DOH) sets a limit to the number of connections on each system. Staff explained that the DOH has jurisdiction over service connections, water quality and quantity, and provided the DOH's toll-free telephone number, 1-800-521-0323.

### **General Comments**

- Seventeen customers believe the amount of the increase is unacceptable and unaffordable, mentioning the high cost of living and the current economic conditions as the basis for their opposition. They feel basing the increase upon inflation would be more reasonable.

#### **Staff Response**

Customers were advised that state law requires rates to be fair and reasonable for customers, but sufficient to allow the company the opportunity to recover operating expenses and earn a return on investment.

### **Discussion**

Staff's review of the company's operations and financial records indicated that the company's proposed rates filed on January 28, 2009, were excessive. Staff and the company agreed to a revised revenue requirement that would generate \$164,524 (34.8 percent) additional annual

revenue and a revised rate design. On March 10, 2009, the company filed revised rates at the staff recommended level.

Staff's review of the company's books and records resulted in three primary adjustments to the company's filing. Staff removed an "owner account receivable" in the amount of \$30,592.25 that was the result of a long-standing practice of the water company paying for purchases (e.g. Costco) that included items for both the water company and the owner for personal use. Staff removed \$118,200 debt that the owner loaned to the company to pay for company operating expenses. Staff increased rate base from \$184,471 to \$649,788 to correct an accounting error.

The company filed revised rates that decrease the proposed base charge from \$29.55 to \$25.75, decrease the proposed ready-to-serve charge from \$25.85 to \$25.75, increase the usage block break point on the first block from 500 cubic feet to 800 cubic feet, and decrease the proposed usage block rates, as set forth in the rate comparison table. This rate design will allow customers to control their water bills based on their water usage and will also encourage conservation. All customers will pay less under the revised rates than under the original proposed rates. Customers have not yet been advised that staff and the company have agreed to revised rates. The company will send notice to the customers on April 1, 2009.

**Rate Comparison**

<b>Monthly Rate</b>	<b>Current</b>	<b>Proposed</b>	<b>Revised</b>
Residential			
Ready-to-Serve	\$17.50	\$25.85	\$25.75
Unmetered Service	\$20.00	\$29.55	\$29.55
Base Meter (3/4 Inch Meter, Zero Allowance)	\$20.00	\$29.55	\$25.75
0 - 500 Cubic Feet, Per 100 Cubic Feet	\$0.70	\$1.03	\$0.94
501 – 800 Cubic Feet, Per 100 Cubic Feet	\$1.15	\$1.70	\$0.94
800– 1,200 Cubic Feet, Per 100 Cubic Feet	\$1.15	\$1.70	\$1.55
1,200 – 1,800 Cubic Feet, Per 100 Cubic Feet	\$3.00	\$4.43	\$4.04
1,801 – 3,200 Cubic Feet, Per 100 Cubic Feet	\$4.00	\$5.90	\$5.39
Over 3,201 Cubic Feet, Per 100 Cubic Feet	\$4.90	\$7.25	\$6.61
Master Metered Units			
Base Meter	\$20.00	\$29.55	\$25.75
Each additional Unit	\$18.00	\$26.60	\$25.75

**Average Monthly Bill Comparison, Residential Customers**

<b>852 Cubic Feet Estimate</b>	<b>Current</b>	<b>Proposed</b>	<b>Revised</b>
Base Meter	\$20.00	\$29.55	\$25.75
500 Cubic Feet	\$3.50	\$5.15	NA
800 Cubic Feet	NA	NA	\$7.52
352 Cubic Feet	\$4.05	\$5.98	NA
52 Cubic Feet	NA	NA	\$0.81
Average Monthly Bill	\$27.55	\$40.68	\$34.08
Increase From Current Rates		(47.7%)	(23.7%)

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**

Take no action, thereby allowing the revised rates to become effective March 15, 2009, by operation of law.