

Agenda Date: September 25, 2008
Item Number: A4

Docket: UW-080631
Company Name: H&R Waterworks, Inc.

Staff: Chris Mickelson, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendation

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by H&R Waterworks, Inc.; and
2. Allow the temporary rates to become effective October 1, 2008, on a permanent basis.
3. Require the company to notify all flat rate customers of the distinction between the two flat rate classes, along with instructions on how to request installation of a meter.

Discussion

On April 14, 2008, H&R Waterworks, Inc., (H&R or company), filed revisions to its tariff with the Utilities and Transportation Commission (commission) seeking \$225,839 (14.2 percent) in additional annual revenue. The company serves 3,602 customers in Thurston, Mason, Lewis and Pierce Counties. The company's proposed increase in rates was prompted by higher costs for labor, benefits, fuel, insurance and new plant (pumps and pipes). The company's last general rate increase became effective on October 1, 2005.

Staff's review of the company's operations and financial records indicated that the company's proposed rates filed on April 14, 2008, were excessive. Staff and the company reviewed the company's original filing and agreed to a revised revenue requirement and a revised rate design. On May 21, 2008, the company filed revised rates at the staff recommended level that would generate \$106,803 (6.7 percent) additional revenue per year.

On May 28, 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 were fair, just, reasonable, and sufficient. The commission allowed the revised rates to go into effect on a temporary basis on June 1, 2008, subject to refund.

Customer Comments

On March 31, 2008, the company notified its customers of the rate increase by mail. The commission received 24 customer comments which staff summarized and responded to in its May 28, 2008, memorandum. On May 28, 2008, Consumer Protection staff sent all customers who previously commented on the company's filing a letter advising them of the staff's recommended revised rates. The commission received 12 additional comments that raised the following new issues:

- **Customer Comment** – How are the two flat rates calculated? In addition, what is the distinction between the two flat rate classes in order to charge different rates as between the two classes?

Staff's response – The company's original tariff proposed one flat rate for apartments and a different flat rate for unmetered connections. The tariff language did not clearly define the application of the two flat rates. Staff and the company worked together to clarify the tariff and on September 3, 2008, the company filed revised tariff language. The company has agreed to notify all flat rate customers, by a bill insert, of the distinction between the two flat rate classes, along with instructions on how to request installation of a meter.

The two flat rates are calculated based on the company's revenue requirement allocated to all customers and historical water usage data. Staff uses the customer usage data to determine the winter, summer and annual averages. Staff uses those averages to design usage rates for all customers. The first flat rate of \$27.90 is based on the historical winter average rate for all customers, which staff believes is a reasonable estimate of only internal (indoor) water usage. The second flat rate of \$36.85 is based on the historical annual average rate for all customers, which staff believes is a reasonable representation of both internal (indoor) and external (outdoor) water usage.

- **Customer Comment** – The company should have sent a formal notice indicating there was a planned increase and why the increase was necessary.

Staff's response – The company sent a notice by mail to all customers on March 31, 2008, which included the last rate filing, increase justification, proposed monthly rates, open meeting dates, and how to file comments. That notice complied with the commission's customer notice requirements.

- **Customer Comment** – The company's revised rate increase is excessive because:
 - The amount requested is unreasonable and outrageous;
 - Customers are struggling to keep up with other cost-of-living increases. Many customers are seniors on a fixed income;
 - The company should find ways to contain costs without having to raise rates;
 - The company had a rate increase two years ago.

Staff's response – Although staff understands the customers' concerns regarding the amount of the increase, we do 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 reasonable operating expenses and provide an opportunity to earn a reasonable return on investment.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Residential Dwelling (Internal / Indoor & External / Outdoor) * Formally known as "Unmetered" flat rate.	\$36.85	\$42.25	\$36.85
Residential Dwelling (Internal / Indoor) * Formally known as "Apartment" flat rate.	\$18.50	\$21.00	\$27.90
Ready-To-Serve	\$8.50	\$8.50	\$17.00
Base Rate (¾-inch meter)	\$23.55	\$27.80	\$20.33
0 – 650 cubic feet	\$1.25	\$1.20	\$1.36
651 – 700 cubic feet	\$1.25	\$1.80	\$1.36
701 – 1,000 cubic feet	\$1.25	\$1.80	\$2.31
1,001 – 2,000 cubic feet	\$1.65	\$1.80	\$2.31
Over 2,000 cubic feet	\$1.65	\$1.80	\$2.81

Ancillary Charges (monthly)	Current Rate	Proposed Rate
Backflow Assembly Test - Applies only to customers with a backflow assembly	N/A	\$2.25

Average Bill Comparison

Average Monthly Usage 1,040 cubic feet	Current Rate	Proposed Rate	Revised Rate
Base Rate (¾-inch meter)	\$23.55	\$27.80	\$20.33
0 – 650 cubic feet	\$8.13	\$7.80	\$8.84
651 – 700 cubic feet	\$0.61	\$0.88	\$0.68
701 – 1,000 cubic feet	\$3.77	\$5.42	\$6.93
1,001 – 1,040 cubic feet	\$0.33	\$0.72	\$0.92
Average Monthly Bill	\$36.39	\$42.62	\$37.70
		17.1%	3.6%

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. Additional comments received from customers do not change staff's opinion.

Conclusion

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