

Agenda Date: December 15, 2011
Item Number: A4

Docket: UW-111399
Company Name: Rainier View Water Company, Inc.

Staff: Amy White, Regulatory Analyst
Jim Ward, Regulatory Analyst
Pam Smith, Consumer Protection Staff

Recommendation

Issue an Order to:

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Rainier View Water Company, Inc., in Docket UW-111399.
2. Allow the revised rates and tariff revisions filed by Rainier View Water Company, Inc., on August 1, 2011, and on November 23, 2011, to become effective January 1, 2012.
3. Direct the company to file a general rate case no later than April 15, 2013, that will eliminate 50 percent of the remaining subsidy between residential customers and non-residential customers.
4. Direct the company to work with staff to prepare a notice to all non-residential customers advising them of the 2013 rate case and the expected impact to non-residential rates. To give non-residential customers ample time to plan and budget for rate changes in 2013, the company must send the notice no later than February 29, 2012.

Background

On August 1, 2011, Rainier View Water Company, Inc., (Rainier View or company) filed tariff revisions increasing general rates. The proposed increases would generate \$537,234 (12.3 percent) in additional annual revenue. The stated effective date was September 1, 2011. The filing was prompted by costs for company operations exceeding revenues due to increases in employee salaries, health insurance, and taxes. The company proposed to increase base rate amounts and useage block rates for both residential and non-residential customers while maintaining the same useage block sizes and raising rates more to non-residential customers than to residential customers. The company serves approximately 16,500 residential and non-residential customers on 26 water systems in Pierce County and on two water systems in Kitsap County.

On November 23, 2011, the company filed an additional tariff page to publish the increased flat rate charge that the company had included in its notice to customers, but inadvertently did not include in the company's original filing with the commission. The effective date is stated as January 1, 2012.

The company's last general rate increase became effective June 1, 2010, in Docket UW-091466. In that case, the commission found that the company's rate design resulted in residential customers subsidizing non-residential customers. Eliminating the entire subsidy in one step would have resulted in significant increases to non-residential customers. The Bethel School District (District), Rainier View's largest customer, would have experienced a 116 percent increase, compared to a 16.4 percent increase for residential customers. The District opposed the proposed rates and argued, among other things, that the District did not understand the impact of the proposed rates, and that the District, and other public institutions, should be a special customer class, not part of a "commercial" class. Tom Siegel, Superintendent of the District, opposed the proposed rates because of the negative impact it would have on the District and the community, and because the District's budget had been set, and it did not include funds to pay higher water bills.

The commissioners directed staff to prepare a revised rate design that would mitigate the rate shock to the non-residential class by increasing rates in three steps. Staff prepared a revised rate design that eliminated approximately 33.3 percent of the subsidy. The revised rates became effective June 1, 2010.

Customer Comments

On August 1, 2011, the company notified its customers of the proposed rate increase by mail. Sixteen comments have been received to date; all are opposed to the proposed increase. Customers were notified that they may access documents pertinent to this rate case on the commission's website, and that they may contact Pam Smith at 1-888-333-WUTC (9882) or psmith@utc.wa.gov with questions or concerns.

Service Quality

- One customer states that the company should not be allowed a rate increase when it provides poor quality water.

Staff Response

Staff contacted the Department of Health (DOH) and found that the customer's system has experienced iron and/or manganese deposits that cause the water to have an unpleasant look, smell or taste. These types of deposits do not harm human health. DOH further explained that iron and manganese issues are common in water systems in Pierce County.

Staff advised the customer that the company is designing an iron and manganese removal system, and expects to have the system on line by next summer.

- Two customers say the company should not get the requested increase because the company will not increase water pressure to their neighborhoods, and one customer mentioned bad tasting water.

Staff Response

Staff learned that the water pressure in each customer's neighborhood ranges from 47 to 60 psi at the property lines which exceed the DOH requirement of 30 psi. The company

explained to one customer that they will need to provide their own booster system if they want higher water pressure. An informal complaint was opened as a result of the other customer comment. The company flushed the water system for 40 minutes; the water was clean and clear with no odors or discoloration. The water quality meets DOH standards. The customer was satisfied with the result.

General Comments

- Five customers commented that customers should not have to pay more just because the 2010 increase did not result in the expected revenue. Three customers also mentioned that the past year was very wet so usage was likely down from previous years, and that customers have conserved water as the company requested. Seven comments mentioned the hardship the increase will create because of the current condition of our country's economy. The frequency of the company's requests for higher rates is mentioned in four complaints.

Staff response

The last general rate increase became effective June 1, 2010. 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 reviews filings to ensure that all rates and fees are appropriate.

Rate Comparison

Monthly Rate*	Current Rate	Proposed Rate
Residential Metered Rate Service		
Base Rate (3/4-inch meter)	\$12.22	\$13.90
0 – 600 Cubic Feet	\$.85	\$.95
601 – 3,000 Cubic Feet	\$.91	\$1.00
Over 3,000 Cubic Feet	\$5.00	\$5.00
Non-Residential Metered Rate Service		
Base Rate (1-inch meter)	\$15.11	\$17.75
0 – 1,500 Cubic Feet	\$.85	\$.95
1,501 – 7,500 Cubic Feet	\$.91	\$1.00
Over 7,500 Cubic Feet	\$5.00	\$5.00
Non-Residential Metered Rate Service		
Base Rate (1-inch meter)	\$12.13	\$17.75
0 – 1,500 Cubic Feet	\$.85	\$.95
1,501 – 7,500 Cubic Feet	\$1.10	\$1.25
Over 7,500 Cubic Feet	\$1.36	\$1.50

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

Average Bill Comparison--Residential

Average Monthly Useage 823 Cubic Feet	Current Rate	Proposed Rate
Base Rate (3/4-Inch Meter)	\$12.22	\$13.90
0 - 600 Cubic Feet	\$5.10	\$5.70
601 - 823 Cubic Feet	\$2.03	\$2.20
Average Monthly Bill	\$19.35	\$21.80
Increase From Current Rates		12.6%

Average Bill Comparison—Non-Residential

Average Monthly Useage 3,807 Cubic Feet	Current Rate	Proposed Rate
Base Rate (1-Inch Meter)	\$12.13	\$17.75
0 – 1,500 Cubic Feet	\$12.75	\$14.25
1,501 – 3,807 Cubic Feet	\$25.38	\$28.84
Average Monthly Bill	\$50.26	\$60.84
Increase From Current Rates		21.1%

Discussion

The proposed increase was prompted by a combination of increased expenses (employee salaries, health insurance, and taxes) and lower revenue due, in part, to staff's rate design which imputed base rate charges for multiple customers for whom large blocks of time passed with no water usage. Staff has reviewed this issue in light of the current economic climate with high housing foreclosure rates and adjusted income for residential customers with seven to twelve months of no water usage. Without a rate increase, the company will not meet its debt-service coverage ratio requirements.

The company filed proposed rates that would eliminate only a small amount of the subsidy, not the full "second step" contemplated in the last rate case. In support of its proposal, the company states that this filing is made just 14 months after the last rate increase became effective on June 1, 2010, and that the company is concerned that taking the full "second step" to eliminate the subsidy would cause another delay, similar to the seven and one half months delay experienced in the last rate case in Docket UW-091466, and force the company to violate its debt-service coverage requirements. To address these issues, the company agrees:

1. To file a full rate case no later than April 15, 2013, that would implement the full "second step" by eliminating 50 percent of the remaining subsidy (an additional 33.3 percent of the original subsidy). The next rate case would eliminate any remaining subsidy (33.3 percent of the original subsidy).
2. To work with staff to prepare a notice that the company will send to all non-residential customers advising them of the 2013 rate case and the expected impact to non-residential

rates. The company will send the notice no later than February 29, 2012, to give all customers sufficient time to plan and budget for the expected changes.

Staff's review of the company's filing found that the proposed revenue requirement was not sufficient to cover the company's operating expenses. Staff and the company agreed to a revised revenue requirement that would generate \$545,419 (12.6 percent) in additional annual revenue. The proposed rates will generate the revised revenue requirement.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review shows that the revised expenses are reasonable and required as part of the company's operations. The customers' comments do not change staff's opinion that the company's financial information supports the revised revenue requirement. Staff further concludes that, with the company's agreement to file a rate case by April 15, 2013, that will incorporate the full "second step" to reduce rate subsidies and notice non-residential customers of those proposed changes no later than February 29, 2012, that the proposed 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 Rainier View Water Company, Inc., in Docket UW-111399.
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