

Agenda Date: November 30, 2018
Item Number: A1

Docket: UW-180592
Company Name: Washington Water Service Company

Staff: Danny Kermode, Assistant Director, Water and Transportation
Tiffany Van Meter, Regulatory Analyst
Jim Ward, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendations

1. Issue an Order dismissing the Complaint and Order Suspending Tariff Revisions filed by Washington Water Service Company, in Docket UW-180592, and
2. Allow rates filed on July 2, 2018, as revised on November 1, 2018, to go into effect December 1, 2018.

Discussion

On July 2, 2018, Washington Water Service Company (Washington Water or company), filed with the Utilities and Transportation Commission (commission) a proposed general rate increase that would generate approximately \$1.6 million (13.8 percent) additional annual revenue. The company states the reason for the requested rate increase is to allow recovery of increased general operating expenses, and to address the reduction in federal income taxes associated with the Tax Cuts and Jobs Act of 2017.

On July 26, 2018, the commission issued a Complaint and Order Suspending the Tariff Revisions because commission staff (staff) had not completed its review of the company's supporting financial documents, books, and records. The company serves approximately 17,500 residential customers on 196 water systems located in the following eight counties: Clallam, Jefferson, King, Kitsap, Mason, Pierce, San Juan and Thurston. The company's last rate filing increased revenues by \$1.66 million (17 percent) and became effective February 1, 2015.

The company has added \$10.7 million of capital improvements since its previous filing including new and upgraded pumping equipment, water treatment and storage facilities, along with general water system upgrades. The company's gross utility plant has now reached approximately \$50 million. Staff adjusted rate base is \$22 million after adjustments for depreciation, taxes and reductions for non-investor supplied capital.

While Washington Water has been successfully reducing some expenses, staff noted two areas of significant increases. The first was in General and Administrative costs related to credit card fees. The increase in costs reflects the commission's 2016 change in ratemaking policy regarding the treatment of credit card fees allowing their recovery in general rates. In its prior rate case, credit card fees were not recognized in the cost of service, rather those fees were recovered by charges to those individuals using credit cards to pay water bills.

The second noted increase was in the vegetation management and grounds maintenance of the company's properties. The company uses a contractor to maintain its properties including well and water storage grounds. Staff believes these cost have stabilized but will be reviewing them closely in any future filing to ensure they do not continue to climb at the same rate as in the past.

The federal corporate income tax rate was reduced from 35 percent to 21 percent in December 2017 with the enactment of the Tax Cuts and Jobs Act. Washington Water's revised water rates reflect the benefits of the income tax rate reduction while also returning excess taxes collected by the company in 2018 to rate payers.

Income tax expense was reduced by \$134,000 reflecting both the reduced tax rate of 21 percent and the amortization of prior excess deferred taxes. In addition, excess income taxes collected by the company in the first three quarters of the year are being refunded to customers over a three-year period. Finally, the company's rate base was reduced by \$1.7 million for deferred income taxes which includes the unamortized excess deferred tax balance of \$686,000.

Washington Water and staff have reached agreement on revenue requirement allowing the company to provide safe and reliable service while still earning a fair return on its investment. The revised filing generates approximately \$1,143,000 (9.6 percent) in additional revenues effective December 1, 2018. The revised rates continue to promote conservation by using water usage patterns of customers and through inverted multi-tiered blocks and rates.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Ready to Serve	\$21.75	\$24.91	\$23.60
Base Rate, 3/4-Inch Meter	\$21.75	\$24.91	\$23.60
0 to 600 CF, Per CCF**	\$3.45	\$3.94	\$3.85
601 To 1,600 CF, Per CCF**	\$4.45	\$5.09	\$4.95
>1,601 CF, Per CCF**	\$5.50	\$6.30	\$6.10

* CF – Cubic Feet,

** CCF - 100 Cubic Feet, Other rates available in tariff.

Monthly Residential Bill Comparison

Monthly Average 854 Cubic Feet	Current Rate	Proposed Rate	Revised Rate
Base Rate, 3/4-Inch Meter	\$21.75	\$24.91	\$23.60
600 CF	20.70	23.64	23.10
254 CF	11.30	12.92	12.57
Water Bill Total	\$53.75	\$61.47	\$59.27
Increase From Current Rates	-	\$7.72	\$5.52
Percent Change %	-	14.4%	10.3%

Customer Comments

On July 2, 2018, the company notified its customers by mail of the proposed rate increase. Customers were notified that they may access relevant documents about this rate increase on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or john.cupp@utc.wa.gov with questions or concerns. Staff received 50 consumer comments regarding the proposed rate increase, all opposed to the rate increase.

Service Quality

- Several customers on the Lacamas Farmstead Water System in Pierce County expressed concern that their water was cloudy during the summer of 2017, and that the company did nothing to fix the problem. A company engineer explained to staff that the cloudiness was caused by excessive air in the line, and provided a copy of a letter the company sent to customers on August 9, 2017, which explained the problem, what was being done to fix it, and what to expect going forward.

General Comments

- Over half the customers who commented believe the requested increase amount is excessive and rates are already too high. Many believe the increase should be denied because it exceeds the rate of inflation. Over ten percent of the comments are from senior citizens, many on fixed incomes.

Staff Response

Staff informed customers 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 its investment. Customers were also told that commission staff performs a thorough review of rate filings to ensure 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 audit supports an increase in the company's revenue requirement of \$1,143,000 (9.6 percent). The company filed revised rates and charges reflecting the adjusted revenue requirement on November 1, 2018.

Recommendations

1. Issue an Order dismissing the Complaint and Order Suspending Tariff Revisions filed by Washington Water Service Company, in Docket UW-180592, and
2. Allow rates filed on July 2, 2018, as revised on November 1, 2018, to go into effect December 1, 2018.