

Agenda Date: March 24, 2011
Item Number: A6

Docket: UW-102034
Company Name: Country Meadows E. Water System #2

Staff: Christopher Mickelson, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Country Meadows East Water System #2.
2. Approve staff recommended revised rates filed by Country Meadows E. Water System #2 on March 15, 2011, to become effective April 1, 2011.

Discussion

On December 20, 2010, Country Meadows East Water System #2 (Country Meadows or company) filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$5,760 (98.4 percent) in additional annual revenue. The company serves 16 customers in Pierce County. The company came under regulation on May 14, 2003, this is the company's first general rate increase.

The proposed rates are prompted by increases in operating costs such as chemicals, testing, and electrical power. Country Meadows also filed to update tariff language and adjust ancillary charges for reconnection, disconnection, service visit, late payment, account setup, non-sufficient funds (NSF) check, and water availability letter. In addition, Country Meadows adds cross-connection control language and charges. Fourteen customers are metered and two customers are unmetered. The company plans to install the two remaining meters by June 1, 2011.

All customers are currently charged a flat rate. The proposed rate design helps encourage conservation by moving from an unmetered rate to meter usage rates and blocks, adding upsize meter rates and blocks, adding a ready-to-serve charge, and increasing unmetered charges.

Staff and the company agreed to a revised revenue requirement of \$4,732 (80.8 percent) in additional annual revenue and revised rates. On January 13, 2011, the company filed revised rates.

On January 27, 2011, the commission issued a complaint and order suspending the tariff revisions filed by the company on December 20, 2010, and January 13, 2011. This action was prompted by additional inquiries about the water system related to what testing is required, ownership of the water system, and whether to allow the company to outsource operations to a satellite management agency (SMA).

During the open meeting of January 27, 2011, staff informed commissioners that the water system had a “green”¹ color rating according to Washington State Department of Health’s (DOH) website. Subsequently, DOH updated their website to indicate the water system with a “blue”² color rating on January 27, 2011.

Country Meadows is required to employ a certified operator to carry out operational functions, due to the water system being classified as a “Group A Community” in accordance with DOH regulations in WAC 246-292. WAC 246-292-020 defines who must have a certified operator, and WAC 246-292-050 details the minimum certification requirements for the various tasks involved in a small water system.

WAC 246-290-300 requires Group A water systems to test for the following: Volatile Organic Chemical (VOC), Inorganic Chemical (IOC), Synthetic Organic Compound (SOC), Radiological (Radium + Alpha), Nitrate, Lead and Copper, and Coliform. The testing frequency varies from monthly to twice every ten years. Staff made adjustments to the company’s records to normalize the testing cost within the test period (see “Table 1 –Testing” below).

Table 1 - Testing

<i>Chemical Test</i>	<i>Company Paid (Test Period)</i>	<i>Regulated Annual Cost</i>
VOC	\$ 325.00	\$ 130.00
IOC	\$ -	\$ 73.60
SOC	\$ 734.50	\$ 148.33
Lead + Copper	\$ -	\$ 55.00
Coliform	\$ 316.02	\$ 231.84
Radium + Alpha	\$ 305.50	\$ 186.67
Nitrate	\$ 56.00	\$ 56.00
Sub-Total	\$ 1,737.02	\$ 881.44
Laboratory Fee	\$ -	\$ 132.22
Grand Total	\$ 1,737.02	\$ 1,013.66

Country Meadows was originally owned by Frank L. Naccarato through the legal name of Horizons West Development, Inc. Due to financial difficulties, the Country Meadows water system and some additional parcel lots were transferred to Olympic Coast Investment, Inc. (Olympic), which is a partnership of Robert W. Hoss and John Hoss. The two parcels where Country Meadows water system’s wells and pump houses are located are owned by Frontier Bank, Trustee for Robert W. Hoss IRA (Frontier IRA). Staff was informed that Olympic and Frontier IRA are consolidating all of the Country Meadows water system’s assets into its own legal entity. Presently there are no higher levels of ownership and there is no owner’s compensation, other than return on investment, imbedded within the rates.

1 Green – adequate for existing uses and adding new service connections up to the number of approved service connections.

2 Blue – adequate for existing uses, but not adequate for adding new service connections.

Country Meadows originally hired Helen's Pumps & Filters, Inc. (Helen's Pumps), to run the Country Meadows water system at a rate of \$320 per month. However, Helen's Pumps was not a certified operator, nor did Helen's Pumps perform regular testing, paperwork, or keep certification's current in accordance with DOH requirements. Therefore, the company transferred operations to a certified SMA, Northwest Water Systems (NWS), to run the Country Meadows water system.

NWS provides multiple services such as, operation and management of water system, perform quality monitoring, scheduled maintenance, meter readings, 24-hour standby, phone support, water testing, water bills (with postage), collections, prepare annual consumer confidence reports, recordkeeping, minor repairs (under \$500), flushes, provide a cross control program, preventative maintenance, and analyze laboratory test. NWS took over operations for Country Meadows on March 22, 2010, and charges \$315 per month.

Staff made several adjustments to the water systems books and records, such as, removing property taxes pertaining to Frontier IRA and increasing rate case cost. Staff and the company agreed to a second revised revenue requirement of \$4,766 (81.4 percent) in additional annual revenue. The company chose not to file second revised rates for the additional \$34 in annual revenue. The company filed revised tariff pages on March 15, 2011, to correct the company's name on the tariff filing to Country Meadows E. Water System #2.

The company bills bi-monthly. A customer using 27,809 gallons³ (the calculated company-wide annual average water usage) of water per bi-monthly billing period would pay \$35.77 (51.3 percent) more per bill using the revised rates instead of \$61.27 (88.0 percent) more using the original rates proposed by the company (see "Average Bill Comparison" table below).

Using the test period water usage reported by the company, four customers would experience a decrease in their annual water bills and 12 customers would experience increases in their annual water bills. The largest annual water bill would increase from \$418 to \$1,050 (151.1 percent).

Customer Comments

On December 21, 2010, the company notified its customers of the proposed increase by mail. Four customer comments were received, all opposed to the proposed increase.

Filing Documents and Methodology

- Two customers commented on the amount of the increase; one said the rates are higher than those in Tacoma.

Staff Response

Staff sets rates that are fair and reasonable, and sufficient to allow the company the opportunity to recover reasonable operating expenses and earn a reasonable return on

³ 27,809 gallons is equivalent to 3,717 cubic feet.

investment. Staff does not compare the rates of neighboring water suppliers when setting rates.

General Comment

- One customer commented that the water is not suitable for drinking; another acknowledged that the water was safe to drink, however the taste and odor is unpleasant.

Staff Response

DOH has regulatory authority over water quality and quantity issues; however, staff talked to a company representative and was told that the water is drinkable according to DOH standards. The issues with taste and odor are due to iron and manganese, which are considered by DOH to be secondary contaminants. The company is in the process of getting authorization from DOH to interconnect wells within the water system, which would help to resolve the iron issue. The company is exploring options for addressing the manganese issue.

Consumer Protection staff advised customers that they may access company documents pertinent to this rate case at www.utc.wa.gov/water, and that they may contact John Cupp at 1-888-333-WUTC (9882) with questions or concerns.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Flat Rate (Unmetered)	\$34.83	\$68.40	\$68.40
Ready-to-Serve (RTS)	N/A	\$28.75	\$16.00
Base Rate (5/8-inch meter) ¹	N/A	\$28.75	\$16.00
0 – 10,000 Gallons ^{1,2}	N/A	\$2.50	\$2.50
10,001 – 40,000 Gallons ^{1,2}	N/A	\$3.00	\$3.00
Over 40,000 Gallons ^{1,2}	N/A	\$3.50	\$3.50

¹ – Based on 5/8-inch meter classification, see company’s tariff for upsize meter classification, usage blocks and rates.

² – Based on “per 1,000 gallons”.

Ancillary Charge	Current Rate	Proposed Rate	Revised Rate
Reconnection	\$50.00	\$85.00	\$85.00
Disconnection	\$50.00	\$85.00	\$85.00
Service Visit	N/A	\$85.00	\$85.00
NSF Check	\$25.00	\$40.00	\$39.00
Backflow Assembly Testing	N/A	\$85.00	\$85.00
Water Availability Letter	\$50.00	\$25.00	\$25.00
Account Setup	\$30.00	\$40.00	\$40.00
Service Connection ³	N/A	\$750.00	\$750.00
Meter Installation	N/A	\$500.00	\$500.00
Late Payment	10% or min \$1.00	2% or min \$1.00	2% or min \$1.00

³ – Applies to new service connections only.

Average Bill Comparison

Average Bi-Monthly Usage 27,809 gallons⁴	Current Rate⁵	Proposed Rate	Revised Rate
Base Rate (5/8-inch meter)	\$69.66	\$57.50	\$32.00
0 – 20,000 Gallons	\$0.00	\$50.00	\$50.00
20,001 – 27,809 Gallons	\$0.00	\$23.43	\$23.43
Average Bi-Monthly Bill	\$69.66	\$130.93	\$105.43
Increase from Current Rate		88.0%	51.3%

⁴ – Based on company-wide annual average customer water usage.

⁵ – Unmetered Rate only.

Conclusion

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 operation. The customer's comments do not change staff's opinion that the company's financial information supports the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

Staff recommends that the commission:

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