

Agenda Date: June 15, 2023  
Item Number: A1

**Docket:** UW-230132  
Company Name: Olympic Water and Sewer, Inc.

Staff: Jaclynn Simmons, Regulatory Analyst  
Rachel Stark, Regulatory Analyst  
John Cupp, Regulatory Analyst Consumer Protection

### **Recommendation**

Take no action allowing tariff pages filed by Olympic Water and Sewer, Inc. in Docket UW-230132 on February 24, 2023, as revised on April 4, 2023, to become effective June 19, 2023, by operation of law.

### **Background**

On February 24, 2023, Olympic Water and Sewer, Inc. (Olympic Water or Company) filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions that, as originally filed, would have generated approximately \$187,015 (23.3 percent) additional annual revenue. The Company was ordered to file a general rate case in Order 02 of Docket UW-190160 with an effective date no later than May 1, 2023. The Company's last general rate increase was June 21, 2021. If the current request is approved, the rates would become effective June 19, 2023. The Company provides water service to approximately 1,740 customers in Jefferson County near Port Ludlow.

### **Discussion**

In April of 2019, the Company filed Docket UW-190160, which was a request for a special surcharge to start recovery of a water treatment plant that was required to be constructed by the Department of Health. In Order 01 of the docket a \$5.00 per month per customer surcharge was allowed to begin recovery of 70 percent of the total cost of the treatment plant which amounts to \$2,014,214. On April 14, 2022, the Company filed with the Commission in the same docket a request for decrease of the special surcharge where Order 02 revised the surcharge to lower the amount per month from \$5.00 to \$3.50. The requested lower amount was due to the Company being able to reduce costs from the original projections. The surcharge is set to expire June 20, 2038, or upon recovery of \$1,558,526, whichever occurs first.

In both orders in Docket UW-190160 the Company was ordered to file a general rate case within a specific timeframe, Order 01 states within one year after the water treatment project was completed and is on-line. Order 02 states, no later than May 1, 2023. This was to allow the Company to begin recovery of the 30 percent of the project it was responsible for through general rates and allow time to determine the operational costs of the treatment plant. This is the compliance filing per those orders.

On February 24, 2023, Olympic Water filed with the Commission tariff revisions that met the requirements of the orders in UW-190160, that would cover the 30 percent of the company funded plant cost of the water treatment plant and the cost of water treatment operational cost at approximately \$187,015 (23.3 percent) additional annual revenue. On April 12, 2023, the Company filed for an extension to provide additional required documents as laid out in WAC 480-07-530(4)(h), (i) and to give ample time for review. On April 20, 2023, the Company emailed its affiliated interest report and schedule of separation of revenues and expenses between its regulated and unregulated operations to Commission Staff (Staff). Staff reviewed the documents and found that they complied with the WAC and confirmed that the company included the separation of the regulated and non-regulated income statements.

On April 14, 2023, the Company filed a motion for continuance for docket UW-190160, to extend the effective date of the compliance general rate case to an effective date of June 19, 2023.

On April 27, 2023, following Staff's review of the affiliated interest report and schedule of separation of revenues and expenses. Staff discussed with the Company again how it separates the water company revenues and expenses from the wastewater revenues and expenses, and it was repeated the Company uses different accounting ledgers for each. During Staff's initial review of the compliance filing, Staff used the Company's general ledger for water to determine that the costs associated with the water company were only for the water side, and not the company's unregulated wastewater entity. Staff were able to verify the amounts submitted to the Commission by looking into these accounts, ensuring that only water costs were determined in the setting of customer water rates.

On May 16, 2023, Staff met with the customers of the Company and gave an overview of how the Commission determines fair, just, reasonable, and sufficient rates. This was done to give customers an understanding of our internal processes of auditing a rate case and how we calculate a company's revenue requirement. Staff also explained at the meeting that the wastewater side of the Company is not within the Commission's jurisdiction to be regulated according to RCW 80.04.110 (29)(a)(b).

On May 17, 2023, Staff met with Public Council and discussed wastewater regulations and why the Company's wastewater is not regulated by the Commission. Staff pointed Public Council to RCW 80.04.110 (29)(a)(b), covering wastewater regulation, and explained that the Company is outside an urban growth area and therefore does not fall under Commission jurisdiction. Staff also discussed why the Company needed the new filtration system, which was because of the iron, manganese and arsenic that naturally occurs and was found through required testing. The Department of Health required that the Company install the filtration system to put the Company in compliance with contaminate levels and continue testing maintaining its green operating permit status.

After review of the filing, Staff agreed with the Company's calculations to include 30 percent of additional water treatment plant asset costs and recovery of interest costs the company is responsible for as the surcharge mentioned above only cover 70 percent of the total water treatment system. Staff also made minor restating adjustments to reconcile the differences in the general ledger amounts and the work papers the company provided. Staff found that the Company had 100% debt in its Capital Structure, so Staff adjusted this to a hypothetical 40% debt and 60% equity based on Staff practice. Staff sometimes uses a hypothetical Capital Structure if a company has a high debt percentage or a high equity percentage because it provides an appropriate balance between two long-standing principles of sound ratemaking: 1) that a utility is entitled to earn a

return on capital sufficient to preserve its creditworthiness; and 2) that the rate of return on capital must not burden ratepayers unnecessarily and it must be economical.

Staff also reviewed time schedules, job descriptions and overhead for expenses that are split between the regulated water company and the unregulated wastewater company. Actual time spent on each was used as the allocator between the two for each shared expense. The general ledger for the water company and total operations was used to verify the amounts in rates are correct and for water service only.

The Company’s request was for \$185,015 of additional annual revenue in this filing, however, after the review Staff found that the Company is entitled to a larger amount than what was requested due to the change in the Company’s capital structure as mentioned above.

Staff and the Company agreed to the original request of \$185,015 or 23.3 percent of additional annual revenue with lower revised block rates than noticed to customers. Staff adjusted the block structure for block one and block two from what the company proposed to reflect average usage for winter and summer. This reduced the average bill from what it would have been at the requested rates for customers using a 3/4-inch meter and allows for the third block to promote conservation. Staff’s position is that the rates agreed upon are fair, just, reasonable, and sufficient.

**3/4 -inch Metered Rates**

	<b>Current Rate</b>	<b>Company Proposed Rate</b>	<b>Staff Revised Rate</b>	<b>Percentage Rate Increase</b>
Base Charge	\$19.25	\$22.25	\$22.00	14.3%
Block 1	\$2.70	\$3.57	\$3.50	29.6%
Block 2	\$3.40	\$5.00	\$4.75	39.7%
Block 3	\$4.40	\$6.00	\$6.00	36.4%
<b>Usage Blocks</b>	<b>Current</b>	<b>Proposed</b>	<b>Revised</b>	
Block 1	0-1,000	0-1,000	0-600	
Block 2	1,001-1,800	1,001-1,800	601-1,800	
Block 3	>1,801	>1,801	>1,801	

- Blocks are set up to promote conservation.
- Block one was lowered to be more accurate of average customer water usage in the winter.
- The water treatment surcharge of \$3.50 still applies and expires June 20, 2038.

**Bill Increase**

	<b>Current Bill</b>	<b>Company Proposed Bill</b>	<b>Staff Revised Bill</b>
<b>Average</b>	\$35.03	\$43.37	\$42.43
<b>Bill Increase</b>		\$8.43	\$7.43
<b>Percent Increase</b>		23.8%	21.2%

- The current bill is based on annual average usage at 585 cubic feet per month.

### **Customer Comments**

On March 15, 2023, the Company notified its customers by mail of the proposed rate increase. Customers were notified that they may contact John Cupp with questions or concerns. Staff received nine comments, all opposed to the rate increase.

### **General Comments**

Over half the commenters believe that the company did not file all the required documents in this case prior to the April 13, 2023, open meeting. Three customers mentioned a water quality issue.

### **Staff Response**

On May 16, 2023, Staff met with representatives of the Company's' customers. Staff listened to the customers' concerns about the proposed rate increase, gave a detailed presentation on Staff's ratemaking procedure, and gave general information about Staff's process in reviewing company tariff filings.

Staff contacted the Washington Department of Health and spoke with the engineer assigned to Jefferson County. Potassium permanganate, which is used to treat the water for manganese and iron, was released to the extent that is discolored some customers' water. The DOH engineer is working with the Company on the water quality issue, and says the company is taking appropriate steps to deal with it. The engineer agreed to keep staff informed of progress.

### **Conclusion**

Staff have completed their review of the Company's documentation. Staff's review shows that the Company with the given extra time filed all the required documentation per WAC and that the revised tariff pages filed on April 4, 2023, that include the revised rate design and blocks, are reasonable and required as part of the Company's operations.

### **Recommendation**

Take no action allowing tariff pages filed by Olympic Water and Sewer, Inc. in Docket UW-230132 on February 24, 2023, and as revised on April 4, 2023, to become effective June 19, 2023, by operation of law.