

Agenda Date: February 23, 2017

Item Number: A2

Docket: UW-161155

Company Name: Iliad Water Company, LLC

Staff: Scott Sevall, Regulatory Analyst

Jim Ward, Regulatory Analyst

John Cupp, Consumer Protection Staff

### **Recommendation**

1. Issue an Order that dismisses the Complaint and Order Suspending Tariff Revisions filed by Iliad Water Company, LLC on October 21, 2016, and
2. Allows revised rates, filed on February 17, 2017, to go into effect March 1, 2017, and
3. Requires Iliad Water Company, LLC to file a tariff revision within 60 days, to bring the 13 water systems listed in this memo as currently unregulated into regulation, and
4. Requires Iliad Water Company, LLC to file a General Rate Case for all 23 water systems no later than 12 months from the date that all 23 are listed in the company's tariff.

### **Discussion**

On October 21, 2016, Iliad Water Company, LLC (Iliad Water or company), filed tariff revisions that would generate approximately \$318,300 (143 percent) in additional annual revenue. On December 22, 2016, the commission issued a Complaint and Order Suspending the Tariff Revisions filed by the company. The company serves 530 customers throughout the Puget Sound Region. The table below lists the systems.

<b>10 Regulated Water Systems</b>			
<b>Name – system</b>	<b>DOH ID#</b>	<b>Customer Count</b>	<b>County</b>
Fragaria Landing	266519	97	Kitsap
Hunt I & II	00567T	32	Kitsap
Lowper	019595	7	Clallam
Marbello	51530M	97	Snohomish
Cherry Creek	23101W	57	Snohomish
Alder Lake	221957	37	Pierce
Cascade Crest	31203Y	23	Snohomish
Sunwood Graham*	620345	126	Pierce
Northwest*	619472	40	Snohomish
Western Stavis	63216O	14	Kitsap

\*Systems not previously regulated by UTC.

The current filing by the company is a culmination of several tariff filings that have merged separate companies and changed company names to bring the listed water systems into one all-encompassing company.<sup>1</sup> This filing was to create a rate that would cover the costs associated with running a company that is now made up of 10 water systems.

Staff made several significant adjustments in this filing. Those with the greatest effect are: The Company's test period instituted only an eight month period, January 1, 2016 to August 31, 2016; staff made pro-forma adjustments to usage, revenues and expenses to create a 12 month test period. The affiliate contract operations expenses were adjusted to more accurately reflect cost, and rate base was adjusted based on information that the company was able to present, and information from past tariff filings. The rate base nets the historical differences of the separate water system assets, depreciation, and contributions in aid of construction, under common ownership. Staff concludes, and the company agrees, that an increase of \$186,578 (51.1 percent) additional annual revenue, instead of the initial \$318,300 (143 percent) is fair, just, reasonable, and sufficient to support the operations of the 10 water systems that have been functionally merged under one tariff.

After analyzing several rate structures designed to allow the company to collect the additional revenue required, staff has determined that single tariff pricing is the most appropriate method to create a fair, just, reasonable, and sufficient rate structure. This single tariff rate structure removes all surcharges, and spreads operating costs equally across all customers. This single tariff pricing takes advantage of economies of scale in which more customers will share common costs and minimize impacts of any large plant costs or operating expenses. Below is the rate for a 5/8<sup>th</sup> inch meter and a table showing the effect on a customer bill for two typical usage levels:

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<sup>1</sup> See Dockets UW-151639 and UW-160784, also UW-161155 Memo 01.

<b>Revised Rate Structure</b>						
<b>Base</b>	<b>Block 1 (1-700 cubic feet)</b>		<b>Block 2 (701-2000 cubic feet)</b>		<b>Block 3 (2001+ cubic feet)</b>	
\$40.00	\$2.60		\$4.30		\$5.50	
<b>Typical Customer Bills</b>						
	<b>700 Cubic Feet</b>			<b>1300 Cubic Feet</b>		
<b>Water System</b>	<b>Current</b>	<b>Company Proposed</b>	<b>Staff Revised</b>	<b>Current</b>	<b>Company Proposed</b>	<b>Staff Revised</b>
Alderlake	\$67.05	\$113.95	\$58.20	\$75.70	\$122.60	\$84.00
Cascade Crest	\$44.05	\$90.95	\$58.20	\$55.70	\$102.60	\$84.00
Cherry Creek	\$35.85	\$85.65	\$58.20	\$52.35	\$102.15	\$84.00
Fragaria	\$37.80	\$95.45	\$58.20	\$53.35	\$111.00	\$84.00
Hunt	\$47.05	\$93.95	\$58.20	\$55.70	\$102.60	\$84.00
Lowerper	\$82.41	\$102.94	\$58.20	\$97.23	\$117.76	\$84.00
Marbello	\$91.38	\$144.03	\$58.20	\$141.42	\$194.07	\$84.00
Northwest	\$65.76	\$115.26	\$58.20	\$99.60	\$149.10	\$84.00
Stavis	\$47.05	\$93.95	\$58.20	\$55.70	\$102.60	\$84.00
Sunwood	\$30.00	\$82.65	\$58.20	\$30.00	\$82.65	\$84.00

During the last year, the owner of Iliad Water Company, LLC has been in the process of consolidating the remaining water systems that were under operation and management contracts for services by Iliad, Inc., which is a separate business entity. These 13 water systems serve approximately 370 customers. Iliad Water plans to bring the 13 water systems under regulation shortly at rates established in this filing (see Revised Rate Structure table above). After all water systems are under regulation for 12 months the company will again file a general rate case to establish a single tariff rate for all 23 systems. That rate filing will address the transition from an affiliated contract for services basis to a stand-alone water company providing its own operations and management. Below is a table of the 13 systems yet to be brought under regulation.

<b>13 Unregulated Water Systems</b>			
<b>Name – system</b>	<b>DOH ID#</b>	<b>Customer Count</b>	<b>County</b>
85 Acres	225905	20	King
State/Marysville	094045	48	Snohomish
Cliftonwood	32027B	14	Kitsap
Hunt III	01591J	13	Kitsap
Parkwood	231917	29	Island
Skyview	31141U	47	Snohomish
Stilliridge	187072	32	Snohomish
Suddenview	12451F	28	Snohomish
Sunland Shores	85257Q	54	Clallam
Sunnyhills	23391F	31	Lincoln
Tala Pt	602030	18	Jefferson
Vashon	AA614K	7	King
Vista Glen	64340V	25	Snohomish

**Customer Comments**

This filing had two time periods that customer comments were received. The two periods were prior to February 13, 2017 and after February 13, 2017. Comments received prior were concerning Iliad Water’s customer notice and proposed rates. Comments received after are concerning Staff’s proposed rates.

**Prior to February 13 Customer Comments**

On October 21, 2016, the company notified its customers by mail of the proposed rate increase. Customers were notified that they may access relevant documents about this rate increase on the commission’s website, and that they may contact John Cupp at 1-888-333-9882 or [jcupp@utc.wa.gov](mailto:jcupp@utc.wa.gov) with questions or concerns. Staff received 140 consumer comments, all opposed to the proposed rate increase.

**Service Quality**

Six customers on the Cherry Creek system mentioned water quality issues. Staff contacted the Department of Health (DOH). An engineer from the Division of Drinking Water shared information about the system, stating, “Most recent sanitary survey in 2016 indicates that automatic flush valves were installed and operate twice a week. Operator says it has reduced the number of complaints.” The engineer also provided a customer complaint log for the system. Nearly all the complaints involved iron and manganese. The most recent complaint was from

2010. DOH says the company installed automatic flush valves, which operate twice a week. The company operator said this has reduced the number of complaints.

DOH advised that customers concerned about the aesthetic quality of their water due to manganese can petition the company to install treatment. DOH also provided an advisory document, "Secondary Contaminant Treatment Requirements and Options," which staff provided to customers. This document explains how the DOH process works.

The DOH water system database shows no active compliance issues with the Cherry Creek system.

### **Staff Response**

Staff explained that water quality and quantity issues are regulated by DOH however when there is a rate proceeding, staff can investigate such issues. Staff shared that manganese and iron are considered by DOH to be secondary contaminants and not a health threat, and provided the DOH document about treatment of secondary contaminants.

### **Business Practices**

Many customers feel "unitary rates" will cost them more. They do not feel it is fair for them to have to pay the same rates as customers who live on systems where it costs more to provide service.

### **Staff Response**

Staff and the company are considering whether single tariff pricing is appropriate in this case.

### **General Comments**

Nearly every customer stated concern over the amount of the increase. Many customers feel poor management is the reason for the company losing money.

### **Staff Response**

Staff explained 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 its investment. Commission staff performs a thorough review of rate filings to ensure that all rates and fees are appropriate.

### **Community Meetings**

Customers on the Marbello system in Monroe organized a community meeting and invited commission staff. Scott Sevall, Jim Ward, Greg Hammond and John Cupp attended the November 22, 2016, meeting. Four customers from the Cascade Crest system also attended.

Scott Sevall spoke to 37 attendees about the ratemaking process. John Cupp spoke about the commission process. Staff answered questions about the case and what the customers can expect going forward.

After staff's presentation at the December 22, 2016, Open Meeting, staff met with concerned customers in a conference room at the commission. There was also a conference line set up for the customers to participate in this call by phone.

### **After February 13 Customer Comments**

The commission notified all customers who had commented to date , that staff and the company had come to an agreement, and scheduled the item for the February 23, 2017 Open Meeting. Since, this notification the commission has received questions from several customers about how to calculate their bills using staff recommended rates. Two customers said the rates are still too high and two others were happy that the originally proposed rates are not being recommended.

### **Conclusion**

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