

Agenda Date: June 26, 2025
Item Number: A7

Docket: UW-250159
Company Name: Suncadia Water Company, L.L.C.

Staff: Benjamin Sharbono, Regulatory Analyst
Melissa Castaneda-Kerson, Public Involvement Coordinator

Recommendation

Take no action, allowing Tariff revisions filed by Suncadia Water Company L.L.C. on March 7, 2025, as revised on June 23, 2025, to take effect July 1, 2025, by operation of law.

Discussion

On March 7, 2025, Suncadia Water Company, L.L.C. (Suncadia Water or Company) filed with the Washington Utilities and Transportation Commission (Commission) a general rate increase that would generate approximately \$690,323 (32.6 percent) additional annual revenue for water services. The Company provides regulated water service to approximately 2,000 customers in Kittitas County. The Company's last general rate increase became effective on May 1, 2022.

Suncadia Water requests to increase rates due to rising operational expenses, such as payroll, maintenance, and contract operational expenses. The Company has also made substantial capital investments through upgrades, equipment replacement, and other investments to improve safety and reliability of the water system.

Commission staff (Staff) has reviewed the materials provided by the Company, and reviewed and made revisions to Company assets, capital structure, and expenses.

Capital Structure

Suncadia Water Company, L.L.C. is a wholly owned subsidiary of Northwest Natural Holding Company (NW Natural or Parent). In the initial filing, Suncadia Water provided a calculation allocating the capital structure and long-term debts of the Company. Staff asked Suncadia Water to provide a breakdown of debts that are specific to the water company, however, the supporting documents showed that a portion of debt was allocated from the Parent company, and that the Parent holds full equity of the Company.

As part of Suncadia Water's filing requirements, NW Natural provided its 10-K¹ report, which states:

“NW Holdings' long-term goal is to maintain a strong and balanced consolidated capital structure. NW Natural has historically targeted a regulatory capital structure of 50%

¹ Form 10-K is the annual financial report filed with the United States Securities and Exchange Commission by publicly traded companies.

common equity and 50% long-term debt, which is consistent with approved regulatory allocations in Oregon, which has an allocation of 50% common equity and 50% long-term debt without recognition of short-term debt. NW Natural has requested a 52% common equity and 48% long-term debt in its current rate case, which has not yet been decided.”

Based on the information, Staff revised the allocation of debt to equity to reflect the Parent company’s structure. The Company agreed to Staff’s revision to settle this docket.

Water Infrastructure

Staff reviewed several customer complaints related to the water infrastructure. Staff, as well as Public Counsel, requested a significant amount of information from the Company to review and address the complaints.

The most significant complaint related to tariff language adopted by Suncadia Water during the purchase by NW Natural. Rule 7 of the Tariff WN U-1 adopted from Suncadia Resorts stated that the purchase price of a lot, included the cost of infrastructure. In Docket UW-220052, Tariff WN U-2 replaced this language to reflect the Company being separate from the sale of lots. Staff had addressed this issue in docket UW-220052 and reviewed the complaint in this docket.

According to the documents provided in UW-220052 and in UW-250159, Suncadia Resorts included fees in the lot sales price for infrastructure built by the City of Cle Elum in order for the City to provide water. Suncadia Water does not have its own wells, instead purchasing water from the City. To provide adequate water volume for the Suncadia Resort area, the City of Cle Elum upgraded its facilities for pumping, treatment, and transmission, which were paid for by Suncadia Resort.

Staff reviewed the Company assets, verifying Suncadia Water paid for the infrastructure it seeks to recover in rates. Suncadia Water, under contract terms, purchases water infrastructure from developers within the planned water system area. Staff and Suncadia Water discussed that the construction is completed by developers. The developers work with Suncadia Water’s engineers to ensure the water systems meet the Company’s requirements. Once the segment being built by the developer meets the terms of the contract, Suncadia Water purchases the infrastructure from the developer.

Suncadia Water is not involved with the lot sale price, marketing by developers, or Suncadia Resorts. A billboard for Suncadia Resorts, which Staff noted during its site visit on June 2, 2025, shows the prices of lots are between \$400,000 and \$1,000,000. Staff requested documentation on property sales that would indicate the presence of a “line item” showing the cost paid by customers specific to infrastructure within the water system area in the sale contract. To date Staff has not received any documentation clearly showing the cost.

Staff has considered investigating prices of property lots in prior cases. Staff is not able to determine a breakdown of the property lots. Property sale prices are determined by agreement

between a seller and buyer, at a price the market will bear. It is not set by a fixed calculation of costs. As such, Staff cannot state that the water system infrastructure was paid for through the lot sales after the purchase of Suncadia Water by NW Natural.

Company Proposed Regulatory Adjustment

Suncadia Water proposed an adjustment voluntarily reducing rate base by adding a regulatory adjustment for 35 connection fees it expected to install in 2025. The Company stated the intent of the adjustment is to reduce its rate base, reducing the revenue requirement. The adjustment is applicable in this case only. The pro forma adjustment will be neutralized in the next rate case as the connections that the adjustment is calculated on will have been installed by that time.

Rate of Return

Staff and the Company have agreed to a revised rate of return, lower than the Company's initial proposal, approved in other proceedings decided by the Commission.

Staff, Suncadia Water, and Public Counsel agree that the rate of return in this docket should not be considered precedential in any future cases. The Commission has an open policy docket to address rate of return calculations that once completed and vetted, will provide the guidance on calculation rate of return in future dockets.

Other Adjustments

Staff reviewed the Company assets. Staff removed capitalized employee wages, removed manual read meters that were replaced with automatically read meters, and revised the lives of several assets with Suncadia Water, ensuring the assets were correctly depreciated. The Company agreed to Staff's revision to settle this docket.

Staff reviewed and revised payroll, removing one-time costs or management bonuses. Staff also removed costs associated with travel, food, and refreshments. Suncadia agreed to Staff's revision to settle this docket.

The Company's initial filing proposed pro forma increases on several expenses for inflation. Staff removed the adjusters as they are unknown and unmeasurable. The Company agreed to Staff's revision to settle this docket.

Revenue Requirement

Staff has completed its review of Suncadia Water's books, papers, and supporting documents. Staff and the Company have agreed to a reduced annual requirement increase of approximately \$396,000 (18.7 percent).

Usage Blocks

Staff reviewed the Company's request to revise the Tariff Usage Blocks. Based on the usage of customers in the rate period, the Company proposed to revise the usage blocks in line with Staff's standard practice. Staff use the winter and summer averages to set rate blocks that allow the Company to collect the revenue requirements across all customers. In this case, the Company proposed to revise the Block 2 cap from 18,000 gallons to 15,000 gallons. Staff reviewed the calculations used by the Company and agrees that this adjustment is supported.

Suncadia is proposing to add high-user block, or Block 4. Staff believes allowing the 4th block is in the customer interest because it lowers the rates of Blocks 1, 2, and 3, and encourages conservation of water resources in an area with limited water resources. In prior cases where Staff has calculated a 4th block, the usage for that block was calculated as twice the summer average usage, or 30,000 gallons. Suncadia proposes the high-usage block be set at 40,000 gallons per month as a phase-in of the conservation rate, which Staff believes is reasonable.

Meter Rate Schedule

Monthly Rate	Current Rate *	Proposed Rate *	Revised Rate *	Difference	
				\$	%
Current Base Rate 1 inch meter **	\$39.00	\$51.94	\$45.50	\$6.50	16.7%
Usage Block 1: 0 – 5,000 gallons	\$3.00	\$3.80	\$3.39	\$0.39	13.1%
Current Usage Block 2: 5,001 – 18,000 gallons	\$5.30				
Revised Usage Block 2: 5,001 – 15,000 gallons		\$6.71	\$6.00	\$0.70	13.1%
Current Usage Block 3: 18,001+ gallons	\$8.60				
Revised Usage Block 3: 15,001 – 40,000 gallons		\$10.89	\$9.73	\$1.13	13.1%
New Usage Block 4: 40,001+ gallons		\$12.60	\$11.27	NEW	NEW

*Rates are per 1000 gallons of usage.

** Other meter size usage blocks are found in the tariff.

Monthly Residential Bill Comparison

Monthly Average 8,039 gallons	Current Rate	Proposed Rate	Revised Rate
1-Inch Metered Service Base	\$39.00	\$51.94	\$45.50
0 – 5,000 gallons (5,000 gallons)	\$15.00	\$19.00	\$16.95
5,001 – 15,000 gallons (3,039 gallons)	\$9.12	\$20.39	\$18.23
Water Bill Total	\$63.12	\$91.33	\$80.68
Increase From Current Rates		\$28.21 44.7%	\$17.57 27.8%

Staff does not recommend the Commission allow a phase-in of rates in this case, unless the Company willingly foregoes revenue and carrying costs associated with the phase-in of the revenue requirement. Phasing-in rates results in higher rates to allow the Company to recover uncollected revenue, and increases the revenue due to the Company for carrying cost interest.

Customer Comments

On March 10, 2025, the Company notified its customers of its proposed increase to water service. Staff received 93 comments; all customers opposed the increase.

Most commenters indicated the proposed increase shifts the cost of new development costs for new subdivisions to existing customers who have already paid connection fees, and the proposed increase is excessive.

Multiple customers note that the Company has gained more customers recently and believe prior customers should not be paying for the growth of the Company.

One customer requested the Commission reject the Company's request in this docket and requests the Commission require the Company reimburse customers for revenue increases in UW-220052, relative to subdivisions Paintbrush Lakes, Nelson Creek, and Nelson Ridge.

Conclusion

Staff has completed its review of the Company's supporting financial documents, books, and records. Staff has been able to determine that the operating expenses are reasonable and required as part of the Company's operation. The Company's financial information supports the revenue requirement and the revised rates and charges.

Recommendation

Take no action, allowing Tariff revisions filed by Suncadia Water Company L.L.C. on March 7, 2025, as revised on June 23, 2025, to take effect July 1, 2025, by operation of law.