



UW-220052

ATTORNEY GENERAL OF WASHINGTON

Public Counsel

800 Fifth Ave • Suite 2000 • MS TB-14 • Seattle WA 98104-3188 • (206) 464-7744

April 22, 2022

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Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

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UTIL. AND TRANSP.
COMMISSION

Re: *Washington Utilities & Transportation Commission v. Suncadia Water Company*
Docket UW-220052

Dear Director Maxwell:

The Public Counsel Unit of the Washington State Attorney General's Office ("Public Counsel") respectfully submits these comments in advance of the April 28, 2022, Open Meeting. These comments address Suncadia Water Company's ("Suncadia" or "Company") proposed general rate increase, effective May 1, 2022.¹ Public Counsel requested information from the Company during our review of the filing, and we appreciate the Company's responses to our informal data requests and willingness to discuss specific issues.

The Company originally requested to increase total annual revenues by \$751,000 (40.5 percent) on its approximately 1,500 customers in Cle Elum, WA. NW Natural Water of Washington acquired Suncadia Water in February 2020, and is owned by Northwest Natural Holding Company.² The Company proposed to implement its proposed revenue increase through three rate hikes over the course of one year.³ After discussions with Staff and Public Counsel, the Company refiled tariffs on April 22, 2022, that significantly modified its rate case. The Company now requests to increase annual revenues by \$350,000.

Public Counsel's Recommendation

Public Counsel recommends that the Commission allow the Company's revised filing to become effective. The Commission should revisit its approach to calculation of return on owner equity (ROE) for water companies. If the Commission evaluates water company ROE calculation in a policy docket, stakeholder collaborative, or rulemaking, a goal for this effort should be to determine an appropriate method to set ROE that is evidence-based and accounts for concurrent market conditions and the dynamics of large and small water companies.

¹ Suncadia Water Company Initial Filing Cover Letter (filed Jan. 20, 2022).

² Suncadia Water Company Initial Filing Cover Letter at 1.

³ Suncadia Water Company Initial Filing Cover Letter at 3.

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Revisions to Suncadia's Rate Case Filing

Public Counsel understands the necessity for the Company to meet expenses in order to maintain safe and reliable service for its customers, in addition to the opportunity to earn a fair return. The Company's rate increase request in its original filing, however, would have nearly doubled the average monthly residential bill through three successive rate hikes over the course of only one year.⁴ Because the Company's proposal to impose a large rate increase over a short time period threatened significant rate shock to customers, Public Counsel engaged a revenue requirement consultant to conduct further review the Company's initial request.

Subsequent discussions between Staff, Public Counsel, and the Company led to the Company's revision of its revenue requirement increase request to only \$350,000. Additionally, the rate structure has been modified so that the entire rate increase has been significantly reduced and customers will no longer be burdened by three phases of substantial rate increases within the span of a year. Public Counsel, therefore recommends that the Commission allow the Company's revised filing to become effective.

Return on Equity in Water Rate Cases

While Public Counsel recommends that the Commission allow the Company's revised filing to become effective, we have concerns about how ROE is calculated for water companies in Washington. As previously discussed in comments on the LakeLand Village Water Company rate case (Docket UW-210744)⁵ and the Washington Water Service Company rate case (Docket UW-210560),⁶ Public Counsel recommends that the Commission revisit the underlying basis for water utility ROEs in water company rate cases. The current 12.0 percent recommendation for all water utilities was set more than 20 years ago, based on the outcome of a general rate case filed in 2001.⁷ Financial circumstances have changed significantly in the more than 20 years since 2001, including a reduction in interest rates, which is one of the considerations in standard ROE calculation methods in utility rate cases.⁸ Utility capital costs have gone down as a result, with utility bond yields dropping from approximately seven to eight percent in 2002 to 3.5 to four percent in 2022.⁹

⁴ Suncadia Water Company Initial Filing Cover Letter at 3.

⁵ Comments of Public Counsel Unit at 3-4, Docket UW-210744, *LakeLand Village Water Co. General Rate Case* (filed Dec. 20, 2021).

⁶ Open Meeting Comments of Public Counsel at 2-3, Docket UW-210560, *In re: Wash. Water Serv. Co. Tariff Revision* (Feb. 7, 2022).

⁷ See *Wash. Utils. & Transp. Comm'n v. Rainier View Water Co.*, Docket UW-010877, Sixth Supplemental Order, ¶ 105 (July 12, 2002).

⁸ See Attachment A to this Comment Letter.

⁹ See Attachment A.

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Individual water companies differ greatly in size and have varied circumstances and characteristics, such as number and classes of customers, revenue, entity structures, and other financial aspects. Accordingly, it is inappropriate to apply a generic capital structure and cost of capital for all water companies in their rate cases irrespective of current market conditions and individual company attributes.

ROE for regulated utilities should be set at an amount to simulate the conditions of a competitive market. Furthermore, the *Bluefield*¹⁰ and *Hope*¹¹ standards require that a fair ROE should be (1) comparable to what investors expect on investments of similar risk in a competitive environment, (2) adequate to maintain financial integrity, and (3) sufficient to attract capital.

Therefore, it is a standard ratemaking principle and practice in utilities regulation that the authorized ROE for all regulated utilities, including water utilities, should reflect current market conditions. Market risk and overall conditions have undoubtedly changed significantly since the Commission set the 12.0 percent ROE in Docket UW-010877. Generically applying a 12.0 percent ROE since 2002 without considering the actual concurrent market conditions is neither just nor reasonable. As such, it is critical that the Commission examine evidence of market conditions to develop a fair, just, and reasonable ROE for all water utilities serving Washington customers.

While Public Counsel does not recommend a specific methodology for calculating ROE at this time, we recommend that the Commission revisit its approach to setting ROE for water companies requesting rate increases. If the Commission opens a policy docket, stakeholder collaborative, or rulemaking to evaluate the current policy, a goal for this effort should be to develop an appropriate method for calculating ROE that is based on evidence that accounts for concurrent market conditions and acknowledges the dynamics of large and small water companies.

¹⁰ *Bluefield Water Works and Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923) (“Bluefield”).

¹¹ *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944) (“Hope”).

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Public Counsel appreciates the opportunity to submit these comments. Public Counsel also plans to offer brief oral comments at the Open Meeting on April 28, 2022. If you have any questions about this filing, please contact Ann Paisner at (206) 573-1127 or via email at Ann.Paisner@ATG.WA.GOV or Aaron Tam at (206) 464-6215 or via email at Aaron.Tam@ATG.WA.GOV.

Sincerely,

/s/ *Ann Paisner*
ANN N.H. PAISNER, WSBA No. 50202
Assistant Attorney General
Public Counsel Unit
(206) 573-1127

ANHP/CM
Enclosures