



UW-230236

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July 24, 2023

SENT VIA WUTC WEB PORTAL

Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

Received
Records Management
Jul 24, 2023

Re: ***In the Matter of Washington Water Service Company Tariff Revision (General Rate Increase), Docket UW-230236***

Dear Director Maxwell:

The Public Counsel Unit of the Washington State Attorney General's Office (Public Counsel) respectfully submits these comments in advance of the July 27, 2023, Open Meeting of the Washington Utilities and Transportation Commission (UTC or Commission). These comments address Washington Water Service Company's (Washington Water or Company) proposed general rate increase, effective July 28, 2023. Public Counsel participated in discussions with UTC Staff (Staff) and Company representatives regarding this case. We appreciated the Company's responses to informal data requests and willingness to discuss the issues in the case.

The Company originally requested a two year rate plan to move toward more parity between the Legacy and East Pierce portions of its system. The original proposal requested an overall increase in revenues of \$3.5 million. For Legacy customers, the Company requested a Year One revenue increase of \$577,273, with no increase in Year Two. For East Pierce, the Company originally requested a Year One revenue increase of \$1.36 million and a Year Two revenue increase of \$1.58 million. After negotiations with Staff and Public Counsel, the Company refiled tariffs on July 21, 2023, that significantly modified its rate case. The Company now requests an overall increase of \$2.125 million, which is comprised of an increase to the Legacy system of \$339 thousand and an increase to East Pierce of \$1.78 million.

Public Counsel's Recommendation

Public Counsel recommends that the Commission allow the Company's revised tariff filing to become effective. The Commission should re-evaluate the calculation of return on owner equity for water companies in a policy docket, stakeholder collaborative, or rulemaking. Broader market conditions and the water industry in Washington have changed since the 12 percent ROE was set in 2002, and we believe it is appropriate to explore the possibility of differentiating water companies by size.

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Revised Rate Case Filing

Public Counsel understands the necessity for the Company to meet expenses in order to maintain safe and reliable service for its customers, in addition to the opportunity to earn a fair return. Public Counsel also acknowledges the complexities involved with integrating the East Pierce service area into the overall operations of the Company.

Extensive discussions between Staff, Public Counsel, and the Company resulted in a \$1.376 million reduction to the overall revenue requirement and modifications to the Company's proposed rate design. Public Counsel supports the revised revenue requirement and rate design as they balance the need to bring East Pierce's rates in line with its cost of service while minimizing rate shock and better aligning East Pierce's rates with the rate design for the Legacy system. Public Counsel also supports the Company's efforts to test conservation measures through a new conservation program. We believe the deferred accounting treatment for conservation program costs requested in a separate filing in this Docket will assist the Company, Staff and other interested parties in assessing the costs and participation rates for the programs without unduly impacting customer rates with uncertain program costs. Public Counsel, therefore, finds the revised filing reasonable and recommends that the Commission allow the Company's revised filing to become effective.

Return on Equity Recommendations

Public Counsel again wishes to raise the issue of the basis for return on equity (ROE) for water companies. As stated in our comments in the prior Washington Water Service Company rate case (Docket UW-210560),¹ the LakeLand Village Water Company rate case (Docket UW-210744),² and Suncadia rate case (Docket UW-220052),³ Public Counsel recommends that the Commission re-evaluate the underlying basis for water utility ROEs since the current 12.0 percent recommendation for all water utilities was set more than 20 years ago, based on the outcome of a general rate case filed in 2001.⁴

Return on equity for regulated utilities should be set at an amount to simulate the conditions of a competitive market. Furthermore, the *Bluefield*⁵ and *Hope*⁶ standards require that a fair ROE should be (1) comparable to what investors expect on investments of similar risk in a competitive environment, (2) adequate to maintain financial integrity, and (3) sufficient to attract capital.

¹ Comments of Public Counsel Unit at 2–3, Docket UW-210560, *Washington Water Service Co. General Rate Case* (filed Feb. 7, 2022).

² Comments of Public Counsel Unit at 3–4, Docket UW-210744, *LakeLand Village Water Co. General Rate Case* (filed Dec. 20, 2021).

³ Comments of Public Counsel Unit at 3–4, Docket UW-220052, *Suncadia Water Co. General Rate Case* (filed Jan. 20, 2022).

⁴ See *Wash. Utils. & Transp. Comm'n v. Rainier View Water Co.*, Docket UW-010877, Sixth Supplemental Order, ¶ 105 (July 12, 2002).

⁵ *Bluefield Water Works and Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923).

⁶ *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944).

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With this in mind, it is critical that the authorized ROE for all regulated utilities, including water utilities, reflect current market conditions. It is safe to say that market risk and overall conditions have shifted since the Commission set the 12.0 percent ROE in Docket UW-010877. Generically applying a 12.0 percent ROE since 2002 without any re-evaluation of market conditions is neither just nor reasonable. As such, it is critical that the Commission examine evidence of market conditions to develop a fair, just, and reasonable ROE for all water utilities serving Washington customers. Public Counsel does not recommend a specific methodology at this time, but requests that the Commission open a policy docket, collaborative working group, or rulemaking to evaluate current policy and develop means to set ROEs that actually reflect evidence and market conditions while acknowledging the dynamics of large and small water companies. We believe that the Commission should explore differentiating water companies by size to provide more nuanced approaches to rate case evaluation.

Public Counsel appreciates the opportunity to submit these comments. If you have any questions about this filing, please contact Nina Suetake at (206) 389-2055 or via email at Nina.Suetake@atg.wa.gov or Stephanie Chase at (206) 521-3212 or via email at Stephanie.Chase@ATG.WA.GOV.

Sincerely,



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NMS/SC