

Agenda Date: July 27, 2023  
Item Number: A4

**Docket:** UW-230236  
Company: Washington Water Service Company

Staff: Mike Young, Regulatory Services  
Rachel Stark, Regulatory Services  
Andrew Sellers, Consumer Protection

### **Recommendation**

Issue an order granting deferral of specified costs associated with Washington Water Service Company's conservation program, and allow the tariff pages filed in Docket UW-230236 on April 10, 2023, and as revised on July 21, 2023, to go into effect on July 28, 2023, by operation of law.

### **Background**

On April 10, 2023, Washington Water Service Company (WWS or Company) filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions that, as originally filed, would have generated \$577,273 in additional annual revenue for WWS Legacy operations, and \$3,043,780 for WWS East Pierce (formerly Rainier View Water) operations. For a total additional annual revenue amount of \$3,621,053 (16 percent).

WWS purchased its East Pierce Systems in 2020. Since acquiring the system, WWS has made capital improvements such as new treatment plant to remove iron and manganese, Supervisory Control and Data Acquisition (SCADA) system remote monitoring software improvements, and a Customer Care software conversion to enhance customer service support.

The main driving reasons for the proposed increased rates is to recover the previously mentioned capital costs and higher operating expenses such as insurance and water testing charges.

East Pierce serves approximately 18,600 customers on 28 water systems in Pierce and Kitsap counties. WWS Legacy systems serves approximately 18,000 customers on 197 water systems in Pierce, Kitsap, Mason, Thurston, King, San Juan, Clallam, and Jefferson counties. The last rate case became effective February 15, 2020.

Since WWS purchase of the East Peirce Systems in 2020, the Company has been moving rates towards a single tariff pricing schedule. As part of this filing the proposed rates by WWS was to phase-in new rates, for its Legacy and East Pierce operations in two phases. Phase one rates to become effective July 14, 2023, and phase two rates to become effective July 14, 2024. After Commission staff (Staff) reviewed the Company's financial documents and made adjustments to expenses and calculated the revenue requirement, the Company with Public Counsel and Staff agreed to remove the 2 phase implementation and propose one rate change to become effective July 28, 2023.

## Discussion

Staff and the Public Counsel division of the Attorney General's Office reviewed several cost items affecting the rate increase. These items included executive compensation, overhead allocation, increased water testing costs, payroll costs, and deferred income taxes. Also reviewed was the contract to purchase water from the City of Lakewood. The Company and its predecessor have been purchasing water from Lakewood or Tacoma to supplement water provided by the wells on the East Pierce systems. Staff believes the contract is prudent and benefits the customers in that purchased water reduces the strain on existing pumps, thus lowering annual maintenance costs, and extending the life of the assets.

The Company did not include costs associated with testing for polyfluoroalkyl substances (PFAS). PFAS chemicals are a group of manufactured chemicals used in industry and consumer products since the 1940s. The two most widely used and studied PFAS chemicals are Perfluorooctanoic Acid (PFOA) and Perfluorooctane Sulfonate (PFOS). Both PFOA and PFOS have been replaced by other PFAS chemicals that can be found in fire extinguishing foam, chrome plating, electronics, certain textile and paper manufacturers, grease-resistant paper, food packaging containers/wrappers, microwave popcorn bags, household and personal care products, and fertilizer. There are thousands of PFAS chemicals widely used, long lasting chemicals, components of which break down very slowly over time. The Company is still developing its PFAS testing program in conjunction with rules developed by the federal EPA and state Department of Health.

Staff reviewed the significant capital investment costs incurred since the previous rate case. The Company invested approximately \$5 million in the East Pierce Systems, and \$6 million in the Legacy systems. Staff believes the investments to be prudent and appropriate. Much of the cost of capital improvements was for manganese filtration, which has been an issue for customers of the East Pierce systems in the past. Manganese is a level 2 contaminant and determined to be not life threatening, but it can lead to discolored water, which may cause concern for customers.

The Company proposed to start a water conservation program that would consist of outreach and consultation for customers on reducing water use and supplying plumbing fixtures and water efficient appliances designed to conserve water. The program is modeled on that already in use by Cal Water, the parent company. After review and discussion, the parties agreed to allow the costs associated with implementation, outreach, and consultation to be included in rates at this time, but the cost of providing plumbing fixtures and water efficient appliances is not known and measurable and should not be included in rates until the Company has some historical cost experience. Therefore the Company has included a petition to defer those costs pending a future review.

Other items reviewed included revenue from cell tower contracts on the East Pierce systems, actual vs. hypothetical capital structure, rate of return on equity, and the proposed rate design. The goal in this filing is to move the East Pierce and Legacy rates and tariffs towards a single tariff for all WWS customers. All parties agreed to a revised amount of \$2.13 million (58

percent) additional annual revenue. Due to the lower revised additional annual revenue, a single step rate increase would be appropriate and less confusing to customers. The additional annual revenue was apportioned to the two customer groups based on the ratio of revenue provided by each. East Pierce customers will see an approximate .02 percent monthly bill increase on average, and Legacy customers will see an approximate 27.7 percent monthly bill increase on average.

### **Customer Comments**

Beginning June 5, 2023, the Company began notifying customers via mailed notices of the proposed rate increase of approximately \$573,000 (4.2 percent) for Legacy customers and approximately \$2.9 million (34.3 percent) over two years for East Pierce customers. Both proposed rate increases listed a tentative effective date of July 14, 2023. Customers were notified that they may contact WWS directly with questions or concerns, or they may contact Commission Staff to provide comments for the filing. Staff received 14 comments, all in opposition to the filing.

### **General Comments**

Eight of the comments cite frequent rate increases over the past few years as the basis for their opposition to this request. Two commenters feel they should not have to pay for infrastructure they do not receive the benefit of. Two comments state they experience quality of service issues; one commenter states their pressure is too low and the other states their water pressure is too high. One commenter opposes the permanent basis of the increase and feels that a temporary increase or one-time surcharge to recover these costs would be better. The one remaining commenter feels the new rates penalize those who attempt to conserve water.

### **Staff Response**

Consumer Protection staff reached out to customers to address their concerns with the filing. The customers were advised to contact the Company and/or DOH for quality-of-service issues and provided information of the opportunity to participate in the Open Meeting. Staff also reached out to DOH, who confirmed it is not aware of any service quality issues for this area. One customer has expressed interest in participating in person at the open meeting.

State law requires rates to be fair, just, reasonable, and sufficient to allow the Company to recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Commission Staff performs a thorough review of rate filings to ensure that all rates and fees are appropriate.

**Rate Comparison – Legacy**

<b>Monthly Rate</b>	<b>Current Rate</b>	<b>Proposed Rate Jul. 14, 2023</b>	<b>Proposed Rate Jul.14, 2024</b>	<b>Revised Rate Jul. 28, 2023</b>
Non-Metered	\$60.52	\$63.04	NA	\$63.04
Ready to Serve	\$23.60	\$24.72	NA	\$24.72
Base Rate (3/4-inch meter)	\$23.60	\$24.72	NA	\$24.72
1 <sup>st</sup> Block (usage 0-600 cubic ft.)	\$3.85	\$3.59	NA	\$3.53
2 <sup>nd</sup> Block (601-1,600 cubic ft.)	\$4.95	\$5.39	NA	NA
2 <sup>nd</sup> Block (601-2,200 cubic ft.)	\$4.95	\$5.39	NA	\$5.30
3 <sup>rd</sup> Block (usage over 1,600 cubic ft.)	\$6.10	\$7.18	NA	NA
3 <sup>rd</sup> Block (usage over 2,200 cubic ft.)	\$4.95	\$5.39	NA	\$7.06
Conservation Rate	NA	NA	NA	NA

Other Rates available in the filed tariff.

Usage rates per 100 cubic feet. 100 cubic feet equal 748 gallons

**Rate Comparison – East Pierce**

<b>Monthly Rate</b>	<b>Current Rate</b>	<b>Proposed Rate Jul .14, 2023</b>	<b>Proposed Rate Jul. 14, 2024</b>	<b>Revised Rate Jul. 28, 2023</b>
Non-Metered	\$32.57	\$38.15	\$43.73	\$41.91
Ready to Serve	\$16.40	\$18.86	\$19.68	\$19.68
Base Rate (3/4-inch meter)	\$16.40	\$18.86	\$19.68	\$19.68
1 <sup>st</sup> Block. (usage 0-600 cubic ft.)	\$1.40	\$1.62	\$2.04	\$1.66
2 <sup>nd</sup> Block (601-2,800 cubic ft.)	\$1.61	\$2.43	\$3.06	NA
2 <sup>nd</sup> Block (601-2,200 cubic ft.)	\$1.61	\$2.43	\$3.06	\$2.49
3 <sup>rd</sup> Block (usage over 2,800 cubic ft.)	\$2.49	\$3.24	\$4.08	NA
3 <sup>rd</sup> Block (usage over 2,200 cubic ft.)	\$2.49	\$3.24	\$4.08	\$3.32
4 <sup>th</sup> Block Conservation Rate (Over 3,000 cubic ft.)	\$5.00	\$3.24	\$4.08	\$0

Other Rates available in the filed tariff.

Usage rates per 100 cubic feet. 100 cubic feet equal 748 gallons

\*Rate effective May 1 to September 30, residential customer 1 inch or smaller.

**Average Bill Comparison – Legacy**

<b>Average Monthly Usage (860 Cu. Ft.)</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Revised Rate</b>
Base Rate (3/4-inch meter)	\$23.60	\$24.72	\$24.72
0 - 600 Cu. Ft.	\$23.10	\$21.54	\$21.18
600 – 860 Cu. Ft. (260)	\$12.87	\$14.01	\$13.78
Average Monthly Bill	\$59.57	\$60.27	\$59.68
Increase From Current Rates		\$0.70(1.2%)	\$0.11(0.2%)

**Average Bill Comparison – East Pierce**

<b>Average Monthly Usage (1,070 Cu. Ft.)</b>	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Revised Rate</b>
Base Rate (3/4-inch meter)	\$16.40	\$19.68	\$19.68
0 - 600 Cu. Ft.	\$8.40	\$12.24	\$9.96
600 - 1,070 Cu. Ft. (470)	\$7.57	\$14.38	\$11.70
Average Monthly Bill	\$32.37	\$46.30	\$41.34
Increase From Current Rates		\$13.93 (43.1%)	\$8.97 (27.7%)

**Conclusion**

Staff have completed its review of the Company's documentation. Staff's review shows that the revised tariff pages filed are reasonable and required as part of the Company's operations.

**Recommendation**

Issue an order granting deferral of specified costs associated with Washington Water Service Company's conservation program, and allow the tariff pages filed in Docket UW-230236 on April 10, 2023, and as revised on July 21, 2023, to go into effect on July 28, 2023, by operation of law.