

Agenda Date: December 16, 2010  
Item Number: A1

Docket: UW-101543  
Company Name: Olympic Water and Sewer, Inc.

Staff: Jim Ward, Regulatory Analyst  
Dennis Shutler, Consumer Protection Staff

### **Recommendations**

Issue a Complaint and Order Suspending the Tariff Revision filed by Olympic Water and Sewer, Inc., on September 15, 2010.

### **Discussion**

On September 15, 2010, Olympic Water and Sewer, Inc., (Olympic or company), filed tariff revisions to its currently effective tariff that would generate \$182,097 (25 percent) in additional annual revenue. The stated effective date is October 20, 2010. The filing was prompted by increases in operating costs including repair and maintenance, water rights and administrative services. The tariff revision increases the metered usage block rates and introduces a third meter usage block.

On October 6, 2010, the company filed a letter to extend the effective date until December 17, 2010. This date coincides with the beginning of the company's normal billing cycle. The company serves 1,623 connections on a single water system located near Port Ludlow in Jefferson County. The company's last rate increase was effective May 22, 2008.

The company included \$32,794 construction costs and \$18,500 in legal expenses related to drilling a well that was unusable for production due to contamination. Staff removed these costs because litigation is on-going.

On October 6, 2010, the commission sent a notice to the interested parties that this item would again be heard at the December 16, 2010, open meeting.

### **Customer Comments**

On September 16, 2009, the company notified its customers of the proposed rate increase by mail. Sixteen 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 access company documents pertinent to this rate case at [www.utc.wa.gov/water](http://www.utc.wa.gov/water), and that they may contact Dennis Shutler at 1-888-333-WUTC (9882) with questions or concerns.

### **Filing Documents and Methodology Comments**

- Four customers, representing the Port Ludlow Village Council, stated the following questions and concerns about this filing:
  1. Are the costs associated with the new well #17 accounted for appropriately?
  2. Are capital costs allowed to be included in annual expenses or should they be amortized over the projected life of the well?
  3. Is the company correctly allocating federal income taxes, insurance costs, depreciation/amortization expenses, interest expenses, management costs and fees, well repair expenses and legal costs?
  4. Will staff's analysis include the allocation of labor hours and costs between the three operating organizations of Port Ludlow Associates, Olympic Water and Sewer, Inc., (water) and Olympic Water and Sewer, Inc., (sewer)?
  5. Is the company pursuing recovery of remediation costs for the cleanup of contaminated soils at well #17 in this filing?
  6. The UTC's website did not contain all the financial data for customers to review.

### **Staff Response**

These customers were advised as follows:

1. Staff removed the costs related to well #17 because of ongoing litigation.
2. Capital costs are depreciated annually over the useful life of the asset.
3. Both the company and staff have restructured federal income taxes, insurance costs, depreciation/amortization expenses, interest expenses, management costs and fees, well repair expenses and legal costs to more appropriately match the costs for operations of the company.
4. Yes, the company has provided reasonable allocation methods and cost breakdowns.
5. Staff and the company have agreed that legal and remediation costs should be removed from this filing.
6. Company work papers are available after receipt, review, distribution and updating to the commission's website. Staff work papers are not posted to the commission's website until staff has completed their analysis.

### **General Comment**

- Eight customers believe the increase is excessive due to current economic conditions. Three customers believe the company should work within a budget like its customers.

### **Staff Response**

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.

- One customer believes the company should enforce water restrictions when the well water supply is low.

**Staff Response**

The customer was advised that the company has not experienced a situation requiring water restrictions within the last ten years.

- One customer asked how to obtain annual reports for 2008 and 2009.

**Staff Response**

Staff referred this customer to the appropriate location on the commission's website for copies of the company's annual reports.

- One customer believed the company has differing winter and summer rates.

**Staff Response**

Staff advised the customer that the company's rates are the same throughout the year.

- One customer believes the company should cut costs for employee salaries and medical coverage so that customers do not have to pay more.

**Staff Response**

The customer was advised that the company determines salaries and benefits. Staff made appropriate adjustments.

- One customer asks why Olympic Water and Sewer's costs are not compared to neighboring companies, and why the consumer price index is not used to set rates.

**Staff Response**

Staff advised the customer that the commission does not compare one water company's rates or operations to a neighboring water company. Rates for service are based on each company's capital investment, operating and finance costs. Currently in utility regulation of water companies, staff does not use a consumer price index as a method of determining rate increases. Consumer price indexing does not consider actual cost for goods and services used by this company to provide service to its customers. Indexing also relies on a base cost for services that has not yet been established for the water utility industry or this water company.

A customer using 706 cubic feet of water per month (the calculated company-wide average water usage) would pay \$7.72 (22.6 percent) more per month using the proposed rates than using the current rates (see "Average Bill Comparison" table below).

**Rate Comparison**

<b>Monthly Rate</b>	<b>Current Rate</b>	<b>Proposed Rate</b>
Base Rate (3/4 Inch Meter) <sup>1</sup>	\$18.25	\$18.25
Usage Block 0 – 400 Cubic Feet <sup>1,2</sup>	\$2.25	\$2.65
Usage Block 401 – 950 Cubic Feet <sup>1,2</sup>	\$2.25	\$4.25
Usage Block 951 – 1,000 Cubic Feet <sup>1,2</sup>	\$2.25	\$5.25
Over 1,000 Cubic Feet <sup>1,2</sup>	\$3.25	\$5.25

1 – Based on ¾-inch meter classification, see company’s tariff for upsize meter classification, usage blocks and rates.

2 – Based on “per 100 cubic feet”.

**Average Bill Comparison**

<b>Average Monthly Usage 706 Cubic Feet<sup>3</sup></b>	<b>Current Rate</b>	<b>Proposed Rate</b>
Base Rate (3/4 Inch Meter)	\$18.25	\$18.25
0 - 400 Cubic Feet	\$9.00	\$10.60
401 - 706 Cubic Feet	\$6.89	\$13.01
<b>Average Monthly Bill</b>	<b>\$34.14</b>	<b>\$41.86</b>
<b>Increase From Current Rates</b>		<b>22.6 %</b>

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

The company has not responded to staff’s data requests. Therefore, the company has not demonstrated the need for the additional revenue and has not demonstrated the proposed rates are fair, just, reasonable and sufficient.

**Conclusion**

Issue a Complaint and Order Suspending the Tariff Revision filed by Olympic Water and Sewer, Inc., on September 15, 2010.