

Agenda Date: April 10, 2014
Item Number: A2

Docket: UW-110436
Company Name: Olympic Water and Sewer, Inc.

Staff: Jim Ward, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

Issue a Complaint and Order Suspending the Tariff Revisions filed by Olympic Water and Sewer, Inc., on March 7, 2014.

Discussion

On March 7, 2014, Olympic Water and Sewer, Inc. (Olympic or company), filed a proposed general rate increase that would generate \$52,125 (7.8 percent) additional annual revenue. The proposed increase is a surcharge filed pursuant to Order No. 1 issued in Docket UW-110436, which granted deferred accounting treatment of certain costs associated with (1) drilling Well No. 17 and (2) the investigation and remediation of contamination discovered while drilling that well in April 2009. Olympic Water and Sewer, Inc., serves 1,608 mixed use customers near Port Ludlow in Jefferson County. The company's last rate change was effective May 22, 2008.

On September 15, 2010, Olympic filed, in Docket UW-101543, a tariff revision that would have generated \$182,097 (25 percent) additional annual revenue. Staff's review of Olympic's books, records and supporting documents showed a large portion of the proposed rate increase resulted from \$32,794 in construction costs and \$18,500 in legal costs related to drilling Well No. 17 and the company's investigation of soil contamination discovered while drilling Well No. 17. Well No. 17 was unusable for production due to soil contamination discovered during the drilling process. Because investigation and remediation of the contamination costs were unknown and on-going, staff removed those costs from the rate case. That adjustment, together with other staff adjustments, showed the company had not demonstrated a need for additional revenue.

On March 7, 2011, Olympic filed a petition in Docket UW-110436 requesting an accounting order authorizing deferred accounting treatment for certain costs associated with (1) drilling Well No. 17 and (2) the investigation and remediation of soil contamination discovered while drilling Well No. 17. Costs would include, but were not limited to, actual well drilling, consulting, engineering, legal fees, testing and other costs associated with the investigation and remediation of soil contamination discovered while drilling Well No. 17. Deferred accounting would preserve Olympic's ability to seek recovery of those costs at a later time.

On March 9, 2011, the company asked the commission to dismiss the Complaint and Order Suspending the Tariff Revision in Docket UW-101543 filed by Olympic on September 15, 2010, and allow Olympic to withdraw the tariff revision. This request was conditioned upon the commission granting the company's deferred accounting petition filed in Docket UW- 110436.

Staff concurred with the company's request for deferred accounting treatment, and recommended that the commission consider cost recovery only after the responsibility and liability for drilling, investigation and remediation costs have been assigned between the company, insurance companies, and other third parties.

On March 24, 2011, the commission issued Order No. 2 in Docket UW-101543 that dismissed the Complaint and Order Suspending the Tariff Revision filed by Olympic on September 15, 2010, and allowed Olympic to withdraw that filing. The commission also issued Order No. 1 in Docket UW-110436 that granted the company's petition for deferred accounting, subject to eleven conditions.:

1. The recognized accounting period for deferral shall begin on January 1, 2009, and end with the completion of remediation and meeting the requirements set forth by the Department of Health, Department of Ecology and U. S. Environmental Protection Agency, if any.
2. Deferred amounts will accrue interest at 9.3 percent (staff's calculated weighted cost of capital for Docket UW-101543). This accrual starts when each payment is made or received.
3. Deferred costs incurred prior to discovering soil contamination will be separated and recorded as Well No. 17 drilling cost. These costs include, but are not limited to drilling, engineering and legal costs.
4. Deferred costs incurred after discovering soil contamination will be separated and recorded as soil contamination investigation or remediation cost. These costs may include, but are not limited to, engineering fees, other consultant fees, legal fees, and other remediation-related costs such as testing and monitoring.
5. Deferred amounts will include payments received from insurance providers or other third parties as compensation or contribution for Well No. 17 drilling, and soil contamination investigation and remediation costs. These payments will accrue interest at 9.3 percent from when the payment is received.
6. The company will record all deferred costs and third party payments in account 186, Miscellaneous Deferred Debits.
7. The tax benefits of the deferred costs will also be accrued with rate determinations to be determined with the cost recovery.
8. a - The company may file tariff revisions to recover Well No. 17 drilling and soil contamination investigation costs when the costs are known and measurable and the responsibilities for costs have been finalized between any insurance provider or other third party.

b - The company may file tariff revisions to recover soil contamination remediation costs when the costs are known and measurable and the responsibilities for costs have been finalized between any insurance provider or other third party.

9. Allowance of a deferred accounting petition makes no determination of ratemaking treatment of any deferred cost and does not constitute regulatory assurance that the deferred debit will be recovered, in whole or part, in any future rate proceeding.
10. Deferred accounting treatment does not determine whether any of the company's decisions or incurred costs associated with drilling Well No. 17, or with investigating or remediating soil contamination were prudent, whether or not the company exercised due diligence in pursuing compensation from third parties for soil contamination, what portion of costs, if any, should customers ultimately bear, or how those costs, if any, should be recovered. All of these issues will be considered by the commission during any tariff revision proceeding in which the company seeks to recover deferred costs.
11. The company must file a report with the commission every six months that summarizes the deferred amounts incurred in items (3), (4) and (5), any remaining issues to be resolved regarding the investigation and remediation of soil contamination and expected timelines to resolve each of those issues.

Customer Comments

On March 07, 2014, the company notified its customers of the proposed surcharge by mail. Staff received nine comments regarding the proposed surcharge; seven opposed to the surcharge and two in favor. Customers were notified that they may access relevant documents about this surcharge on the commission's website, and that they may contact John Cupp at 1-888-333-9882 or jcupp@utc.wa.gov with questions or concerns.

General Comments

- Customers of Olympic Water and Sewer, Inc., who oppose the proposed surcharge believe they should not have to pay for what they consider poor business decisions. They believe Pope Resources¹ should be responsible for all costs related to Well No. 17.
- Customers in favor of the surcharge believe the company made a good faith effort to increase water supply to the community. They are willing to pay the surcharge.

Staff Response

Staff informed the commenters that the proposed surcharge would be on the agenda of

¹ Pope Resources owns Olympic and Well No. 17 is located on property that Olympic purchased from Pope Resources.

the April 10, 2014, open meeting, with information about how to participate in person or by phone.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate*
Cost Recovery Surcharge	NA	\$2.70

*Surcharge is to expire June 30, 2017, or upon recovery of \$165,059, whichever occurs first.

Conclusion

The company filed to recover deferred costs under condition 8a above, associated with a petition for deferred accounting treatment approved by the commission in Order 01 issued in Docket UW-110436. Commission staff has not completed its review of the company's filing, books and records, nor have we determined the prudence and reasonableness of the expenditures, appropriate assignment of liability and responsibility to the various parties, the amount of costs, if any, reasonably allocated to water customers, or the appropriate amortization, and rate recovery, of those costs.

Recommendation

Issue a Complaint and Order Suspending the Tariff Revisions filed by Olympic Water and Sewer, Inc., on March 7, 2014.