

Agenda Date: January 26, 2012
Item Number: A3

Docket: UW-111789
Company Name: Washington Water Service Company

Staff: Jim Ward, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

Issue an Order to:

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Washington Water Service Company in Docket UW-111789 dated October 11, 2011.
2. Allow the revised rates and tariff revisions filed by Washington Water Service Company on October 11, 2011, and January 17, 2012, to become effective February 1, 2012.

Discussion

On October 11, 2011, Washington Water Service Company (Washington Water or company), filed with the Utilities and Transportation Commission (commission) a general rate case filing that would generate \$1,738,796 (21.8 percent) additional annual revenue. The filing was prompted by the company not receiving the revenue expected from the last rate increase, increased operating costs, and additional capital investment. The company serves approximately 15,800 residential customers on 197 water systems located in eight counties. The proposed effective date is November 10, 2011. The company's last general rate increase was July 30, 2009.

The filing also proposed to create a Water Revenue Adjustment Mechanism (WRAM) to track revenue, create a Modified Cost Balancing Account (MCBA) to track expenses for purchased water and purchased power, and establish a deferred accounting methodology to automatically true-up rates annually. The company's proposal could be considered a full decoupling mechanism.

On October 27, 2011, the commission issued an order suspending this filing for further review. After review, staff found the proposed rates would generate excessive revenues. Staff determined that the company's books and records supported a lower revenue requirement of \$1,636,381 (20 percent) additional annual revenue. Staff and the company have agreed to a revised rate design that would generate the additional \$1,636,381 revenue. All revised rates are equal to, or less than the company's original proposed rates.

On January 17, 2012, the company filed revised rates at staff-recommended levels, a new tariff index page and a new legend symbol page. These revised tariff pages remove all references to WRAM and MCBA rates or accounting. Additionally, the company removed the proposed rate increase in facilities charges.

Current, proposed and revised rates are shown below for the general rate increase. Orcas Island water system customers will no longer pay an additional fee, based on water usage, to pay for surface water filtration and treatment, the costs of which have been imbedded in general rates paid by all water customers.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Ready to Serve Service	\$17.43	\$19.95	\$19.15
Base Rate 3/4 Inch Service ¹	\$17.43	\$19.95	\$19.15
Usage 0 - 600 Cubic Feet ²	\$2.38	\$2.95	\$2.95
Usage 601 – 653 Cubic Feet ²	\$2.38	\$3.60	\$3.60
Usage 654 – 1,600 Cubic Feet ²	\$2.84	\$3.60	\$3.60
Usage 1,601 – 2,056 Cubic Feet ²	\$2.84	\$4.85	\$4.40
Usage over 2,056 Cubic Feet ²	\$3.22	\$4.85	\$4.40
Non-Metered Service	\$44.67	\$52.05	\$48.15

1 - Other upsize meter rates are also changed and available in the proposed tariff.

2 - Based on per 100 cubic feet or fraction thereof.

Average Bill Comparison
Except Orcas Island Water System

Average Residential (856 Cubic Feet)	Current Rate	Proposed Rate	Revised Rate
Base 3/4 inch Residential	\$17.43	\$19.95	\$19.15
600 Cubic Feet	\$14.28	\$17.70	\$17.70
53 Cubic Feet	\$1.26	N/A	N/A
203 Cubic Feet	\$5.76	N/A	N/A
256 Cubic Feet	N/A	\$9.22	\$9.22
Total Bill	\$38.74	\$46.87	\$46.07
Change from current rate		21%	18.9%

Average Bill Comparison
Orcas Island Water System

Average Residential (856 Cubic Feet)	Current Rate	Proposed Rate	Revised Rate
Base 3/4 inch Residential	\$38.74	\$46.87	\$46.07
Island Fee	\$5.40	N/A	N/A
Total Bill	\$44.14	\$46.87	\$46.07
Change from current rate		6.2%	4.4%

Customer Comments

On October 7, 2011, the company notified its customers of the proposed rate increase by mail. There have been 173 comments received to date; 170 are opposed to the proposed increase and three are undecided. Customers were notified that they may access documents pertinent to this rate case on the commission's website, and that they may contact John Cupp at 1-888-333-WUTC (9882), or jcupp@utc.wa.gov with questions or concerns.

Filing Documents and Methodology

- Sixteen customers oppose the Water Revenue Adjustment Mechanism and the Water Cost Balancing Account.

Staff Response

The company has withdrawn these mechanisms from its request.

Service Quality

- Two customers on separate systems said they don't believe they should have to pay more when the quality of the water is poor.

Staff Response

Staff discussed the two water quality issues with the company. The company has approved plans from the Department of Health for installation of a system to treat a manganese and iron problem on one of the water systems. The company is in the process of securing permits to start the job. The company also opened a service order to look into the other customer's issue. Staff informed both customers of the company's plans, and explained that the Department of Health oversees water quality issues.

General Comments

- Sixteen customers said they should not have to pay more because the company did not receive the revenue it expected from its last rate increase.

Staff Response

Customers were advised that the proposed increase is not to make up for a shortfall from the most recent rate increase. The company is seeking to bring revenue up to a level which will cover its costs and provide an opportunity to earn a reasonable return on its investment.

- Five customers mentioned that this company's rates are higher than those of nearby water providers.

Staff Response

Staff does not compare the rates of neighboring water suppliers when setting rates. Regulatory staff will review the filing to ensure that all rates and fees are appropriate.

- Eight customers mentioned that the company put in a system in a development that failed. They all said that they should not have to pay for the system.

Staff Response

The company said that most of the improvements to the water system and development were paid by the developer and facilities charges assessed to new customers, and not through general rates. Staff reviewed this issue along with all plant costs in the rate setting process.

- In 112 comments, customers said the amount of the proposed increase was too drastic. Eighty-four customers mentioned the hardship the increase will create because of the condition of the economy. Thirty-eight customers mentioned the frequency of the company's requests for increases; and in 63 comments customers said the company should tighten its belt and cut costs rather than raise rates.

Staff response

Customers were advised that state law requires rates to be fair, just, reasonable and sufficient to allow the company to recover reasonable operating expenses and the opportunity to earn a reasonable return on investment. Regulatory staff will review the filing to ensure that all rates and fees are appropriate.

Conclusion

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 operation. The customer's comment does not change staff's opinion that the company's financial information supports the revised revenue requirement and revised rates and charges are fair, just, reasonable, and sufficient.

Staff recommends that the commission issue an Order to:

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Washington Water Service Company in Docket UW-111789 dated October 11, 2011.
2. Allow the revised rates and tariff revisions filed by Washington Water Service Company on October 11, 2011, and January 17, 2012, to become effective February 1, 2012.