

Agenda Date: August 28, 2008
Item Number: A4

Docket: UW-081416
Company Name: Aquarius Utilities, LLC

Staff: Chris Mickelson, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendation

Grant Aquarius Utilities, LLC's request for a surcharge to service \$2,056,214 in Drinking Water State Revolving Fund loans approved by the Public Works Board, subject to conditions (a) through (h) set forth below.

Discussion

On July 29, 2008, Aquarius Utilities, LLC, (Aquarius or company), filed with the Utilities and Transportation Commission (commission) a surcharge to service \$2,056,214 in Drinking Water State Revolving Fund (DWSRF) loans approved by the Public Works Board (PWB). Proceeds from the loans will be used for capital improvement projects on each of the company's four water systems. The company serves 880 customers located in Clallam, Kitsap and Mason counties.

The loan contracts are low interest (1.5 percent), 20-year loans approved by the PWB with the condition that, prior to September 9, 2008, Aquarius obtains commission approval of rates to repay the loans. This surcharge filing, if approved, meets that condition.

Although the proposed surcharge tariff rates are scheduled to become effective September 15, 2008, staff recommends the commission take action at this open meeting, to ensure the commission acts prior to the next PWB board meeting scheduled for September 9, 2008.

Staff has reviewed the cost estimates for the proposed projects, the terms and conditions of the DWSRF loans and believes the proposed surcharge tariff Aquarius requests is reasonable and should be granted. Staff has worked with the Company and the PWB Staff to set the proposed payment of DWSRF loans. The proposal relies on three revenue sources: monthly surcharges paid by current and future customers, facilities charges paid by future customers and future equity investment by the owner. To ensure that the Company has sufficient revenue to service the DWSRF loans, and because the revenue streams from the unknown future customers and future owner investment are not certain, Staff recommended the commission approve the proposed surcharge subject to the following conditions:

- a) This surcharge is to apply to all water customers served by the company. This surcharge will expire on December 31, 2028, or upon recovery of \$2,056,214 in principal, whichever occurs first.

- b) Funds received from the surcharge, including interest earned on the funds while held in a reserve account, will be treated as contributions in aid of construction.
- c) All future funds received through the company's facilities charge (current tariff and contracts), including any interest earned on the funds while held in a reserve account, will be used to pay the four DWSRF loans until this surcharge expires.
- d) Surcharge funds and facilities charge funds collected and interest earned upon such funds must be held in a separate bank 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 or facilities charge funds will be transferred to the new owner of the company.
- e) The owner will invest a minimum of \$10,000 annually by August 1 of each year, beginning in 2009, and every year thereafter, until this surcharge expires. These funds will be held in the same reserve bank account specified in condition (d) above. Additional owner's equity investment may be required to make the annual DWSRF loan payment, if revenue from the surcharge and the facilities charges is inadequate.
- f) The water company must report the following information to the commission within 45 days of the end of the calendar quarter:
 - 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.
- g) The company will immediately deposit one-time payments in the same reserve bank account specified in condition (d) above.
- h) After 2014, excess funds held in the reserve bank account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the DWSRF loans. "Excess funds" means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.

Customer Comments

On July 28, 2008, the company notified its customers of the surcharge by mail. The commission has received 47 customer comments (five in support, 42 opposed) on this filing as of August 25, 2008. Staff's summary of the comments received with staff's response is attached.

Surcharge Rate Schedule

Time Period	Proposed Surcharge Rate
Monthly Surcharge	
September 15, 2008 – December 31, 2008	\$4.00 per month
January 1, 2009 – December 31, 2028 * Or until the loans are paid in full, whichever occurs first.	\$8.70 per month
One-time payment (Within 30 days of filing approval.)	\$1,639.14 one-time

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 proposed surcharge request and the proposed surcharge is fair, just, reasonable, and sufficient.

Conclusion

Grant Aquarius Utilities, LLC's request for a surcharge to service \$2,056,214 in Drinking Water State Revolving Fund loans approved by the Public Works Board, subject to conditions (a) through (h) set forth above.

Attachment