

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

WASHINGTON UTILITIES AND
TRANSPORTATION
COMMISSION,

Complainant, v.

WASHINGTON WATER SERVICE
COMPANY,

Respondent.

DOCKET UW-230236

ORDER 01

ALLOWING RATES TO GO INTO
EFFECT JULY 28, 2023; GRANTING
PETITION FOR DEFERRED
ACCOUNTING

BACKGROUND

- 1 On April 10, 2023, Washington Water Service Company (Washington Water or Company) filed a general rate case with the Washington Utilities and Transportation Commission (Commission) that, as stated in its cover letter, would generate approximately \$573,000 (4.2 percent) additional annual revenue for Washington Water’s legacy operations, and approximately \$3,043,780 additional in annual revenue over two years for the Company’s East Pierce County operations.
- 2 In 2020, Washington Water purchased the East Pierce County system. The East Pierce County system serves approximately 18,600 customers on 28 water systems in Pierce and Kitsap counties. Washington Water’s legacy systems serve approximately 18,000 customers on 197 water systems in Pierce, Kitsap, Mason, Thurston, King, San Juan, Clallam, and Jefferson counties. The Company’s last general rate case became effective February 15, 2022.
- 3 As of June 5, 2023, the Company began notifying its customers by mail of the proposed rate increase. Staff received nine comments regarding the proposed rate increase, all opposed.
- 4 On July 6, 2023, the Company filed a letter to this Docket extending the proposed effective date for its tariffs to July 28, 2023.
- 5 On July 18, 2023, the Company filed a Petition for an Accounting Order Authorizing Deferred Accounting Treatment for Implementation of a Conservation Program (Petition). The Company notes that it seeks to defer costs related to its proposed conservation program from August 1, 2023, forwards. The Company intends to propose

the amortization of these deferred costs in a future filing.

6 Commission staff (Staff) reviewed the Company’s filing. The Public Counsel Unit of the Attorney General’s Office (Public Counsel) also conducted a review of the Company’s filing (Staff, Public Counsel, and the Company are collectively referred to as “the Parties”). As an initial matter, Staff observes that since Washington Water’s purchase of the East Pierce systems in 2020, the Company has been moving rates toward a single tariff pricing schedule. To advance this goal, Washington Water seeks to phase in the new rates for its legacy and East Pierce operations over a two-year period. The first phase rates were to become effective July 28, 2023, and the second phase rates were to become effective July 28, 2024. After adjustments to expenses and review of the revenue requirement, the Parties have come to an agreement and propose one rate change to become effective July 28, 2023.

7 Regarding the matter of the proposed rates increase, Staff reviewed the significant capital investment costs incurred since the previous rate case. To be more specific, Staff notes that since Washington Water purchased the East Pierce systems in 2020, it has made capital improvements to that system. These capital improvements include, but are not limited to, a new treatment plant to remove iron and manganese, Supervisory Control and Data Acquisition (SCADA) system remote monitoring software improvements, and customer care software conversion to enhance customer service support. The manganese treatment system, which received a large portion of the cost of capital improvement, was particularly important as manganese levels have been a cause for concern for East Pierce customers. Consequently, Staff believes that these investments are prudent and appropriate.

8 In addition, Staff reviewed several cost items contributing to the rate increase. These items include executive compensation, overhead allocation, increased water testing costs, payroll costs, and deferred income taxes. Based on their review of the items, Staff does not propose any adjustments to these costs and concludes that they are prudent and reasonable.

9 Staff also reviewed 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. According to Staff, purchased water reduces the strain on existing pumps, thus lowering annual maintenance costs, and extending the life of the assets. Thus, Staff concludes that the contract is prudent and benefits the customers.

10 Staff takes note that Washington Water has proposed to initiate 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. Staff observes that Washington Water’s parent company, Cal Water, has already instituted a conservation program, and the Company intends to model its program after that one. 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. However, they also agree that because the costs of providing plumbing fixtures and water efficient appliances is not known and measurable, these costs should not be included in rates until the Company has captured some historical cost experience. Therefore, the Company has included a petition to defer those costs pending a future review.

11 Other items Staff 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.

12 Following their review of the filing, the Parties have agreed to a revised revenue requirement increase of approximately \$2.15 million (58 percent). The lower revised revenue requirement allows for the new rate structure to be implemented in a single phase over a 12-month period, rather than across a two-year period, as mentioned in paragraph 5 above. The Parties assert that additional annual revenue will be apportioned to the two customer groups based on the ratio of revenue provided by each. Further, East Pierce County system customers will see an approximate .02 percent monthly bill increase on average, and Legacy customers will see an approximate 27.7% monthly bill increase on average. The rates and bill impacts are shown in the table below.

Rate Comparison – Legacy

Monthly Rate	Current Rate	Proposed Rate Jul. 14, 2023	Proposed Rate Jul.14, 2024	Revised Rate Jul. 28, 2023
Non-Metered	\$60.52	\$63.04	NA	\$64.35
Ready to Serve	\$23.60	\$24.72	NA	\$24.72
Base Rate (3/4-inch meter)	\$23.60	\$24.72	NA	\$24.72
1 st Block (usage 0-600 cubic ft.)	\$3.85	\$3.59	NA	\$3.53
2 nd Block (601-1,600 cubic ft.)	\$4.95	\$5.39	NA	NA

2nd Block (601-2,200 cubic ft.)	\$4.95	\$5.39	NA	\$5.30
3 rd Block (usage over 1,600 cubic ft.)	\$6.10	\$7.18	NA	NA
3rd 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

Monthly Rate	Current Rate	Proposed Rate Jul .14, 2023	Proposed Rate Jul. 14, 2024	Revised Rate Jul. 28, 2023
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 st Block. (usage 0-600 cubic ft.)	\$1.40	\$1.62	\$2.04	\$1.66
2 nd Block (601-2,800 cubic ft.)	\$1.61	\$2.43	\$3.06	NA
2 nd Block (601-2,200 cubic ft.)	\$1.61	\$2.43	\$3.06	\$2.49
3 rd Block (usage over 2,800 cubic ft.)	\$2.49	\$3.24	\$4.08	NA
3 rd Block (usage over 2,200 cubic ft.)	\$2.49	\$3.24	\$4.08	\$3.32
4 th 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

Average Monthly Usage (860 Cu. Ft.)	Current Rate	Proposed Rate	Revised Rate
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

Average Monthly Usage (1,070 Cu. Ft.)	Current Rate	Proposed Rate	Revised Rate
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%)

- 13 Staff observes that the Company has also included revised tariff language to incorporate the effects of ESHB 1329 (Utility Shutoffs – Extreme Heat), which prohibits water companies from disconnecting customers for non-payment during heat events as determined by the National Weather Service. This change is in response to a notice sent to water companies by the Commission on June 30, 2023.

DISCUSSION

- 14 The Commission agrees with Staff’s recommendation and finds that Washington Water’s revised revenue requirement results in rates that are fair, just, reasonable, and sufficient. The Commission thus allows the Company’s revised tariff sheets filed on April 10, 2023, and revised on July 27, 2023, to take effect on July 28, 2023, by operation of law.
- 15 We also agree with Staff’s recommendation that Washington Water’s Petition be approved and that the Company should be granted deferred accounting of certain costs associated with its conservation program, as they are not yet known and measurable, until the Company has collected historical cost data for the Commission’s review in a subsequent rate case proceeding.

FINDINGS AND CONCLUSIONS

- 16 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, and affiliated interests of public service companies, including water companies.
- 17 (2) Washington Water is a water company and a public service company subject to Commission jurisdiction.
- 18 (3) This matter came before the Commission at its regularly scheduled meeting on July 27, 2023.
- 19 (4) Washington Water has demonstrated that the revised revenue requirement results in rates that are fair, just, reasonable, and sufficient.
- 20 (5) The costs of Washington Water's conservation program are not yet known and measurable and shall receive deferred accounting treatment until the Company has collected historical data for the Commission's consideration in future rate case proceedings.
- 21 (6) The revised revenue requirement and resulting rates should be allowed to go into effect by operation of law on July 28, 2023.

ORDER

THE COMMISSION ORDERS:

- 22 (1) The tariff revisions filed by Washington Water Service Company in this Docket on April 10, 2023, as amended on July 6, 2023, and again on July 21, 2023, shall become effective by operation of law on July 28, 2023.
- 23 (2) Washington Water Service Company's Petition for an Accounting Order Authorizing Deferred Accounting Treatment for Implementation of a Conservation Program is granted.

- 24 (3) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it.

DATED at Lacey, Washington, and effective August 18, 2023.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

MILT DOUMIT, Commissioner