

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND |) | DOCKET UW-081226 |
| TRANSPORTATION COMMISSION, |) | |
| |) | ORDER 02 |
| Complainant, |) | |
| |) | |
| v. |) | ORDER DISMISSING COMPLAINT |
| |) | AND ORDER SUSPENDING |
| SUNCADIA WATER COMPANY, |) | TARIFF REVISIONS; ALLOWING |
| LLC, |) | REVISED TARIFF RATES; |
| |) | AUTHORIZING DEFERRED |
| Respondent. |) | ACCOUNTING TREATMENT; AND |
| |) | GRANTING EXEMPTION FROM |
| |) | RULE |
| |) | |

BACKGROUND

- 1 On July 3, 2008, Suncadia Water Company, LLC (Suncadia Water or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-01, replacing the entire tariff (22 sheets) with First Revision sheets canceling all Original sheets. The proposed tariff revisions would generate \$603,141 (499 percent) in additional revenue per year. This is the Company’s first general rate increase since becoming regulated on May 15, 2008.
- 2 Suncadia Water serves 125 mixed-use customers in a master planned community consisting of single family homes, multi-family condominiums, a restaurant, a lodge and two golf courses. All customers currently receive un-metered service. The Company stated that it filed the proposed metered rates because of increased demands on the water system and Suncadia Water’s need to file ”full cost recovery” rates to allow the Company to become self-supporting. The water system is located near Cle Elum in Kittitas County. The stated effective date was August 3, 2008.
- 3 On July 2, 2008, the Company notified customers of the proposed general rate filing and advised customers that they could comment on the filing at the Commission’s July 10, 2008, open meeting. No customers commented at that time. The Commission received seven written customer comments as of the July 10, 2008, open meeting and one follow-up customer comment. Staff’s July 10, 2008, memorandum summarized and responded to those comments.

- 4 Staff reviewed the Company's operations and financial records and concluded that the Company had not demonstrated that the proposed rates were fair, just, reasonable, and sufficient. On July 31, 2008, the Commission entered a Complaint and Order Suspending the tariff revisions.
- 5 On August 1, 2008, Commission Staff sent every customer who commented on the filing a letter advising them that the Commission had suspended the filing, after which the Commission received 20 additional comments opposing the rate increase.
- 6 Staff and the Company reviewed the Company's original filing and agreed to a revised revenue requirement of \$670,092 (554 percent) in additional annual revenue and revised rates. On September 30, 2008, the Company filed revised rates at the Staff recommended level. The original proposed ready-to-serve rate was increased from \$10.00 to \$20.79, and the original proposed usage rates ranging from \$1.59 to \$6.36, were changed to one usage rate at \$2.65, both of which are higher than the rates in the Company's original customer notice of July 2, 2008. The revised rates also increase and decrease base charges and fire flow rates.
- 7 On September 30, 2008, the Company sent another notice to all customers, advising them of the revised rates, highlighting key differences from the Company's original filing notice, and advising customers that they could comment on the filing at the Commission's October 8, 2008, open meeting. No customers commented at that time.
- 8 The Commission has received 33 customer comments on this filing. The following statements summarize the customers' comments: plant allocations between the residential system and the irrigation system are skewed and excess capacity is not being considered, expenses allocated by the developer to the Company do not appear reasonable, the amount of the increase should be based on usage rather than the customer's meter size, the Company used flawed water usage estimates for the rate design, the Company's capital structure and cost of equity are excessive, and the Company's ready-to-serve rate is excessive and not based on cost.
- 9 Staff discussed the customers' specific concerns in an attachment to its memorandum for the October 30, 2008, open meeting. Staff reviewed the Company's asset assignment, costs (both direct and allocated), and depreciation schedules, and concluded Suncadia Water's accounting is accurate and correct. In addition, Staff determined that the

depreciation accounts are accurate and all contributions-in-aid-of-construction are appropriate. Suncadia Water's rate model addresses excess capacity by allocating total plant to current customers using the percentage of current equivalent residential units (ERUs) to total ERUs when building is complete. Staff reviewed the affiliated transactions between the developer and the Company and concluded that the payments for services received from the affiliate are reasonable and reflect the cost of providing the services with no markup or added cost.

- 10 In response to customer comments, the Company reviewed its allocation of plant between the potable water system and the irrigation water system, and the basis for calculating the water usage rate. That review changed the rates for the potable water system as follows: the base rate decreases from \$42.73 to \$41.79, the ready-to-serve rate decreases from \$20.79 to \$19.85, and the usage rate decreases from \$2.65 per 1,000 gallons to \$2.52 per 1,000 gallons. The Company filed second revised rates on November 24, 2008.
- 11 At the November 26, 2008, open meeting the Company submitted substitute Tariff Sheet 15 – Schedule 2, which would remove from the tariff sheet Non-Potable Irrigation Water Rates. The Company subsequently filed the substitute tariff sheet with the Commission. The Company did so to avoid controversy about the Commission's jurisdiction over the Company's non-potable irrigation water system. Removing the irrigation rates from the tariff sheet does not affect the Company's proposed rates for potable water.
- 12 The base charge, which does not include any water usage, increases in proportion to the meter size to reflect the potential capacity demand on the water system. All water usage on the potable water system is charged at the same rate. The rate for water usage is based on the amount of water purchased, which Staff believes is a reasonable approach. Because this approach will understate revenue due to leaks in the distribution system, Staff recommends that the Commission apply deferred accounting treatment to the variable portion of the purchased water component of the water usage charges and require the Company to "true-up" water usage charges after twelve months. Staff also recommends that the Commission require the Company to file a new rate case no later than May 1, 2010.
- 13 Staff calculated Suncadia Water's overall rate of return to be 9.73 percent using the Company's actual capital structure of 39 percent debt and 61 percent equity. Staff believes the capital structure provides a reasonable balance between safety and economy. For affiliated debt, Staff relies on a prior Commission decision in Docket UW-980072,

American Water Resources, Inc., in which the Commission authorized the use of the actual cost of debt (6.06 percent) or prime plus 200 basis points (10.08 percent), whichever is less. For equity, Staff relies on a prior Commission decision in Docket UW-010877, Rainier View Water Company, Inc., setting equity return at 12 percent.

- 14 Revised rates have been calculated to include all sources of revenue from all customers, including ready-to-serve customers. The ready-to-serve rate (\$19.85) was set using a separate cost of service analysis that Staff believes provides a reasonable alternative to the Staff's practice of setting the ready-to-serve rate equal to the base charge (\$41.79 in this case). Staff believes customers receiving water and ready-to-serve customers will pay for costs properly allocated to them.
- 15 Customers have concerns that the figures for average water usage are based on sample meter readings and engineering data, not actual historical usage. Suncadia Water is a new system that has not previously used metered rates or consistently read meters. The Company set rates using water purchased, rather than water sold (delivered to the customers' meters). Staff believes this is a reasonable approach.
- 16 Staff has reviewed the Company's allocation of staff operating costs between the two water systems and believes they are reasonable for this case. The Company allocated staff expenses, net of ancillary charge revenues, based upon experience. The Company does not have time records or other written documentation. The Company reviewed its maintenance staff work load and assigned amounts to potable water service, fire protection service, irrigation water service, and ready-to-serve class customers. Within the potable water class and irrigation class, the Company allocated 50 percent to the base charge and 50 percent to the usage charge. The overall maintenance staff cost is about 71 percent to potable water and 29 percent to irrigation.
- 17 Suncadia Water filed a petition requesting an exemption from WAC 480-110-375(3). That rule allows companies to estimate bills for no more than two consecutive billing cycles. The Company may be unable to read meters in the winter due to snow and ice. Locating and uncovering meters may not be cost effective. Many customers do not live in the Suncadia resort year round and may not need winter meter reading to determine monthly consumption. Staff has reviewed and supports the Company's proposal to charge customers only the base meter charge each month that the Company does not read meters. The Company proposes to read meters when accessible to record consumption

during the period that the Company did not read meters. The Company will bill customers for the consumption over the same number of months that the Company did not read meters. The “catch-up” charges for consumption will be in addition to regular monthly billing charges. Staff believes the requested exemption from WAC 480-110-375 (3) is reasonable.

18 Commission Staff has completed its review of the Company’s supporting financial documents, books and records, including review of all affiliated interest transactions. Staff believes that Suncadia Water’s proposed methodologies, as adjusted by Staff and agreed to by the Company, taken as a whole, provide reasonable results, both in terms of revenue requirement and second revised rates. Staff’s review shows that the expenses are reasonable and required as part of the Company’s operations. Additional customer comments do not alter Staff’s opinion that the Company’s financial information supports the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

FINDINGS AND CONCLUSIONS

- 19 (1) The Washington Utilities and Transportation 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. *RCW 80.01.040, RCW 80.04, RCW 80.08, RCW 80.12, RCW 80.16 and RCW 80.28.*
- 20 (2) Suncadia Water is a water company and a public service company subject to Commission jurisdiction.
- 21 (3) This matter came before the Commission at its regularly scheduled meeting on November 26, 2008, and previously came before the Commission at its July 10 and 31, and October 8 and 30, 2008, meetings.
- 22 (4) Suncadia Water asks the Commission for an exemption from WAC 480-110-375(3), to allow the Company to estimate bills for more than two consecutive months when the meters are covered with snow and ice. The Company proposes to charge customers only the base charge each month that the Company does not read meters. The Company will “true-up” the usage charges when it next reads

the meters, and bill customers for the usage amount in equal payments spread over the same number of months that the Company did not read meters.

- 23 (5) Under WAC 480-110-215, the Commission may grant an exemption from the provisions of any rule in WAC 480-110 if consistent with the public interest, the purposes underlying regulation and applicable statutes. *See also WAC 480-07-110.*
- 24 (6) Staff has completed its review of the Company's supporting financial documents, books and records, and determined that the expenses are reasonable and required as part of the Company's operations and that the revised rates and charges are fair, just, reasonable, and sufficient.
- 25 (7) After reviewing the tariff revisions filed in Docket UW-081226, and giving due consideration, the Commission finds it is consistent with the public interest to dismiss the Complaint and Order Suspending Tariff Revisions in Docket UW-081226, dated July 31, 2008, and allow the second revised tariff revisions to Tariff WN U-1, filed on November 24, 2008, as revised on November 26, 2008, to remove non-potable irrigation water rates, to become effective on December 1, 2008.
- 26 (8) After reviewing the Company's request for an exemption from WAC 480-110-375(3), to allow the Company to not read meters for more than two consecutive months, and giving due consideration, the Commission finds it is consistent with the public interest to grant the exemption.

ORDER

THE COMMISSION ORDERS:

- 27 (1) The Complaint and Order Suspending Tariff Revisions in Docket UW-081226, entered on July 31, 2008, is dismissed.
- 28 (2) The second revised tariff revisions Suncadia Water Company, LLC, filed in this docket on November 24, 2008, as amended by the substitute tariff sheet filed on November 26, 2008, shall become effective on December 1, 2008.

- 29 (3) Suncadia Water Company, LLC will apply deferred accounting treatment to the variable portion of the purchased water component of the usage charges and “true-up” the difference between projected and actual water usage after twelve months, consistent with the methodology set forth in Staff’s October 30, 2008, memorandum. Suncadia Water Company, LLC will report the results to the Commission no later than December 15, 2009. If there is an amount due or a refund, the Company will spread the adjustment over twelve monthly bills.
- 30 (4) After the effective date of this Order, Suncadia Water Company, LLC, is granted an exemption from WAC 480-110-375(3).
- 31 (5) Suncadia Water Company, LLC, must file a new general rate case when actual customer usage data is available for a twelve month period, but no later than May 1, 2010.
- 32 (6) The Commission retains jurisdiction over the subject matter and Suncadia Water Company, LLC, to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective November 26, 2008.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARK H. SIDRAN, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner