

Agenda Date: May 28, 2008  
Item Number: A2

**Docket:** UW-080631  
Company Name: H & R Waterworks, Inc.

Staff: Chris Mickelson, Regulatory Analyst  
Dennis Shutler, Consumer Affairs Specialist

### **Recommendation**

1. Issue a Complaint and Order Suspending the Tariff Revisions filed by H & R Waterworks, Inc.; and
2. Allow temporary rates at the staff recommended revised rates to become effective June 1, 2008, on less than statutory notice, subject to refund.

### **Discussion**

On April 14, 2008, H & R Waterworks, Inc., (H & R or company), filed revisions to its tariff with the Utilities and Transportation Commission (commission) seeking \$225,839 (14.2 percent) in additional annual revenue. The company serves 3,602 customers in Thurston, Mason, Lewis and Pierce Counties. The company's proposed increase in rates is prompted by higher costs for labor, benefits, fuel, insurance and new plant (pumps and pipes). The company's last general rate increase became effective on October 1, 2005.

Staff's review of the company's operations and financial records indicated that the company's proposed rates filed on April 14, 2008, were excessive. Staff and the company reviewed the company's original filing and agreed to a revised revenue requirement and a revised rate design. On May 21, 2008, the company filed revised rates at the staff recommended level that would generate \$106,803 (6.7 percent) additional revenue per year. The company's original customer notice of March 31, 2008, did not contain the revised rate design and, as a result, the company is petitioning the commission for an exemption to WAC 480-110-425 to allow the new rate design to go in effect with the revised rates at staff recommended levels on less than statutory notice.

### **Customer Comments**

On March 31, 2008, the company notified customers of the rate increase by mail. The notice advised customers that they could make comments at the commission's April 30, 2008, open meeting. No customers commented at that time. The commission has since received 24 customer comments relating to this filing. The following is staff's summary of the comments received along with staff's response:

- **Customer Comment** - The company's proposed annual rate increase is excessive because:

- The amount requested (14.2 percent) is higher than the rate of inflation.
- The level of service during outages and for routine maintenance is poor.
- Customers are struggling to keep up with other cost-of-living increases. Many customers are seniors on a fixed income. The company should find ways to contain costs without having to raise rates.
- The company had a rate increase two years ago.

**Staff's response** - Although staff understands the customers' concerns regarding the amount of the increase, we do 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 reasonable operating expenses and provide an opportunity to earn a reasonable return on investment.

- **Customer Comment** – The company should not be allowed to specify who customers should have to use for annual backflow assembly testing. Customers may be able to save money by bidding this out themselves.

**Staff's response** –The company requires customers with an approved backflow prevention assembly to have the assembly tested annually by a certified backflow assembly tester. This requirement protects the water supply and water system from contamination. Customers have a number of options to choose from when it comes to backflow assembly testing. To ensure that this important test is done correctly and to standard, the company maintains a list of Department of Health certified testers that are acceptable to the company. The company's current list shows five approved companies, in addition to H & R. The customer may choose from any person or company on that list. Customers may also choose to have a company technician conduct the test. In that case, customers would pay the backflow assembly testing fee listed on Schedule 12 of the company's proposed tariff. Staff believes these requirements and customer options are reasonable.

- **Customer Comment** –The amount of the increase should be based on usage, not the size of the customer's water meter. In addition, the reasons the company stated for changing the water usage blocks do not justify lowering of usage blocks.

**Staff's response** – A customer's monthly bill would consist of two parts; (1) a base rate determined by the customer's meter size (capacity) and (2) the amount of water used. Meter size is important in rate design because it takes into account the flow capacity of different meter sizes present in the water system compared to a normal residential 3/4-inch meter. The base rate is used to allocate the water system's fixed costs according to meter capacity.

The design for rates is based on the company's revenue requirement allocated to all customers. Staff uses the customer usage data to determine the winter, summer and annual averages. We use those averages to design usage blocks and rates. The first usage block normally allows an average user to not exceed the first block during winter months. The second block is set for summer usage. If a third block is used, it is set to recover higher than normal costs from those customers using the highest amount of water.

Staff believes the revised rate design and rates are fair, just and reasonable.

Although the company agreed to a lower revenue requirement, the revised rate design includes rates that are higher than the company's original proposed rates. See the highlighted areas in the Rate Comparison table below. The average customer, using 1,040 cubic feet of water, would pay \$37.70 using the revised rate design instead of \$42.62 using the original proposed rate design. Other customers (flat rate apartment customers, ready-to-serve customers and high usage metered customers) would pay higher bills using the revised rate design.

Customers have not had the opportunity to comment on the revised rates and rate design. Customers deserve to know about, and comment on, the revised rates and rate design. The commission should consider all information, including any additional customer comments on the revised rates and rate design, in deciding whether to approve the revised rates and rate design.

**Rate Comparison**

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Flat Rate (Unmetered)	\$36.85	\$42.25	\$36.85
Flat Rate (Apartments)	\$18.50	\$21.00	\$27.90
Ready-To-Serve	\$8.50	\$8.50	\$17.00
Base Rate (¾-inch meter)	\$23.55	\$27.80	\$20.33
0 – 650 cubic feet	\$1.25	\$1.20	\$1.36
651 – 700 cubic feet	\$1.25	\$1.80	\$1.36
701 – 1,000 cubic feet	\$1.25	\$1.80	\$2.31
1,001 – 2,000 cubic feet	\$1.65	\$1.80	\$2.31
Over 2,000 cubic feet	\$1.65	\$1.80	\$2.81

Note: highlighted areas show services for which Revised Rates are higher than Proposed Rates.

Ancillary Charges (monthly)	Current Rate	Proposed Rate
Backflow Assembly Test - Applies only to customers with a backflow assembly	N/A	\$2.25

**Average Bill Comparison**

<b>Average Monthly Usage 1,040 cubic feet</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Revised Rate</b>
Base Rate (¾-inch meter)	\$23.55	\$27.80	\$20.33
0 – 650 cubic feet	\$8.13	\$7.80	\$8.84
651 – 700 cubic feet	\$0.61	\$0.88	\$0.68
701 – 1,000 cubic feet	\$3.77	\$5.42	\$6.93
1,001 – 1,040 cubic feet	\$0.33	\$0.72	\$0.92
<b>Average Monthly Bill</b>	<b>\$36.39</b>	<b>\$42.62</b>	<b>\$37.70</b>

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**

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