

Agenda Date: July 11, 2001
Item Number: 2E

Docket: UW-010866

Company Name: American Water Resources, Inc.

Staff: Jim Ward, Revenue Requirements Specialist
Chris Vernon, Public Involvement Coordinator

Recommendation:

Issue a Complaint and Order Suspending the Tariff Revision filed by American Water Resources, Inc., in Docket UW-010866.

Discussion:

On June 14, 2001, American Water Resources, Inc., (American Water or Company) filed to extend an existing surcharge. The surcharge of \$99,263 (12%) annually was filed in May, 1999 for Department of Health (DOH) capital projects under RCW 80.28.022. American Water serves approximately 1,822 active customers in Lewis, Thurston, Pierce, and Grays Harbor County.

The company requested this surcharge extension to cover the additional cost of the DOH critical items. The critical item list consists of upgrades to 13 water systems as contained in the company's capital improvement plan. The surcharge collections will be used to repay a new bank loan the company will be using to refinance the original loan with. This refinance loan will have a lower interest rate and longer term.

The annual per customer revenue impact of this filing will be approximately \$54.50. The surcharge is to apply to all water customers served by the company. The surcharge was originally to expire May 1, 2004, or upon recovery of the loan principal (\$380,350), plus interest and taxes, whichever comes first. Due to company reported cost overruns this filing would extend the expiration date to December 1, 2009, or upon recovery of the loan principal (\$659,589), plus interest and taxes, whichever comes first. This extension would allow the company to collect an additional \$279,239 for the cost overruns over an additional five and a half years.

The Commission received ten comments regarding this filing. The customers who commented on this case either have not seen improvements to their own system or they are already satisfied with the system they have and do not wish to pay for improvements to other systems.

<u>Monthly Rate Schedule</u>	<u>Current</u>	<u>Proposed</u>
1999 DOH Critical Item List Surcharge	\$ 4.54	\$ 4.54
Expiration Date	05/01/2004	12/01/2009

The funds received as a result of the 1999 DOH Critical Item List Surcharge will be deposited

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into a separate reserve account exclusively for the purpose of making capital improvements identified as part of the Company's capital improvement plan approved by the Department of Health. This separate reserve account will be listed on all company financial records and will be considered a cash account asset (NARUC account #127). Expenditures from the reserve account will be treated as customer contributions for ratemaking purposes. American Water has agreed to provide quarterly reports.

The Company has submitted information showing that all projects were done by V.R. Fox Company and that cost overruns were substantial. The original surcharge was based on estimates provided by the company and its engineer in early 1999. When work was performed in late summer 1999, bids and cost exceeded estimates. Additionally, several projects were reduced in scope from the original projected work reviewed by DOH.

Staff has not completed an accounting investigation of the surcharge information. The company has not demonstrated the proposed rates filed in Docket UW-010866 to be fair, just, reasonable, and sufficient.

Conclusion:

Therefore, staff recommends that the Commission issue a Complaint and Order Suspending the Tariff Revision filed by American Water Resources, Inc., in Docket UW-010866.