

Agenda Date: December 22, 2016
Item Number: A2

Docket: UW-161155
Company Name: Iliad Water Company, LLC

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

Recommendation

Issue a Complaint and Order Suspending the Tariff Revisions filed by Iliad Water Company, LLC, in Docket UW-161155.

Discussion

On October 21, 2016, Iliad Water Company, LLC (Iliad Water or company), filed tariff revisions that would generate approximately \$318,300 (143 percent) in additional annual revenue. The stated reason for the large increase is that historically the revenues have never covered the cost of providing monthly water service. The following table lists water systems, number of customers, and county in which the water systems are located.

Name – system	DOH ID#	Customer Count	County
Fragaria Landing	266519	87	Kitsap
Hunt I & II	00567T	30	Kitsap
Lowper	019595	7	Clallam
Marbello	51530M	97	Snohomish
Cherry Creek	23101W	53	Snohomish
Alder Lake	221957	35	Pierce
Cascade Crest	31203Y	23	Snohomish
Sunwood Graham*	620345	126	Pierce
Northwest*	619472	40	Snohomish
Western Stavis	63216O	13	Kitsap

*Systems not previously regulated by UTC.

In 2015, five separate water companies representing eight of the water systems above merged into Iliad Water Services, Inc.¹ In 2016, Iliad Water Services, Inc. became Iliad Water Company,

¹ Removal from Commission Regulation by the merger were Fragaria Landing Water Company; Lowper, Incorporated DBA Lowper Water Company; Marbello Water Co., Inc. and SJM Water Service, Inc., Docket UW-

LLC.² This current filing is the first general rate filing by Iliad Water Company, LLC. This includes the eight systems that merged together in Docket UW-151639 and two new systems (Sunwood and Northwest, marked with * in the table above) that have previously not been regulated by the commission. While the commission has regulated eight of the systems, only a few of the systems have ever filed for rate changes with the commission. This means the current filing is the first time staff has been able to perform a full review of the water systems for historical records of costs and expenses for the service being provided.

The nature of this filing is a general rate increase and the possible creation of a single tariff rate for 10 systems that have historically had different assets, expenses and revenues, along with different rate structures. Due to this being the first rate case filed by this company for many of the water systems, there is a need for historical documents from different sources to substantiate the company's rate base. Staff has issued several data requests for information which are currently under review by the company. Thus staff has not completed its review of the company's supporting documents and records and the company has not demonstrated that proposed rates are fair, just, reasonable, or sufficient. Both the company and staff are in agreement that the filing should be suspended and are committed to working together to determine revenue requirement and rates, and the possibility of a single tariff pricing for all water systems.

Customer Comments

On October 21, 2016, 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 jcupp@utc.wa.gov with questions or concerns. Staff received 114 consumer comments, all opposed to the proposed rate increase which ranges from 33 percent up to 230 percent depending on the water system.

Service Quality

Six customers on the Cherry Creek system mentioned water quality issues. Staff contacted the Department of Health (DOH). An engineer from the Division of Drinking Water shared information about the system, stating, "Most recent sanitary survey in 2016 indicates that automatic flush valves were installed and operate twice a week. Operator says it has reduced the number of complaints." The engineer also provided a customer complaint log for the system.

151639, Order Removing Companies From Regulation and Cancelling Tariffs After Sale and Transfer of Stock and Merger (August 27, 2015).

² *Application of Iliad Water Services, Inc.*, Docket UW-160784, Order Granting Application For Merger and Adopting Tariffs (June 23, 2016).

Nearly all the complaints involved iron and manganese. The most recent complaint was from 2010.

DOH advised that customers concerned about the aesthetic quality of their water due to manganese can petition the company to install treatment. DOH also provided an advisory document, "Secondary Contaminant Treatment Requirements and Options," which staff provided to customers. This document explains how the DOH process works.

The DOH water system database shows no active compliance issues with the Cherry Creek system.

Staff Response

Staff explained that water quality and quantity issues are regulated by the Department of Health, however when there is a rate proceeding, staff can investigate such issues. Staff shared with customers, that manganese and iron are considered by DOH to be secondary contaminants and not a health threat, and provided the DOH document about treatment of secondary contaminants.

Business Practices

Many customers feel "unitary rates" will cost them more. They do not feel it is fair for them to have to pay the same rates as customers who live on different water systems where it costs more to provide service.

Staff Response

Staff and the company are considering whether single tariff pricing is appropriate in this case.

General Comments

Nearly every customer stated concern over the amount of the increase. In 35 comments, customers feel poor management is the reason for the company losing money.

Staff Response

Staff explained 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. Commission staff performs a thorough review of rate filings to ensure that all rates and fees are appropriate.

Community meeting

Customers on the Marbello system in Monroe organized a community meeting and invited commission staff to attend. Scott Sevall, Jim Ward, Greg Hammond and John Cupp attended the November 22, 2016, meeting held in Monroe. Four customers from the Cascade Crest water

system also attended. Scott Sevall spoke to 37 attendees about the ratemaking process and our review of this filing for general rates. John Cupp spoke about the commission process and customer involvement. Staff answered questions about the case and what the customers can expect going forward in the review process.

Conclusion

Issue a Complaint and Order Suspending the Tariff Revisions filed by Iliad Water Company, LLC, in Docket UW-161155.