

Agenda Date: May 13, 2010
Item Number: A4

Docket: UW-091466
Company Name: Rainier View Water Company, Inc.

Staff: Jim Ward, Regulatory Analyst
Amy White, Regulatory Analyst
Chris Mickelson, Regulatory Analyst
Dennis Shutler, 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-091466.
2. Approve staff-recommended revised rates as filed by the company on May 3, 2010, to become effective June 1, 2010.
3. Grant the company's request for an exemption from WAC 480-110-431, Tariffs, to allow the revised rates that result in increases above the level noticed to customers to become effective on June 1, 2010, on less than statutory notice.
4. Grant the company's request for an exemption from WAC 480-110-425, Customer Notice, to allow the company to notify customers of increases in the next billing cycle.

Discussion

On September 15, 2009, Rainier View Water Company, Inc., (Rainier View or company), filed tariff revisions to its currently effective tariff that would generate approximately \$739,971 (16.4 percent) in additional annual revenue. The filing also cancels the current \$0.61 per month generator surcharge. The company states the increase is prompted by increases in wages, medical benefits, cost of chemicals used for treatment, and most products used to provide service. The company serves about 16,000 connections on 26 water systems located in Pierce County and on two water systems located in Kitsap County. The proposed effective date is October 16, 2009. The company's last rate increase was in July 2001.

On October 15, 2009, the commission issued a complaint and order suspending the proposed tariff revisions.

After review and discussions, staff and the company agreed to a revised revenue requirement of \$363,611 (8.1 percent) in additional annual revenue and revised rates. On May 3, 2010, the company filed revised rates at staff-recommended levels.

Rate Case Issues

During its review, staff determined that the company did not use all meters for billing purposes. The company's new billing software program properly identifies those meters used for "non-billing" purposes. Staff made adjustments to the company's test period usage data to extract master meters¹, reclassify meter sizes and accurately account for water usage associated with compound² meters.

Single-Tariff Pricing

Under single-tariff pricing, customers on some water systems pay more and customers on some water systems pay less than what they would pay if the commission set separate, stand-alone rates for each water system. Since all water systems will eventually require capital improvements, single-tariff pricing distributes the risk of the individual water system customers in much the same way as an insurance pool and diminishes the impact of major capital investments on the individual water system's customers. Single-tariff pricing also includes a single rate design that applies to all customers.

Staff has consistently supported single-tariff pricing and, except for very unusual circumstances, has consistently recommended the commission use single-tariff pricing to set rates. Staff thinks this rate case presents unusual circumstances that warrant an exception to the single-tariff pricing policy and recommends that the commission approve two separate rate designs: one for residential customers and one for commercial customers.

Rate Design History

Rainier View previously applied a single-tariff pricing format. The company used a simple rate design that included 500 cubic feet in the base charge and \$0.85 per 100 cubic feet for all usage that exceeded 500 cubic feet. That rate scale applied to all customers, regardless of classification or meter size.

Over time, total customer usage exceeded the Washington Department of Health's (DOH) allotment of Equivalent Residential Units (ERU). Staff's review of the company's data showed a need to reduce consumption. Customers using more than 3,000 cubic feet of water a month caused peak-day demand to increase from 800 gallons per day (gpd) per customer in 1996, to 1,000 gpd per customer during 2000 and subsequent years. During peak demand, high usage can adversely affect the entire system's water pressure.

In 2004, the company filed, and the commission allowed to become effective, a conservation rate for only residential customers and only for the months of May through September. The goal was to comply with DOH ERU requirements by decreasing summer peak usage demand. The company believed that the residential conservation rate and customer education would cause customers to reduce the amount of water they used.

Commercial customers using more than 3,000 cubic feet per month were addressed separately. Although commercial customers used more than one ERU, the company classified them as one customer and one ERU. Instead of imposing a conservation tariff on the smaller number of

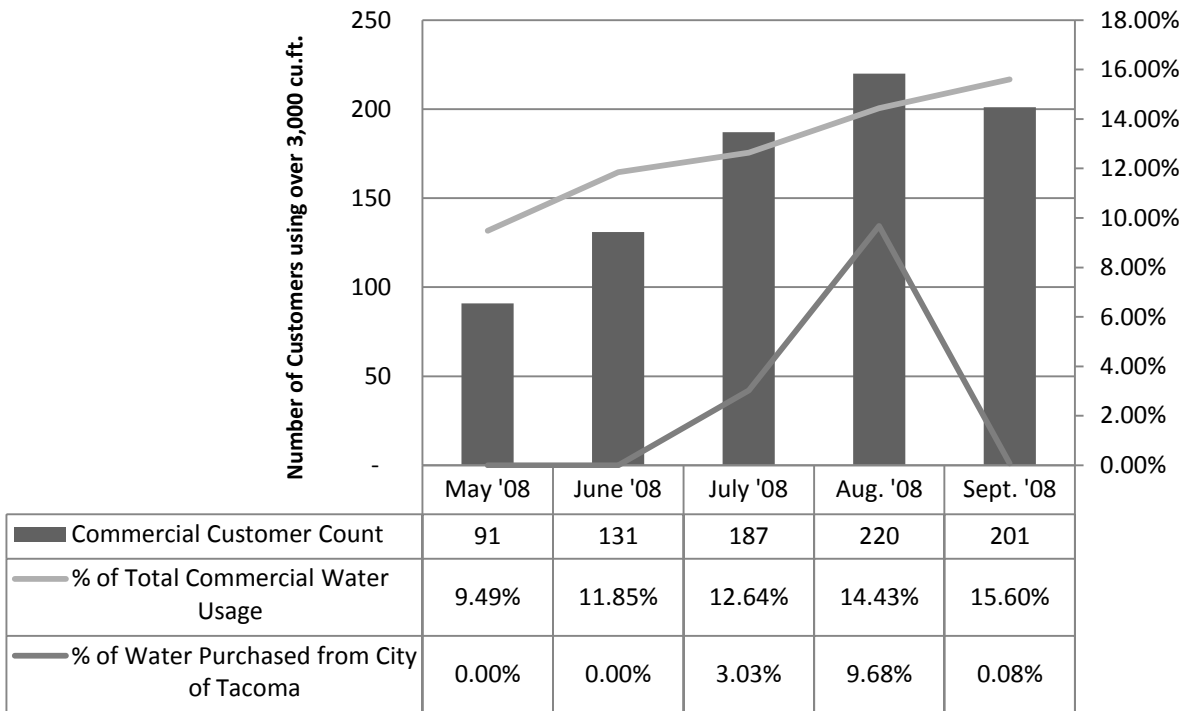
¹ Master meters were used strictly for verifying the billed usage data for portions of the water system.

² A combination of a large meter and a small meter, with a special change-over valve to accurately measure an extremely broad range of flow rates.

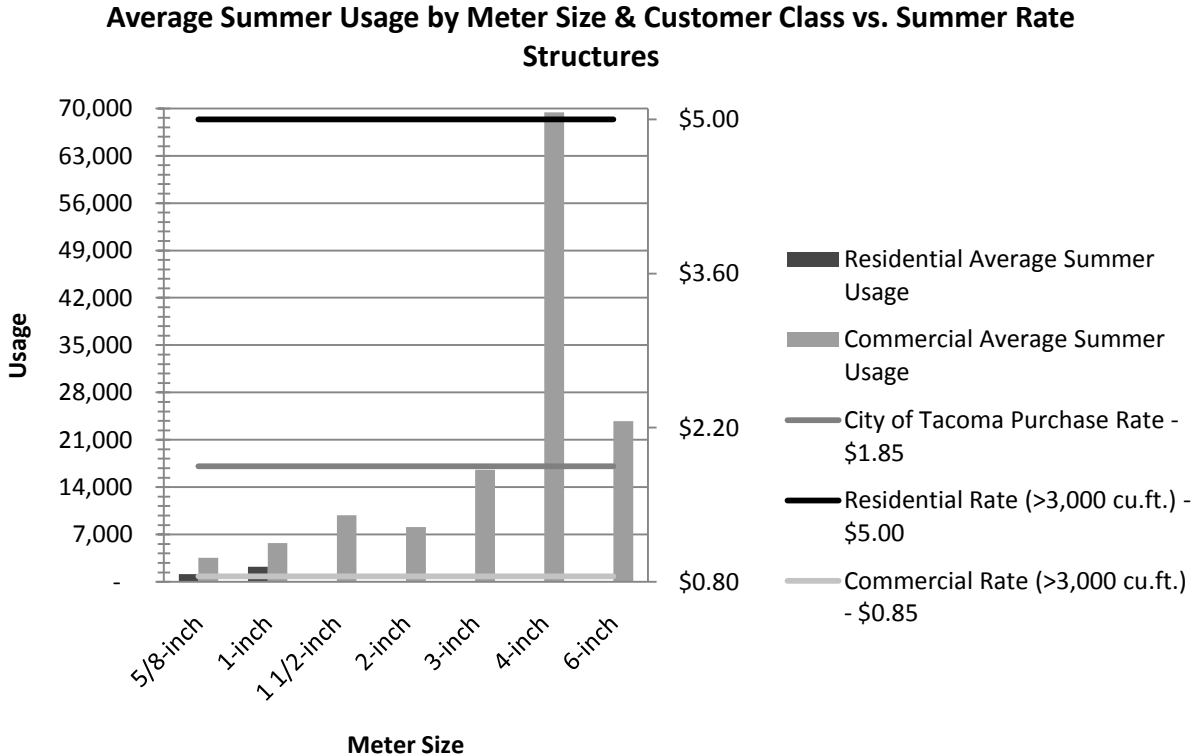
commercial customers, the company worked with its commercial customers to reconfigure the ERU allocations to more accurately reflect the usage.

Over the last several years, both the residential and the commercial customers have grown accustomed to the rates adopted in 2004 and have slowly increased usage year-round. Historical data shows that residential customers started using more water in the winter months and commercial customers served by up-size meters used more water year-round. The up-size meter customers use a disproportionately large amount of water compared to the revenue paid by those customers.

Number of Commercial Customers using over 3,000 cu.ft.



Customer demand exceeds Rainier View’s available source production during the summer months. Rainier View purchased water from the city of Tacoma for \$1.85 per 100 cubic feet to meet summer peak demand. The customers served by up-size meters, the largest users, paid the \$0.85 per 100 cubic feet while the company bought water for \$1.85 per 100 cubic feet. The year-round \$.85 per 100 cubic feet rate for up-size meters does not encourage conservation.



Rate Design

Ideally, staff would propose one rate design to apply to all customers. However, the differences between the current rate designs make that impractical. Staff’s effort to create a single rate design resulted in a significant decrease in the base charge to \$8.78, increases in usage charges in blocks one and two, and a significant decrease in the block three usage charge. The result creates cash flow problems for the company during the winter months, reverses the current conservation pricing in effect for usage that exceeds 3,000 cubic feet per month, and increases annual charges paid by commercial customers of up to 707 percent.

Staff recommends one rate design for 5/8-inch meters and a second rate design for up-size meters that make improvements to the current rate design and are a positive step toward a single rate design.

Staff and the company agreed on a revised rate design that incorporates the following elements:

1. Eliminate the usage allowance included in the 5/8-inch meter base charge to ensure all customers pay only for the water they use.
2. Maintain the \$5.00 conservation rate for usage exceeding 3,000 cubic feet for 5/8-inch meter customers.
3. Extend the application of the \$5.00 conservation rate for usage exceeding 3,000 cubic feet from May through September to year-round.
4. Adjust the up-size meter base charge and usage blocks to reflect standard AWWA capacity factors.
5. Increase the revenue that up-size customers pay to more closely reflect the amount of water they use by implementing a three block inclining rate design.

5/8-inch Base Charge

The company proposed a 5/8-inch base charge, with no usage included, at \$12.20 and the staff revised rate is \$11.55.

5/8-inch Usage Blocks

The company proposed to maintain the current usage blocks, staff and the company agreed on a small change in the lowest usage block from 0 – 500 cubic feet to 0 – 600 cubic feet.

\$5.00 Conservation Rate

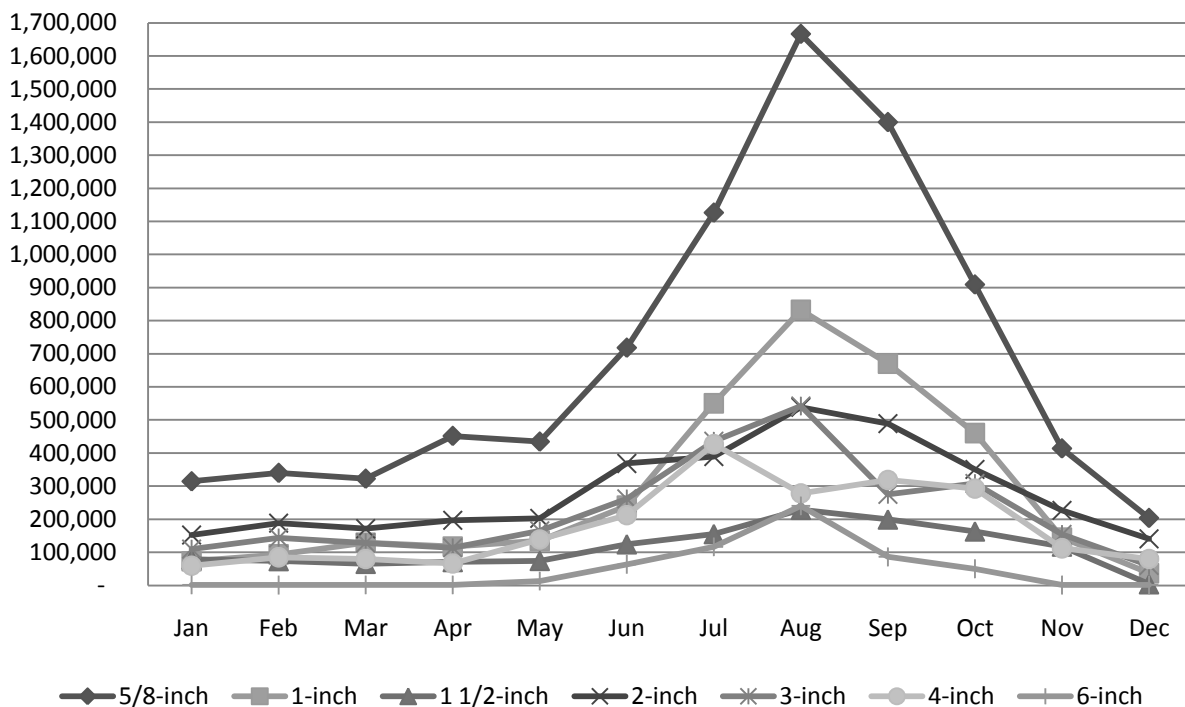
The company proposed, and staff agrees, to extend the application of this rate from May through September to year-round for residential customers only.

Up-size Meter Rates – Base and Usage Blocks

Although the company proposed to adjust the base charges for up-size meters, its proposal did not reflect the AWWA standard capacity factors. Staff and the company agreed to adjust the up-size meter base charges using 50 percent of the AWWA capacity factors. Staff and the company also agreed to increase the commercial usage blocks from two to three, using the 5/8-inch meter usage blocks as the base, and adjusting the usage using the AWWA standard capacity factors.

With the addition of an up-size meter rate design and multi-block conservation oriented rates, and considering historical data, a maximum of 55 customers (mostly commercial) could experience annual bill increases of 13.9 percent more than the rates the company originally proposed. The company has committed to work directly with those customers to explain the effects of the revised rate design on their bills and to work with those customers to decrease their total usage.

Monthly Usage by Meter Size - Commercial



As a step towards single-tariff pricing and recognizing historical usage, the revised rate design does have different rate levels for residential meters and commercial, up-size meters. The first block is set at \$0.85 for all customers. The second and third blocks for up-size meters have been set to more appropriately match the percentage of revenue paid by those customers with the percentage of water used by those customers. This should help to avoid additional rate shock and set the stage for eventually moving towards single-tariff pricing. The rate blocks are the same for both residential and up-size meters, as adjusted by the standard AWWA capacity factors.

Staff recommends that the commission accept the revised rate design.

The revised monthly flat rate of \$24.75 is 3.1 percent greater than the proposed \$24.00 rate that the company noticed to its customers.

Less Than Statutory Notice Exemption and Customer Notice Exemption

The company requests an exemption from WAC 480-110-431, Tariffs, to allow the revised rates that result in increases above the level noticed to customers to become effective on June 1, 2010, on less than statutory notice, and an exemption from WAC 480-110-425, Customer Notice, to allow the company to notify customers of increases in the next billing cycle. Staff recommends that the commission grant the requests.

Customer Comments

On September 14, 2009, the company notified its customers of the proposed rate increase by mail. Twenty-seven customer comments have been received to date. All customers are opposed to the proposed increase. Please note that customers often address several issues of concern within one comment. Therefore, subtotals may not equal the total number of comments submitted.

Consumer Protection staff advised customers that they may contact Dennis Shutler at 1-888-333-9882 with questions or concerns.

Filing Documents and Methodology Comments

- Two customers believe the flat rate allowing unlimited usage should be removed so that all customers pay for the water they use.

Staff Response

The company currently has 211 unmetered customers, and is working to install meters for all customers.

- Two customers do not approve of the proposed rate design.

Staff Response

Staff's rate design ensures that rates are fair, just, reasonable and sufficient.

General Comment

- Fourteen customers believe the proposed rates are excessive. Eleven customers believe the current rates are already too high.

Staff Response

Customers were advised that state law requires rates to be fair and reasonable, and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on investment.

- Two customers believe the water company is taking advantage of its customers because of its lush lawns and landscaping, the aquarium in the company's office, and the extravagant office facility.

Staff Response

Staff has reviewed the costs and allowed only appropriate expenses.

Rate Comparison

A residential 5/8-inch customer using 866 cubic feet of water per month (the calculated company-wide residential average water usage) would pay \$0.46 (-2.4 percent) less per month

using the revised rates as compared to the current rates (see “Average Bill Comparison” table below).

A commercial 5/8-inch customer using 3,544 cubic feet of water per month (the calculated company-wide commercial 5/8-inch average water usage) would pay \$22.03 (52.1 percent) more per month using the revised rates as compared to the current rates (see “Average Bill Comparison” table below).

Rate Comparison

Monthly Rate^{1,2}	Current Rate	Proposed Rate	Revised Rate
Generator Surcharge	\$0.61	NA	NA
Unmetered Service	\$19.90	\$24.00	\$24.75
Base Rate (5/8-inch meter) Residential	\$15.80	\$12.20	\$11.55
0 – 500 Cubic Feet	NA	\$0.90	\$0.85
501 – 600 Cubic Feet	\$0.85	\$1.85	\$0.85
601 – 3,000 Cubic Feet	\$0.85	\$1.85	\$0.91
Over 3,000 Cubic Feet	\$5.00 ³	\$5.00	\$5.00
Base Rate (5/8-inch meter) Commercial	\$15.80	\$18.30	\$11.55
0 – 500 Cubic Feet	NA	\$1.00	\$0.85
501 – 600 Cubic Feet	\$0.85	\$1.85	\$0.85
601 – 3,000 Cubic Feet	\$0.85	\$1.85	\$1.50
Over 3,000 Cubic Feet	\$0.85	\$1.85	\$2.15
Base Rate (2-inch meter) Commercial	\$15.80	\$97.60	\$46.20
0 – 500 Cubic Feet	NA	\$1.00	\$0.85
501 – 4,800 Cubic Feet	\$0.85	\$1.85	\$0.85
4,801 – 24,000 Cubic Feet	\$0.85	\$1.85	\$1.50
Over 24,000 Cubic Feet	\$0.85	\$1.85	\$2.15
Base Rate (4-inch meter) Commercial	\$15.80	\$183.00	\$144.38
0 – 500 Cubic Feet	NA	\$1.00	\$0.85
501 – 15,000 Cubic Feet	\$0.85	\$1.85	\$0.85
15,001 – 75,000 Cubic Feet	\$0.85	\$1.85	\$1.50
Over 75,000 Cubic Feet	\$0.85	\$1.85	\$2.15

¹ - Based on 5/8-inch meter classification, see company’s tariff for upsize meter classification, usage blocks and rates.

² - Based on “per 100 cubic feet”.

³ -Applied during the period May 1 to September 30 for usage over 3,000 cubic feet.

Average Bill Comparison - Residential

Average Monthly Usage 866 cubic feet^{1,2,4}	Current Rate	Proposed Rate	Revised Rate
Base Rate (5/8-inch meter)	\$15.80	\$12.20	\$11.55
Generator Surcharge	\$0.61	NA	NA
0 - 500 Cubic Feet	NA	\$4.50	\$4.25
501 - 600 Cubic Feet	\$0.85	\$1.85	\$0.85
601 - 866 Cubic Feet	\$2.26	\$4.92	\$2.41
Average Monthly Bill	\$19.52	\$23.47	\$19.06
Increase From Current Rates		20.2 %	-2.4 %

Average Bill Comparison - Commercial

Average Monthly Usage 3,544 Cubic Feet⁴	Current Rate	Proposed Rate	Revised Rate
Base Rate (5/8-inch meter)	\$15.80	\$18.30	\$11.55
Generator Surcharge	\$0.61	NA	NA
0 - 500 Cubic Feet	NA	\$5.00	\$4.25
501 - 600 Cubic Feet	\$0.85	\$1.85	\$0.85
601 – 3,000 Cubic Feet	\$20.40	\$44.40	\$35.99
3,001 – 3,544 Cubic Feet	\$4.62	\$10.06	\$11.67
Average Monthly Bill	\$42.28	\$79.61	\$64.31
Increase From Current Rates		88.3 %	52.1 %

⁴ – Based on a company-wide customer specific water average usage.

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 customer's comments do not change staff's opinion that the company's financial information supports the revised revenue requirement and the revised 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-091466.
2. Approve staff-recommended revised rates as filed by the company on May 3, 2010, to become effective June 1, 2010.
3. Grant the company's request for an exemption from WAC 480-110-431, Tariffs, to allow the revised rates that result in increases above the level noticed to customers to become effective

on June 1, 2010, on less than statutory notice.

4. Grant the company's request for an exemption from WAC 480-110-425, Customer Notice, to allow the company to notify customers of increases in the next billing cycle.