

Agenda Date: July 30, 2009
Item Number: A4
Docket: UW-090733
Company Name: Washington Water Service Company

REVISED July 28, 2009

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

Recommendation

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Washington Water Service Company.
2. Approve the staff recommended revised rates as filed by the company on July 23, 2009, and July 27, 2009, to become effective July 31, 2009, on less than statutory notice.
3. 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 May 12, 2009, Washington Water Service Company, (Washington Water or company), filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$1,874,923 (25.7 percent) in additional annual revenue. The company serves about 15,766 customers on 172 water systems. The systems are located in eight counties in western Washington: Clallam, Jefferson, Pierce, San Juan, Thurston, Kitsap, King and Mason counties.

The proposed rates are prompted by increases in operating and administrative costs such as payroll and benefits, insurance, property taxes and water testing fees since the last rate increase. The company's last general rate increase became effective on September 28, 2006.

The company acquired two regulated water systems since its last rate case. In October 2007, the company acquired Sylvia Lake Water Supply, Inc., (Sylvia Lake) located in Pierce County. The current rates for that system have been in effect since 1998. In November 2007, the company acquired the Rosario Water System (Rosario) located on Orcas Island. The current rates for that system have been in effect since October 2007.

On June 25, 2009, the commission issued a complaint and order suspending the proposed tariff revisions filed by the company on May 12, 2009.

After review and discussions, staff and the company agreed to a revised revenue requirement of \$1,206,924 (16.5 percent) in additional annual revenue and revised rates. On July 23, 2009, and July 27, 2009, the company filed revised rates at staff recommended levels.

A customer using 1,010 cubic feet (the calculated company-wide average water usage) of water per month would pay \$7.66 (21.6 percent) more per month using the revised rates instead of \$9.13 (25.6 percent) more using the original rates proposed by the company (see "Average Bill Comparison" table below).

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.

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 believes Rosario is a unique circumstance that warrants an exception to the single-tariff pricing policy. Rosario is the only water system that requires a water treatment plant for its surface water source. Because of the water treatment plant, Washington Water must employ a Water Treatment Plant Operator 3 (WTPO 3) that is available on-call 24 hours a day, seven days a week, to comply with Washington State Department of Health (DOH) regulations in WAC 246-292. Because of Rosario's island location, the person can provide service to only Rosario. If Rosario was instead located on the mainland, the person would be available to cover other water systems and share the cost. The company advises that, under normal circumstances, one on-call person can cover an average of five water systems.

The company originally proposed to add a new flat "Island Fee" rate of \$37.75 per month to offset higher operating costs associated with the higher chemical cost for the water treatment plant and the higher cost of labor required to have highly certified staff available 24 hours a day seven days a week in compliance with DOH regulations.

Staff and the company agreed to a revised breakdown of the expenses included in the "Island Fee", shown in Table 1. Staff and the company agreed to remove all of the chemical costs for water treatment from the "Island Fee", along with that portion of labor costs associated with normal allocated time for running a water system. Those costs are treated as common costs together with all other water systems in the single-tariff pricing rate structure. The required labor cost that exceeds the portion associated with normal allocated time for running a water system remains as the basis for the revised "Island Fee" that is applied to only Rosario customers.

Instead of a flat rate charge for each individual customer proposed by the company, staff and the company agreed to a revised "Island Fee" rate structure based on meter size that recovers the entire fee in the usage charge.

Table 1
Expense Breakdown of Island Fee

	Proposed	Revised
System Operator	\$105,014	\$85,211
Water Treatment Chemicals	\$40,363	\$0
Total Island Fee Expense	\$145,377	\$85,211
Average Island Fee	\$37.75	\$18.71

Table 2 shows how single tariff pricing effects the rates that customers pay. The table compares the bill that a customer would pay for 1,010 cubic feet of water, the Washington Water company-wide average usage. Treating Rosario as a totally separate system, staff estimates the bill would

be \$95.98 for a Rosario customer and \$41.88 for any other customer. The proposed revised rates treat some Rosario costs as common costs subject to single tariff pricing and some costs as assigned to Rosario only, called the “Island Fee”, resulting in a \$52.68 decrease to \$43.30 for a Rosario customer and a \$1.18 increase to \$43.06 for any other customer. Treating the “Island Fee” costs as single tariff pricing would result in an additional \$0.25 increase for a Rosario customer and an additional \$0.49 increase for any other customer, with both paying \$43.55.

Table 2
Effects of Single-Tariff Pricing

	Water System	
	Non-Rosario	Rosario
Customer Count	15,494	272
Average Monthly Usage	1,010 cubic feet	1,010 cubic feet
Estimated Stand-Alone Rates	\$ 41.88	\$ 95.98
Single Tariff Pricing Factor (Single-Tariff Pricing + Island Fee)	\$ 1.18	\$ (52.92)
Revised Rates – Staff Recommended (Single-Tariff Pricing + Island Fee)	\$ 43.06	\$ 43.30
Single Tariff Pricing Factor (Single-Tariff Pricing Only)	\$ 0.49	\$ 0.25
Singe-Tariff Pricing Only	\$ 43.55	\$ 43.55

Rosario Water Rights

A group of Rosario customers claim that the company “overpaid” for water rights when the company acquired Rosario Utilities, LLC. Staff does not agree with the customers’ premise that the company “overpaid” in the amount of \$100,000 for water rights. Staff believes the documentation submitted by customers in Docket UW-070944 is flawed because the study was done using the mainland (not an island) and well water rights (not surface water rights). Staff’s review of the water right purchase in Docket UW-070944 concludes that the purchase and amount are reasonable. The general rate filing in this docket includes the \$100,000 the company paid for the water rights as a capital expense in rate base. Regulatory principles average beginning of year assets and ending year assets. The result is that assets purchased during the test period are effectively divided in half (in this case, \$100,000 water rights would have only \$50,000 in rate base for this rate case). The full \$100,000 would be recognized as an asset in subsequent test periods. Due to economies of scale and the application of the single-tariff pricing principle, the impact to rates in this rate case is less than three cents per customer per month and in future rate cases will be less than five cents per customer per month.

Credit/Debit Card Convenience Fee

The company proposes to add an ancillary charge, which is a credit/debit card charge (formally known as a “credit card convenience fee”). The credit/debit card charge is for credit/debit card transactions for telephone payments; nonetheless, the company will continue to offer its auto-payment processing for free. This is similar to the telephone industry’s practice in WAC 480-120-161 and WAC 480-120-162, which allows the company to pass-through costs as long as a free option is available.

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 July 31, 2009, 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.

Customer Comments

On May 12, 2009, the company notified its customers of the rate increase by mail. The commission received 81 customer comments on this filing; all 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 advises customers that they may access company documents about this rate case at www.utc.wa.gov, and www.utc.wa.gov/water and that they may contact Dennis Shutler at 1-888-333-9882 with questions or concerns.

Filing Documents and Methodology Comments

- Eight customers said they should not have to pay for improvements on systems other than the system serving them.

Staff Response

Customers were advised that single-tariff pricing distributes rate base, system upgrades, operating and maintenance costs, and improvements for the entire water company equally across all customers on all systems, and all systems will require capital improvements sooner or later.

- One customer asked whether there is a standard time period for a company to recoup capital expenditures.

Staff Response

There is no standard time period for the entire system as a whole; however, parts of the system infrastructure have a specified life span.

- One customer asked why rates for large meters are not included in the increased base rate.

Staff Response

The company's rate case adjusts rates for all meter sizes.

- Four customers believe the Island Fee is excessive.
- One customer representing the Rosario Property Owners asked, what is the basis for the Island Fee, the annual amount and how will it be apportioned between the users?

Staff Response

As specified in the company's customer notice, the Island Fee is to offset higher operating costs associated with the higher chemical costs for the surface water treatment plant and the higher cost of labor required to have highly certified staff available 24 hours a day (7 days a week) in compliance with Washington State Department of Health (DOH) regulations in WAC 246-292.

- Do any other Washington Water's 172 service areas require special fees?

Staff Response

Yes, some water systems have municipal taxes and county franchise fees applying to only those systems.

- One customer believes the chemical and labor costs are directly related to consumption, and should be included within the usage rates.

Staff Response

Staff's goal is to recommend the "right" rates that will allow the company to recover reasonable operating expenses and provide an opportunity to earn a reasonable return on investment. The "right" rates play a vital part in ensuring that the company can operate the water system efficiently and meet safe drinking water standards.

- One customer asked how the requested increase is allocated to transportation costs, property taxes and employee costs.
- One customer asked whether transportation costs associated with 172 water systems in eight counties have increased.

Staff Response

Many expense categories have increased since the last general rate case in 2006, which had a test period of 2005. Over the three year period from the last general rate case to present, the company has seen large increases in the following categories: transportation, health care, insurance, energy, and material costs.

- One customer asked whether the company has filed an appeal for a property tax reduction.

Staff Response

The company has filed an appeal for a property tax reduction (and continues to do so) with King, Pierce and Thurston counties. However, each company is responsible to operate as best meets its needs. Staff reviews the cost of these day-to-day activities during rate cases.

- One customer representing the Rosario Property Owners believes the proposed rates will cost those who conserve water more than those who use large volumes of water.

Staff Response

Staff's rate design is based on a conservation method using inverted usage and rate blocks. Therefore, the rate design recovers operating costs through usage rates, with the unit cost increasing as the amount of water used increases; meaning the large volume user pays a larger portion of the company's operating costs.

- One customer representing the Rosario Property Owners asked as a system wide rate increase, what changes in operational expenses in two years justify the proposed increase for

Orcas Island customers?

Staff Response

The 2007 rate increase addressed costs for Rosario only. The current rate case is a company-wide rate case. The company operates 172 water systems, including Rosario. There is no separation of costs by individual water system.

- One customer representing the Rosario Property Owners asked what percentage is the proposed increase?

Staff Response

As stated in the company's notice to customers and the commission, the company proposes a revenue increase of \$1,874,923 (25.7 percent).

- One customer representing the Rosario Property Owners asked how the proposed rate increase will be apportioned between Rosario Property owners, the Highlands (bulk users), the Rosario Resort and the Hillside Condos?

Staff Response

The proposed rate increase is spread across all 172-water systems (approximately 16,000 customers), not only the water system on Orcas Island.

- One customer representing the Rosario Property Owners asked if Washington Water expects to recover the \$100,000 they overpaid for water rights of 10-acre feet in the sale of Rosario Utilities? Documentation submitted to the UTC in 2007 showed value at \$1,500 to \$2,500 per acre-foot. If so, what is the UTC's response?
- One customer representing the Rosario Property Owners believes the company overpaid the value of the water rights purchased in 2007 when West Water Research, LLC, prepared a study titled Estimated Market Value of Rosario Water Rights on September 5, 2007, which valued the water rights between \$15,000 and \$20,000.

Staff Response

Staff does not agree with the premise that the company overpaid \$100,000 for water rights. The general rate filing has included the \$100,000 water rights paid for as a capital expense in rate base.

Service Quality Comments

- One customer said his water has an unpleasant odor, even though it dissipates after the water runs for a minute.
- One customer said that public notices were not issued until long after bacteria was found in the water.

Staff Response

The Department of Health (DOH) has primary jurisdiction over water quality. Staff consulted with DOH on the quality of water provided by the company. DOH states the water system(s) owned and operated by the company are in substantial compliance with all DOH requirements.

- One customer said the backup power generator failed on his water system during a power outage.

Staff Response

Staff contacted the customer who decided not to pursue the issue at this time. Staff also contacted the company to inform them of the issue, the company informed staff it is currently replacing older backup power generators and looking into ways of fixing future failure breakdowns.

Business Practice Comments

- One customer believes the company bills for longer periods in the summer than in the winter, causing a customer's usage/charges to fall into a higher rate block.

Staff Response

Consumer Protection staff contacted this customer and offered to open a complaint. The customer faxed the bills in question and staff will determine whether the billings are in compliance.

- One customer believes the company is taking advantage of its customers by charging a fee to pay over the telephone by credit card, while two customers support the credit card payment fee.

Staff Response

Consumer Protection staff contacted this customer to explain the purpose of the new fee. The company also talked to this customer and explained that the fee offsets the cost the company incurs by a third party vendor who handles the payments over the phone.

General Comment

- Forty-two customers believe the amount of the increase is excessive due to increased costs of living, high existing rates and current economic conditions.
- Eight customers believe a smaller increase would be more reasonable, similar to the Consumer Price Index.

Staff Response

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

- Two customers commented on the rates being higher than those of a neighboring water system.

Staff Response

Customers were advised rates are based on each company's specific needs and rates for one company may be higher or lower than rates for another company.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Flat Rate (Unmetered) ^{1,2}	\$35.00	\$40.00	\$44.67
Ready-to-Serve (RTS) ^{1,2}	\$15.00	\$22.15	\$17.43
Base Rate (¾-inch meter) ^{1,2}	\$18.21	\$22.15	\$17.43
0 – 400 Cubic Feet ^{1,2,3}	\$1.65	\$2.10	\$2.38
401 – 652 Cubic Feet ^{1,2,3}	\$1.75	\$2.30	\$2.38
653 – 1,400 Cubic Feet ^{1,2,3}	\$1.75	\$2.30	\$2.84
1,401 – 2,056 Cubic Feet ^{1,2,3}	\$1.90	\$2.75	\$2.84
Over 2,056 Cubic Feet ^{1,2,3}	\$1.90	\$2.75	\$3.22
Island Fee (RTS) ^{1,4}	N/A	\$37.75	N/A
Island Fee (¾-inch meter) ^{1,4}	N/A	\$37.75	N/A
0 – 652 Cubic Feet ^{1,3,4}	N/A	N/A	\$0.05
653 – 2,056 Cubic Feet ^{1,3,4}	N/A	N/A	\$2.50
Over 2,056 Cubic Feet ^{1,3,4}	N/A	N/A	\$6.53

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

² – Based on ¾-inch meter classification, see company's tariff for specific water systems going to single-tariff pricing.

³ – Based on "per 100 cubic feet".

⁴ – Applies only to systems operated on Orcas Island.

Ancillary Charges	Current Rate	Proposed Rate
Credit / Debit Card Charge (formally known as "Credit Card Convenience Fee")	N/A	\$1.25

Average Bill Comparison (Other than Rosario and Sylvia Lake)

Average Monthly Usage 1,010 cubic feet	Current Rate	Proposed Rate	Revised Rate
Base Rate (¾-inch meter)	\$18.21	\$22.15	\$17.43
0 – 400 Cubic Feet	\$6.60	\$8.40	\$9.52
401 – 652 Cubic Feet	\$4.39	\$5.77	\$5.97
653 – 1,010 Cubic Feet	\$6.20	\$8.21	\$10.14
Average Monthly Bill	\$35.40	\$44.53	\$43.06
Increase from Current Rate		25.6%	21.6%

Average Bill Comparison (Rosario)

Average Monthly Usage 467 cubic feet	Current Rate⁵	Proposed Rate	Revised Rate
Base Rate (¾-inch meter)	\$21.92	\$22.15	\$17.43
0 – 400 Cubic Feet	\$33.20	\$8.40	\$9.52
401 – 467 Cubic Feet	\$5.48	\$1.52	\$1.57
Average Monthly Usage Bill	\$60.60	\$32.07	\$28.52
Island Fee Base Rate (¾-inch meter)	N/A	\$37.75	N/A
0 – 467 Cubic Feet	N/A	N/A	\$0.23
Average Island Fee Bill	\$0.00	\$37.75	\$0.23
Total Average Monthly Bill	\$60.60	\$69.82	\$28.75
Increase from Current Rate		15.2%	-52.5%

⁵ – Current rate design is based on gallons; staff converted gallon usage into cubic feet, using 7.48 gallons = 1 cubic foot.

Average Bill Comparison (Sylvia Lake)

Average Monthly Usage 1,010 cubic feet⁶	Current Rate	Proposed Rate	Revised Rate
Flat Rate	\$32.00	N/A	N/a
Base Rate (¾-inch meter)	N/A	\$22.15	\$17.43
0 – 400 Cubic Feet	N/A	\$8.40	\$9.52
401 – 652 Cubic Feet	N/A	\$5.77	\$5.97
653 – 1,010 Cubic Feet	N/A	\$8.21	\$10.14
Average Monthly Bill	\$32.00	\$44.53	\$43.06
Increase from Current Rate		39.2%	34.6%

⁶ – Based on a company-wide average customer water usage.

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 support the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

Conclusion

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Washington Water Service Company.
2. Approve the staff recommended revised rates as filed by the company on July 23, 2009, and July 27, 2009, to become effective July 31, 2009, on less than statutory notice.
3. 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.