

Agenda Date: April 11, 2019  
Item Number: A1

**Docket:** UW-190160  
Company Name: Olympic Water and Sewer, Inc.

Staff: Greg Hammond, Regulatory Analyst  
John Cupp, Consumer Protection Staff

### **Recommendation**

Issue an order approving the cost recovery surcharge filed by Olympic Water and Sewer, Inc. on March 6, 2019, and granting exemption from WAC 480-07-530(4), to become effective April 24, 2019, subject to conditions set forth below.

### **Background**

On March 6, 2019, Olympic Water and Sewer, Inc. (Olympic Water or company) filed with the Utilities and Transportation Commission (commission) a tariff revision that would generate \$100,440 (14.2 percent) additional annual revenue. The company proposes to implement a Cost Recovery Surcharge of \$5.00 per month for all customers to partially fund a treatment plant. The company serves 1,674 customers located in Port Ludlow in Jefferson County. The company's last general rate increase, by surcharge, was September 15, 2014, in the amount of \$52,124 (7.8 percent).

Olympic Water filed the proposed surcharge in order to cover 70 percent of the project cost. The total construction cost of the project is currently estimated at \$2,209,707. The surcharge would recover \$1,546,794 in principal, plus interest on the State Revolving Fund (SRF) loan, and excise taxes, which results in a total of \$2,014,214 to be recovered through the surcharge. Proceeds from the Drinking Water State Revolving Fund (DWSRF) loan approved by the Public Works Board (PWB) will be the main source of funds for the project. Proceeds from the loan will be used to fund the installation of a treatment plant on the company's water system.

The loan contract is a low-interest, 20-year loan to water systems for capital improvements that increase public health protection and compliance with drinking water regulations. The PWB approves the final recommended funding list each spring. PWB staff also conducts an underwriting and readiness-to-proceed evaluation of each approved loan project. Department of Health (DOH) is responsible for evaluating and approving Water System Plans (WSP) or Small Water System Management Programs (SWSMP), which are requirements of both the DOH and DWSRF loan projects. DWSRF loan projects must be included in a WSP or SWSMP. In addition, the DOH evaluates and approves the project reports and construction documents for all DWSRF-funded loan projects.

The proposed water treatment project is a result of water quality concerns raised by DOH related to total coliform, iron, manganese, and arsenic levels. The treatment project involves adding filtration to wells 14 and 15 to remove iron, manganese and arsenic, as well as chlorination treatment on the entire water system. The project is present in the company's DOH Water

System Plan and meets the eligibility criteria outlined in WAC 480-110-455(2) for a surcharge to fund future utility plant.

The DOH has primary jurisdiction regarding water quality and quantity issues, including water system design, construction, and maintenance, and it concluded that the proposed project is necessary for the company to meet water quality and quantity standards.

The proposed surcharge would increase the company's annual revenues by more than 3 percent, which causes this tariff revision to be classified as a general rate case per WAC 480-07-505. Due to this, the company has requested exemption from WAC 480-07-530(4), which lists the minimum work paper filing requirements for a general rate case. This filing proposes a surcharge for future utility plant, and only involves a single capital project and the associated funding mechanism. Commission staff (staff) reviewed the request and, because the company provided sufficient information to enable staff to determine the costs associated with the company's filing, recommends that the commission grant Olympic Water's request for exemption.

Commission staff has reviewed the company's supporting financial documents, cost estimates for the proposed water treatment project, and the expected terms and conditions of the surcharge filing. Commission staff concludes the low-interest, long-term DWSRF loan is an excellent funding option for both the customers and the company, and that the proposed surcharge is fair, just, reasonable, and sufficient.

Commission staff recommends that commission approval of the surcharge should be subject to the following conditions:

- a) The surcharge applies to all water customers served by the company. The surcharge expires on June 20, 2038, or upon recovery of \$2,014,214 for principal, interest, and taxes, whichever occurs first.
- b) Funds received from the surcharge, including interest earned on the funds while held in a DWSRF loan reserve account, will be treated as contributions-in-aid-of – construction (CIAC).
- c) Surcharge funds collected and interest earned upon such funds must be held in a separate DWSRF loan reserve account by the company for the benefit of customers. Such funds do not become the property of the company or company owners and may not be disbursed, alienated, attached, or otherwise encumbered by the company or its owners. In the event of a sale or transfer of the company, the trust obligations established in WAC 480-110 regarding any unspent surcharge funds will be transferred to the new owners of the company.
- d) The company must report the following information to the commission within 60 days of the end of each calendar quarter per WAC 480-110-455(4):
  - i. Beginning balance;

- ii. Amounts received, detailed by source;
  - iii. Amounts spent, detailed by project or expense;
  - iv. Ending balance;
  - v. Reconciliation of bank balance to general ledger.
- e) The company will immediately deposit all monthly payments received and related to the surcharge in the same separate reserve account specified in condition (c) above.
- f) Excess funds held in the DWSRF loan reserve account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the loan. “Excess funds” means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.
- g) Upon completion of the construction projects, which is expected in late 2021 or early 2022 according to the company’s application, the company shall provide the commission with a complete accounting of all expenses. Olympic Water must file the report no later than 60 days after completion of construction and the treatment system is on-line, so the surcharge amount can be adjusted, if needed, to the actual cost of the project and to ensure that the customers pay no more than 70 percent of the total project principal through surcharge payments.

**Customer Comments**

Commission staff attended a public meeting in Port Ludlow on March 5, 2019, at the request of the Port Ludlow Village Council. The purpose of the meeting was to inform customers about the project and explain the proposed funding mechanism and surcharge. Representatives from DOH, the company’s project engineer, and the company participated in the meeting.

On March 6, 2019, the company notified its customers by mail of the proposed surcharge. Representatives of the Port Ludlow Village Council Utilities Committee came to Olympia and met with staff and has been in frequent contact. Committee members and other customers have shown interest in affiliated operations, and how the project will be funded, but so far we have not received any comments.

**Rate Comparison**

<b>Monthly Rate</b>	<b>Current Rate</b>	<b>Proposed Rate</b>
Cost Recovery Surcharge (Each Customer)	NA	\$5.00

**Conclusion**

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