

Agenda Date: March 29, 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 March 20, 2017, to go into effect April 1, 2017, and
3. Requires Iliad Water Company, LLC to file a tariff revision within 60 days, to bring the 13 currently unregulated water systems listed in this memo into regulation, and
4. Requires Iliad Water Company, LLC to file a General Rate Case for all 23 water systems with an effective date no later than 15 months from the date that all 23 water systems are listed in the company's tariff.

### **Discussion**

On October 21, 2016, Iliad Water Company, LLC (Iliad Water or company), filed with the Utilities and Transportation Commission (commission) 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 result of merging separate companies and changing 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: Pro forma adjustments to usage, revenues, and expenses to create a 12-month test period; Affiliate contract expenses were adjusted to more accurately reflect cost; Rate base was adjusted based on information that the company and customers were able to provide, and information from past tariff filings; The Company’s test period utilized only eight months of data, January 1, 2016, to August 31, 2016. Staff extrapolated usage and cost data to complete the test year. Also, since the February 23, 2017, Open Meeting, rate base has been adjusted based on evidence of contributions in aid of construction (CIAC) brought forward by a customer. Staff concludes, and the company agrees, that an increase of \$161,036 (44 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.

Staff believes a single tariff price is the most fair, just, reasonable, and sufficient rate structure. These tariff rate structures remove all surcharges, and spread operating costs, recovery of, and return on, investment across all customers, and minimizes the impact of any plant cost to a single system. However, the impact to some customers of implementing the single tariff rate immediately is a concern; these customers have historically been billed a flat monthly rate. This concern led staff to create a phase-in approach to implement a series of rates moving the water systems to, or closer to the single tariff rate over time. The two tables below show the rate structures.

<b>Revised Rate Structure Effective April 1, 2017</b>				
<b>System</b>	<b>Base</b>	<b>Block 1 (1-800 cubic feet)</b>	<b>Block 2 (801-1,500 cubic feet)</b>	<b>Block 3 (1,501+ cubic feet)</b>
Alderlake	\$ 47.50	\$ 2.00	\$ 4.00	\$ 5.40
Lowper	\$ 47.50	\$ 2.00	\$ 4.00	\$ 5.40
Marbello	\$ 47.50	\$ 2.00	\$ 4.00	\$ 5.40
NorthWest	\$ 47.50	\$ 2.00	\$ 4.00	\$ 5.40
Cascade Crest	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Cherry Creek	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Fragaria	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Hunt	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Stavis	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Sunwood	\$ 30.00	\$ 2.00	\$ 4.00	\$ 5.40

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

<b>Revised Rate Structure Effective October 1, 2017</b>				
<b>System</b>	<b>Base</b>	<b>Block 1 (1-800 cubic feet)</b>	<b>Block 2 (801-1,500 cubic feet)</b>	<b>Block 3 (1,501+ cubic feet)</b>
Alderlake	\$ 44.00	\$ 2.00	\$ 4.00	\$ 5.40
Lowper	\$ 44.00	\$ 2.00	\$ 4.00	\$ 5.40
Marbello	\$ 44.00	\$ 2.00	\$ 4.00	\$ 5.40
NorthWest	\$ 44.00	\$ 2.00	\$ 4.00	\$ 5.40
Cascade Crest	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Cherry Creek	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Fragaria	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Hunt	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Stavis	\$ 40.00	\$ 2.00	\$ 4.00	\$ 5.40
Sunwood	\$ 35.00	\$ 2.00	\$ 4.00	\$ 5.40

The table below shows the rate impacts of company and staff proposed rates (effective April 1, 2017, and October 1, 2017) compared to current rates customers pay for two usage amounts: 800 cubic feet and 1,500 cubic feet.

<b>Effect Of Rates On A Typical Customer Bill</b>								
	<b>800 Cubic Feet</b>				<b>1,500 Cubic Feet</b>			
<b>Water System</b>	<b>Current</b>	<b>Company Proposed</b>	<b>Staff Revised April 1</b>	<b>Staff Revised October 1</b>	<b>Current</b>	<b>Company Proposed</b>	<b>Staff Revised April 1</b>	<b>Staff Revised October 1</b>
Alderlake	\$68.45	\$115.35	\$63.50	\$60.00	\$79.00	\$122.60	\$91.50	\$88.00
Lowper	\$84.88	\$105.41	\$63.50	\$60.00	\$102.17	\$117.76	\$91.50	\$88.00
Marbello	\$99.72	\$152.37	\$63.50	\$60.00	\$158.10	\$194.07	\$91.50	\$88.00
Northwest	\$70.41	\$119.91	\$63.50	\$60.00	\$111.72	\$149.10	\$91.50	\$88.00
Cascade Crest	\$48.45	\$95.35	\$56.00	\$56.00	\$59.00	\$102.60	\$84.00	\$84.00
Cherry Creek	\$37.35	\$87.15	\$56.00	\$56.00	\$58.35	\$102.15	\$84.00	\$84.00
Fragaria	\$39.85	\$97.50	\$56.00	\$56.00	\$58.75	\$111.00	\$84.00	\$84.00
Hunt	\$48.45	\$95.35	\$56.00	\$56.00	\$59.00	\$102.60	\$84.00	\$84.00
Stavis	\$48.45	\$95.35	\$56.00	\$56.00	\$59.00	\$102.60	\$84.00	\$84.00
Sunwood	\$30.00	\$82.65	\$46.00	\$51.00	\$30.00	\$82.65	\$74.00	\$79.00

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 affiliated 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 (\$40 base rate and usage rates described

above). After all water systems are under regulation, the company will file a general rate case with an effective date no later than 15 months from the date that the 13 unregulated systems are brought into regulation. This will 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. A total of 160 customer comments have been received.

**Prior to February 13, 2017 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 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, 2017 Customer Comments**

On February 13, 2017, 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 20 comments mostly questions from about how to calculate their bills using staff recommended rates. Customers also said the rates are still too high and two others were happy that the originally proposed rates are not being recommended.

On March 3, 2017, staff sent a letter to customers to explain how the new phase-in rate structure would work and the rates for the phases.

### **Community Meeting**

After staff's presentation at the February 23, 2017, Open Meeting, staff met with concerned customers in a conference room at the commission.

On March 14, 2017, staff participated in a meeting in Graham, answering questions from customers on the Sunwood Graham water system. Forty-three customers were present and had many questions about how rates are set and how the latest rate structure will affect them.

## **Conclusion**

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 March 20, 2017, to go into effect April 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 with an effective date no later than 15 months from the date that all 23 water systems are listed in the company's tariff.