

Agenda Date: February 25, 2011
Item Number: A3

Docket: UW-101718
Company Name: Burton Water Company, Inc.

Staff: Jim Ward, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendations

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Burton Water Company, Inc.; and
2. Allow the staff recommended revised rates as filed by the Burton Water Company, Inc., on January 3, 2011, to become effective on February 26, 2011, on a permanent basis.

Background

On October 20, 2010, Burton Water Company, Inc. (Burton Water or company), filed tariff revisions to its currently effective tariff that would generate \$58,785 (38.2 percent) in additional annual revenue. The stated effective date is November 20, 2010. The filing was prompted by revenues falling below the level projected in the last rate case, costs associated with replacing computers and billing software, and increased fees charged by regulating agencies. The company proposes to increase base meter charges and the ready-to-serve charge. The company serves 415 customers on Vashon Island, in King County. The company's last general rate increase was February 1, 2010.

On November 10, 2010, the commission issued a complaint and order suspending the proposed tariff revisions filed by the company on October 20, 2010.

After review and discussions, staff and the company agreed to a revised revenue requirement of \$50,162 (31.8 percent) in additional annual revenue and revised rates. On January 3, 2011, the company filed revised rates at staff recommended levels. Staff and the company agreed to a January 21, 2011, effective date to coincide with the company's normal billing cycle.

Staff's review of Burton's books, records and supporting documents shows a large portion of the rate increase resulted from additional investment in plant, which increased rate base by \$185,136, increased depreciation by \$4,623, increased interest by \$12,222, and increased return on equity by \$6,458. Expense increases included increased repair, materials and supplies of about \$4,900, increased amortization of rate case costs of about \$4,900, and increased federal and state taxes by about \$3,300. Staff concluded that Burton has a revenue deficiency of \$50,162 (31.8 percent).

Staff's revised rate design is different from the proposed rate design the company filed with the commission and noticed to customers. The company proposed to increase only the base change. Staff's revised rate design includes a small increase in the base meter charge and the ready-to-

serve charge, and lowers the water usage blocks. This rate design shifts more revenue to water usage and helps to promote conservation.

On January 13, 2011, the commission found it reasonable, based on staff's analysis, to allow the revised rates to become effective January 21, 2011, 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 commission may hold public hearings to determine whether the proposed changes are fair, just, reasonable and sufficient.

Discussion

Customer Notice

After discussions at the open meeting held January 13, 2011, it was determined that customers should receive an additional notice. This notice was prompted by the large difference in the rate design customers were noticed of on October 20, 2010, and staff's revised rates. The company agreed and an additional notice was sent on January 19, 2011, to all customers of the company.

Customer Comments

On October 20, 2010, the company notified its customers of the proposed rate increase by mail. Two customer comments were received, both opposed to the proposed increase. On January 19, 2011, the company sent a new notice to customers with staff's revised rates and rate design. The commission received one more comment. Please note that customers often address several issues of concern within one comment. Therefore, subtotals may not equal the total number of comments submitted.

Business Practices

- Some customers are required to have one inch meters for indoor fire sprinkler systems. Why should they have to pay more than customers with ¾ inch meters?

Staff Response

One inch meters have the potential to use more water and take up a larger portion of the system's capacity. The difference in the base rate between meter sizes is proportional to the potential usage.

- The only fair way to bill for water is to bill only for the water used by each customer.

Staff Response

Companies have fixed costs that do not vary according to water usage. The base rate is necessary in part to ensure that companies can recover fixed costs.

General Comment

- Two customers believe the amount of the increase is excessive because the company increased rates last February.

Staff Response

Customers were advised that 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 investment. There are no limitations to the frequency with which a company may submit tariff changes. The company's last general rate increase was last February. In order to have a rate increase approved by the commission, the company must prove a need for additional income.

- One customer asked if the company has protested the claimed cost increases for right-of-way permits to King County. This customer believes the costs for King County right-of-way permits should be charged directly to new home builders and not spread out to all system customers.

Staff Response

Customer was advised that the company may choose to dispute the costs for right-of-way permits to King County. Depending on the company's need and use of a right-of-way permit, the costs may be charged directly to the applicable customer, such as a new home builder, if that customer was the only customer to benefit from the right-of-way. For costs benefitting a widespread group of customers, the cost may be spread to all customers. Staff determines this on a case-by-case basis.

- One customer questioned the company's need for new computers and billing software.

Staff Response

Customer was advised that the company may determine when new computers or new billing software is necessary to perform day-to-day business functions.

A customer using 599 cubic feet of water per month (the calculated company-wide average monthly water usage) would pay \$3.66 (11.2 percent) more per month using the revised rates instead of \$11.80 (36.3 percent) more using the original rates proposed by the company (see "Average Bill Comparison" table below). The revised rates would result in some increases, as compared to the proposed rates. Customers using more than 1,200 cubic feet per month will pay more using the revised rates than they would have paid using the rates originally proposed by the company. The increases for monthly usage vary up to 57.3 percent greater than the original proposed rates.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Ready-to-Serve	\$21.59	\$33.39	\$25.25
Base Rate (3/4 Inch Meter) ¹	\$21.59	\$33.39	\$25.25
Usage Block 0 – 1,000 Cubic Feet ^{1,2}	\$1.83	\$1.83	\$1.83
Usage Block 1,001 – 1,700 Cubic Feet ^{1,2}	\$1.83	\$1.83	\$4.71
Usage Block 1,701 – 2,500 Cubic Feet ^{1,2}	\$1.83	\$1.83	\$6.00
Usage Block 2,501 – 5,000 Cubic Feet ^{1,2}	\$4.71	\$4.71	\$6.00
Over 5,000 Cubic Feet ^{1,2}	\$6.00	\$6.00	\$6.00

1 – Based on ¾-inch meter classification, see company’s tariff for upsizer meter classifications, usage blocks and rates.

2 – Based on “per 100 cubic feet”.

Average Bill Comparison

Average Monthly Usage 599 Cubic Feet ³	Current Rate	Proposed Rate	Revised Rate
Base Rate (3/4 Inch Meter)	\$21.59	\$33.39	\$25.25
0 - 599 Cubic Feet	\$10.96	\$10.96	\$10.96
Average Monthly Bill	\$32.55	\$44.35	\$36.21
Increase From Current Rates		36.3 %	11.2 %

3 – Based on a company-wide average customer annual water usage.

Conclusion

Commission staff has completed its review of the company’s supporting financial documents, books and records. Staff’s review shows that the operating expenses are reasonable and required as part of the company’s operation. The company’s financial information supports the revised revenue requirement and staff’s revised rates and charges are fair, just, reasonable, and sufficient. Burton has sent a second notice to customers informing them of staff’s revised rates and rate design. The commission received additional comments from one customer. The additional customer’s comments do not change staff’s conclusion that the revised rates are fair, just, reasonable and sufficient.

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