

Agenda Date: May 15, 2008
Item Number: A2

Docket: UW-080312
Company Name: Olympic Water & Sewer, Inc.

Staff: Jim Ward, Regulatory Analyst
Dennis Shutler, Consumer Affairs Specialist

Recommendation

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Olympic Water & Sewer, Inc.; and
2. Allow the staff recommended revised temporary rates to become effective May 22, 2008, on a permanent basis.

Discussion

On February 15, 2008, Olympic Water & Sewer, Inc., (Olympic or company) filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$258,905 (50 percent) in additional revenue per year. Olympic serves 1,625 customers near Port Ludlow located in Jefferson County. The proposed revisions are prompted by higher costs for power, labor, fuel and laboratory testing. This filing removes the 600 cubic feet of water allowance currently included with the base charge.

The company notified its customers of the rate increase by mail on February 11, 2008. The commission received ten comments on this filing. Olympic's last general rate filing decreased rates and became effective in 1994. All customers receive metered service.

On March 6, 2008, staff attended a public meeting with the company and its customers in Port Ludlow, Washington. Approximately 35 customers attended the public meeting and commented on the proposed rate increase. Summarizing comments that customers sent to the commission and comments received by staff at the public meeting, customers are most concerned about:

The Size of the Increase – Although staff understands the customers' concerns regarding the amount of the increase, staff does not explicitly consider the amount of the increase in preparing recommendations. Staff's goal is to recommend the "right" rates that will allow the company to recover its reasonable operating expenses and earn a reasonable rate of return (profit).

Water System Plan Considerations – Staff received several customer comments about the company's water system plan. Customers believe that the plan update was not filed in a timely manner. Customers also believe that the plan considers information that has not been supported by additional data. Adequate flow and pressure have been questioned as not meeting standards in all locations of the water system service area. The Department of Health (the DOH) has jurisdiction over water system plans. Staff consulted with the DOH on the water

system plan provided by the company. The DOH approved the water system plan in December 2007. The water system is in substantial compliance with all DOH requirements.

Company Reserve Accounts – Customers believe that the company should maintain separate reserve accounts to fund future projects and capital upgrades. The commission can allow the company to establish a “reserve account” (RCW 80.28.022) exclusively for the purposes of making capital improvements approved by the DOH as a part of a long-range plan (water system plan), or required by the DOH to assure compliance with federal or state drinking water regulations, or to perform construction or maintenance required by the Department of Ecology to secure safety to life and property under RCW 43.21A.064. The commission, on its own motion and after hearing, can also order a company to establish a reserve account. Reserve accounts are normally funded by a surcharge, which requires prior commission approval. After reviewing the company’s records, staff found no reserve accounts for future projects and capital upgrades. Establishing a reserve account would require customers to pay an extra amount to be set aside for future plant and future customer benefits.

Company separation of water and sewer operations – Several customers commented about employees of the company performing both water and sewer functions. The company provides both water and sewer services and uses common employees and equipment for both operations. Staff’s review noted that the company has employees that are certified and perform both water and sewer functions. Accounting for time and cost starts with each employee’s time sheet that clearly shows hours attributable to water and sewer work. This cost separation continues through the payroll and accounting allocations of expenses. Staff has reviewed these allocations and agrees with the company that the allocations are proper.

Staff’s review of Olympic’s operations revealed that the company’s proposed rates were excessive. Staff and the company have agreed to a revised revenue requirement of \$185,446 (36 percent) additional revenue per year, and a revised rate design. On April 4, 2008, the company filed revised rates at the staff recommended level.

On April 10, 2008, the commission entered a Complaint and Order Suspending Tariff Revisions to allow customers the opportunity to comment on the revised rates before determining whether the revisions are fair, just, reasonable, and sufficient. The commission allowed the revised rates to go into effect on a temporary basis on April 22, 2008, subject to refund.

On April 10, 2008, Consumer Affairs staff sent every customer who commented on the filing a letter advising them of staff’s recommended revised rates. One customer responded to staff’s letter. The customer asked for an explanation of why the commission approved the rate increase when the order states that the company has not demonstrated that the rates are fair, just, and reasonable.

Staff responded that although Olympic has not yet demonstrated that the tariff revisions would ultimately result in rates that are fair, just, reasonable and sufficient, the commission found it reasonable, based on Staff's analysis, to approve the revised rates to become effective April 22, 2008, on a temporary basis, subject to refund. The commission suspended the revised rates to give customers notice of, and an opportunity to comment on, the revised rates. Allowing the revised rates to become effective on a temporary basis, subject to refund, protects both the customers and the company. It protects the customers by providing a refund if the commission sets lower permanent rates. It protects the company by ensuring the company receives the revenue it needs to cover reasonable operating expenses and the opportunity to earn a reasonable return.

The memo noted the company has not demonstrated the proposed rates are fair, just, reasonable and sufficient, while on the other hand approving a revised rate increase that became effective on April 22nd on a temporary basis, subject to refund. The customer also inquired into the procedure for filing an appeal to a commission decision. Staff did provide the customer an explanation of the filing process and how to obtain forms necessary for an appeal. The current, proposed and revised rates are provided below.

Rate Comparison

Monthly Rates	Current Rates	Proposed Rates	Revised Rates
Base Charge 3/4 x 5/8 inch (with 600 cu ft)	\$20.50	N/A	N/A
Base Charge 3/4 x 5/8 inch (zero allowance)	N/A	\$20.25	\$18.25
Over 600 cu ft	\$0.0190 per cu ft	N/A	N/A
0 to 1,000 cu ft	N/A	\$0.0251 per cu ft	\$0.0225 per cu ft
Over 1,000 cu ft	N/A	\$0.0365 per cu ft	\$0.0335 per cu ft

Notes: cu ft = cubic feet 1 cu ft = 7.48 gallons

Rate Comparison

Monthly Rates	Current Rates	Proposed Rates	Revised Rates
Base Charge 1 inch	\$34.24	\$32.82	\$30.48
Base Charge 1 1/2 inch	\$68.27	\$67.43	\$60.77
Base Charge 2 inch	\$109.27	\$107.93	\$97.27
Base Charge 3 inch	\$205.00	\$202.50	\$182.50

Notes: cu ft = cubic feet 1 cu ft = 7.48 gallons

Average Customer Charge Comparison

Average Monthly Usage 1,555 Cubic Feet	Current Rates	Proposed Rates	Revised Rates
Base Charge 3/4 x 5/8 inch (with 600 cu ft)	\$20.50	N/A	N/A
Base Charge 3/4 x 5/8 inch (zero allowance)	N/A	\$20.25	\$18.25
600 cu ft	N/A	\$15.06	\$13.50
400 cu ft	\$7.60	\$10.04	\$9.00
555 cu ft	\$10.55	\$20.26	\$18.59
Average Monthly Bill	\$38.65	\$65.61	\$59.34

Notes: cu ft = cubic feet 1 cu ft = 7.48 gallons

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review shows that the expenses are reasonable and required as part of the company's operations. The company's financial information supports 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 Olympic Water & Sewer, Inc.; and
2. Allow temporary rates at the staff recommended revised rates to become effective May 22, 2008, on a permanent basis.