

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of  
  
OLYMPIC WATER AND SEWER, INC.,  
  
Petitioner,  
  
For Approval of a Surcharge for Cost  
Recovery of Water Treatment Project

DOCKET UW-190160  
  
ORDER 01  
  
ORDER GRANTING EXEMPTION  
FROM RULE; APPROVING  
SURCHARGE SUBJECT TO  
CONDITIONS

**BACKGROUND**

- 1 On March 6, 2019, Olympic Water and Sewer, Inc., (Olympic Water or Company) filed with the Utilities and Transportation Commission (Commission) a tariff revision that would generate \$100,440 (14.2 percent) in additional annual revenue. The Company proposes to implement a Cost Recovery Surcharge of \$5.00 per month for all customers. The Company serves 1,674 customers located in Port Ludlow in Jefferson County. The Company's last general rate increase, by surcharge of \$52,124 (7.8 percent), was effective September 15, 2014.
- 2 Olympic Water filed the proposed surcharge in order to cover 70 percent of the cost for its proposed water treatment project. The total construction cost of the project is currently estimated at \$2,209,707. The proposed surcharge would recover \$1,546,794 in principal plus interest on the State Revolving Fund (SRF) loan and excise taxes, which results in a total of \$2,014,214 that would be recovered via surcharge. Proceeds from the Drinking Water State Revolving Fund (DWSRF) loan approved by the Public Works Board (PWB) will be the main source of funds for the proposed water treatment project.<sup>1</sup> Proceeds from the loan will be used to fund the installation of the treatment plant on the Company's water system.

---

<sup>1</sup> The loan contract is a low-interest, 20-year loan designed for capital improvements to water systems that increase public health protection and compliance with drinking water regulations. PWB approves the final recommended funding list each spring. The Department of Health (DOH) is responsible for evaluating and approving Water System Plans (WSP) or Small Water System Management Programs (SWSMP), which are requirements of both DOH and DWSRF loan projects. DWSRF loan projects must be included in a WSP or SWSMP. In addition, DOH evaluates and approves the project reports and construction documents for all DWSRF-funded loan projects.

3 The proposed water treatment project is a result of water quality concerns raised by the Department of Health (DOH) related to total coliform, iron, manganese, and arsenic levels. The treatment project involves adding filtration to wells 14 and 16 to remove iron, manganese, and arsenic, as well as chlorination treatment on the entire water system. The project is presented in the Company's DOH Water System Plan and meets the eligibility criteria outlined in WAC 480-110-455(2) for a surcharge to fund future utility plant.

4 DOH has primary jurisdiction regarding water quality and quantity issues, including water system design, construction, and maintenance. DOH concluded that the proposed project is necessary for the Company to meet water quality and quantity standards.

5 On March 6, 2019, the Company notified its customers by mail of the proposed surcharge. Commission staff (Staff) has received no customer comments. Staff attended a public meeting in Port Ludlow on March 5, 2019, at the request of the Port Ludlow Village Council. The purpose of the meeting was to inform customers about the project and explain the proposed funding mechanism and surcharge.

6 The proposed surcharge would increase the Company's annual revenues by more than 3 percent, which classifies the proposed tariff revision as a general rate case pursuant to WAC 480-07-505. As a result, the Company has requested exemption from WAC 480-07-530(4), which lists the minimum work paper filing requirements for a general rate case. This filing proposes a surcharge for future utility plant that involves a single capital project and the associated funding mechanism. Staff reviewed the request and, because the Company provided sufficient information to enable Staff to determine the costs associated with the Company's filing, recommends that the Commission grant Olympic Water's request for exemption.

7 Staff has reviewed the Company's supporting financial documents, cost estimates for the proposed water treatment project, and the expected terms and conditions of the surcharge filing. Staff believes the low-interest, long-term DWSRF loan is an excellent funding option for both the Company and its customers, and that the proposed surcharge is fair, just, reasonable, and sufficient.

8 Accordingly, Staff recommends the Commission approve the surcharge subject to the following conditions:

- (a) The surcharge must apply to all water customers served by the Company. The surcharge must expire on June 20, 2038, or upon recovery of \$2,014,214 for principal, interest, and taxes, whichever occurs first.

- (b) Funds received from the surcharge, including interest earned on the funds while held in a DWSRF loan reserve account, must be treated as contributions-in-aid-of-construction (CIAC).
- (c) Surcharge funds collected and interest earned upon such funds must be held in a separate DWSRF loan reserve account by the Company for the benefit of customers. Such funds do not become the property of the Company or Company owners and may not be disbursed, alienated, attached, or otherwise encumbered by the Company or its owners. In the event of a sale or transfer of the Company, the trust obligations established in Chapter 480-110 WAC regarding any unspent surcharge funds must be transferred to the new owners of the Company.
- (d) The Company must report the following information to the Commission within 60 days of the end of each calendar quarter per WAC 480-110-455(4):
  - i. Beginning balance;
  - ii. Amounts received, detailed by source;
  - iii. Amounts spent, detailed by project or expense;
  - iv. Ending balance;
  - v. Reconciliation of bank balance to general ledger.
- (e) The Company must immediately deposit all monthly payments received and related to the surcharge in the same separate reserve account specified in condition (c), above.
- (f) Excess funds held in the DWSRF loan reserve account will be remitted annually, at the time of the annual loan payment, to be applied to the principal of the loan. "Excess funds" means money accumulated in the reserve account in excess of 10 percent of the DWSRF loan payment for the following year.
- (g) Upon completion of the construction projects, which is expected in late 2021 or early 2022 according to the Company's application, the Company must provide the Commission with a complete accounting of all expenses. Olympic Water must file this report no later than 60 days after construction is completed and the treatment system is on-line. The purpose of this report is to adjust the surcharge amount to the actual cost of the project, if necessary, and to ensure that the customers pay no more than 70 percent of the total project principal through surcharge payments.

(h) Within one year after the project is completed and on-line, the Company must file a general rate case. This would allow the Company to recover its portion of the project through general rates, and would enable the Commission to analyze the Company's books, records, and allocations between its affiliates.

9 The Commission has received public comments on this filing. Those public comments highlight issues, among others, regarding the impact to customers of such a large, sudden increase to rates, whether the allocation of costs between Olympic Water's regulated water business and its unregulated sewer business is appropriate, and whether the expediency with which Olympic Water has pursued this surcharge is appropriate in this circumstance.

### DISCUSSION

10 We agree with Staff that the Company's request for exemption from WAC 480-07-530(4) should be granted. The purpose of the work paper filing requirements in WAC 480-07-530(4) is to provide the Commission with information to determine whether a proposed rate increase is fair, just, reasonable, and sufficient. Here, the Company has provided sufficient information to enable the Commission to make that determination, and providing the additional information the rule requires would be unnecessary and unduly burdensome. An exemption from this requirement for purposes of the filing in this docket only is consistent with the public interest, the purposes underlying the rule, and applicable statutes.

11 We also agree with Staff that the low-interest, long-term DWSRF loan is an excellent funding option for both the Company and its customers. The conditions Staff proposes are reasonable and should be required for several reasons. First, DOH's rule states that the Company is responsible for complying with certain water quality standards.<sup>2</sup> Funding the proposed project with the DWSRF loan will help ensure standards of water quality and adequate water supply. Second, PWB provides government-funded low-interest loans and requires an assurance of repayment. This surcharge, subject to the recommended conditions, satisfies that condition. Last, the proposed surcharge would allow the Company to fund the capital project by recovering 70 percent of the cost of the water treatment project from its customers. The remaining 30 percent of the cost will be provided by the Company. We find that the proposed surcharge is fair, just, reasonable, and sufficient. Accordingly, we approve the proposed tariff revisions subject to the conditions set out in paragraph 8, above.

---

<sup>2</sup> WAC 246-290-310.

### FINDINGS AND CONCLUSIONS

- 12 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property, and affiliated interests of public service companies, including water companies.
- 13 (2) Olympic Water is a water company and a public service company subject to Commission jurisdiction.
- 14 (3) This matter came before the Commission at its regularly scheduled meeting on April 11, 2019.
- 15 (4) WAC 480-110-455 allows companies to file surcharge tariffs including that for which Olympic Water seeks approval. No company may collect a surcharge or facilities charge except by Commission order or approval.
- 16 (5) Olympic Water is subject to the filing requirements of WAC 480-07-530 for general rate increase proposals. The Company provided information pertinent to the increase being requested but did not provide the remainder of the information required by the rule and requested an exemption from the work paper filing requirements of WAC 480-07-530(4).
- 17 (6) An exemption from general rate increase filing requirements set forth in WAC 480-07-530(4) for the filing in this docket is in the public interest and is consistent with the purposes underlying the regulation and applicable statutes and should be granted.
- 18 (7) The Commission has reviewed the tariff revisions Olympic Water filed in Docket UW-190160 including related documentation.
- 19 (8) The surcharge tariff in this docket will fund a capital project approved by DOH in the Company's Water System Plan.
- 20 (9) After reviewing Olympic Water's tariff revisions filed in Docket UW-190160 on March 6, 2019, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the proposed surcharge is fair, just,

reasonable, and sufficient and should be approved, subject to conditions (a) through (h) set forth in paragraph 8 of this Order.

**ORDER**

**THE COMMISSION ORDERS:**

- 21 (1) Olympic Water and Sewer, Inc.'s request for an exemption from WAC 480-07-530(4), is granted.
- 22 (2) Olympic Water and Sewer, Inc.'s surcharge filed on March 6, 2019, is approved to become effective April 24, 2019, subject to conditions (a) through (h) set forth in paragraph 8 of this Order.
- 23 (3) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. This Order shall not be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 24 (4) The Commission retains jurisdiction over the subject matter and Olympic Water and Sewer, Inc., to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective April 11, 2019.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner