

Agenda Date: May 31, 2017
Item Number: A2

Docket: UW-170216
Company Name: H&R Waterworks, Inc.

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

Recommendation

Issue an Order allowing the tariff sheets filed by H&R Waterworks, Inc., in Docket UW-170216 to become effective June 1, 2017, by operation of law, subject to conditions (a) through (h) set forth in staff's memorandum.

Background

On March 31, 2017, H&R Waterworks, Inc. (H&R Waterworks or company) filed with the Utilities and Transportation Commission (commission) a tariff revision (Schedule No. 3 C) adding a conservation rate to its tariff. As originally filed, the conservation rate would apply to a water system where water usage threatens to exceed the company's water rights for that system. The conservation rate would be implemented for the period of May 1 through October 31 of each year. The company serves 4,115 customers on various systems in Thurston, Mason, Kitsap, Pierce, Lewis, and King Counties.

This matter was heard on May 11, 2017, and after discussions it was held over for the May 31, 2017, open meeting. Please refer to staff's memo from May 11, 2017, for additional background.

On May 25, 2017, the company filed revised rates at the customer proposed levels. The revised Schedule 3 C conservation rates will be effective for the entire year.

Staff has reviewed several proposed conservation rates and a proposed fourth block. Water conservation rates are not new, and have been used successfully by other water companies to reduce overall water usage during high-use seasons.

June 1 Proposed Rate

The third block usage rates would change from \$2.81 to \$5.00 per 100 cubic feet over 2,000 cubic feet of water usage. This rate would apply during summer months of May through October and could generate in excess of \$39,000 additional revenue.

Staff Revised (Customer Proposed) Rate

The third block usage rates would change from \$2.81 to \$4.00 per 100 cubic feet from 2,000 to 3,000 cubic feet. An additional fourth block is created at \$6.00 per 100 cubic feet of water usage over 3,000 cubic feet. These usage rates would apply year round and could generate in excess of \$42,000 additional revenue.

Castlerock Proposed Rate

The third block usage rates would remain at \$2.81 per 100 cubic feet from 2,000 to 3,000 cubic feet. An additional fourth block is created and would change from \$2.81 to \$5.00 per 100 cubic feet over 3,000 cubic feet. These usage rates would apply year round and could generate in excess of \$22,000 additional revenue.

June 1 Revised Rate

The third block usage rates would change from \$2.81 to \$4.00 per 100 cubic feet over 2,000 cubic feet of usage up to 2,500 cubic feet. An additional fourth block is created at \$6.00 per 100 cubic feet of water usage over 2,500 cubic feet. These usage rates would apply year round and could generate in excess of \$49,000 additional revenue.

Funds generated¹ from Schedule No. 3 C shall only be used for the following conservation-oriented items in the sequence listed below;

- (1) Hiring of non-company consultant(s) including groundwater, legal and engineering to provide conservation program review, to provide advice and expert analysis, to include billing software updates, customer education and advice and provide a report on final recommendations to the commission within 60 days of hiring,
- (2) Billing software upgrades to develop individual customer water use budgets with 'rollover' provisions, additional rate blocks,
- (3) Water system equipment, modifications, staffing, notices and customer surveys,
- (4) Where feasible, efforts to obtain additional water rights to benefit affected water systems.

The proposed Conservation Rate tariff is reasonable and should be approved, subject to the following conditions:

- (a) This conservation rate, Schedule No. 3 C, shall apply to all customers on water systems served by the company that have exceeded or are within 5 percent of exceeding the applicable water rights for that water system.
- (b) Funds received from the conservation rate, Schedule No. 3 C, including interest earned on the funds while held in a separate reserve account, will be treated as contributions in aid of construction. Funds collected may only be used for items listed above in the sequenced order.

¹ Funds generated is defined as the amount of funds generated by the difference between regular rates \$2.81 and the conservation rate of \$5.00 per 100 cubic feet of water used in the third usage block of greater than 2,000 cubic feet.

- (c) Conservation rate funds collected and interest earned upon such funds must be held in a separate reserve account by the company for the benefit of customers. Such funds do not become the property of the company or company owners and may not be disbursed, alienated, attached, or otherwise encumbered by the company or its owners. In the event of a sale or transfer of the company, the trust obligations established in WAC 480-110 regarding any unspent conservation rate funds will be transferred to the new owner of the company.
- (d) The company must report the following information to the commission within 60 days of the end of each calendar quarter:
 - i. Beginning balance;
 - ii. Amounts received, detailed by water system source;
 - iii. Amounts spent, detailed by project or expense;
 - iv. Ending balance;
 - v. Reconciliation of bank balance to general ledger.
- (e) The company will immediately deposit all monthly funds received and related to the conservation rate in the same separate reserve account specified in condition (c) above.
- (f) Prior to issuing contracts or expending funds for conservation-related items identified above, the company will file with the commission copies of proposals or contracts identifying who will perform the work, the scope of work, and all estimated costs.
- (g) The conservation rates will expire with the billing which include all consumption through October 31, 2019. At that time the company may file a request to reinstate the conservation rate. The company may propose and file any other conservation plan at any time.
- (h) Excess funds held in the separate account will be distributed equally, by bill credit, at the end of three (3) years (October 31, 2019) to the customers on the systems from which the funds were collected.

Customer Comments

On March 31, 2017, the company notified its customers by mail of the proposed conservation rate increase. Customers were notified that they may access relevant documents about this rate increase 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. Staff received 20 consumer comments prior to May 11, 2017, all opposed to the proposed rate increase.

Below is a summary of customer comments heard at the May 11, 2017, open meeting.

Seven customers commented, and an attorney representing Castlerock Estates (Talcott Ridge). Comments was that there are better alternative conservation methods than water budgets or conservation rates. Alternative conservation efforts could include; low flow toilets and shower heads, garden hose shutoff nozzles, odd/even irrigation watering and hours of outdoor water usage.

Attitudes about the proposed conservation rates vary between the three systems, as their situations are a little different. They also agree on some issues. Any cost for change or conservation should be a business cost and the responsibility of the company. Customer usage should not be limited due to growth in customers on a water system.

Castlerock Estates

A couple of customers agree a conservation rate could be effective, however they believe the rate structure should involve a 4th usage block. They believe the company should be in closer contact with its customers, with one customer recommending quarterly face-to-face meetings. One customer mentioned the letter H&R sent last year congratulating customers for conserving water. One Castlerock customer said the Department of Ecology has not issued any fines for exceeding water rights and asked why these conservation methods were even being discussed when no fines are imminent.

Conifer Village/Riverwood/Countrywood Estates

The main theme from these systems is their water rights were sufficient as stand-alone systems, however they were intertwined with systems who needed more water and now they are being penalized as over-users. They do not believe they should be subjected to water budgets or conservation rates.

Reserve at Cooper Point

The HOA president stated this whole situation was “artificially created by the Department of Ecology.” He is against the proposed conservation rate. He went on to say he supports a four-tier rate structure with usage over 2,000 cubic feet at \$4.00 per 100 cubic feet; and usage at a higher level to be billed at \$6.00 per 100 cubic feet. One customer requested emergency back-up power to maintain water pressure during power outages.

Customers on all systems stated they should be allowed “rollover” usage. They feel it is unfair to track an annual amount of water and penalize a customer for over usage for one month if they are on track to fall under the annual amount that would result in violation of water rights. Customers on all systems said they feel the company’s tone in meetings and in written correspondence is threatening, and meetings have been very combative and uninformative.

Several customers questioned the company in its use of excess earnings that may result from the conservation rate.

Conservation Rates

June 1 Proposed Rates

| Monthly Rate | Current Rate* | Proposed Rate* | Difference |
|---------------------------------|----------------------|-----------------------|-------------------|
| Base Charge 3/4 inch meter | \$ 20.33 | \$ 20.33 | --- |
| Block 1: 0 – 700 cubic feet | \$ 1.36 | \$ 1.36 | --- |
| Block 2: 701 – 2,000 cubic feet | \$ 2.31 | \$ 2.31 | --- |
| Block 3: over 2,000 cubic feet | \$ 2.81 | \$ 5.00 | Plus \$ 2.19 |

*per 100 cubic feet

The third block usage rates would change from \$2.81 to \$5.00 per 100 cubic feet over 2,000 cubic feet of water usage. This is about an 80 percent increase in the third block usage rate. If customers continued to use water at the same usage amounts as from 2016, the company could generate in excess of \$39,000 additional revenue for the summer months of May through October. The conservation rate would apply for the period of May 1 through October 31 of each year, which are the June through November billing periods.

Staff Revised (Customer Proposed) Rates

| Monthly Rate | Current Rate* | Proposed Rate* | Difference |
|----------------------------------|----------------------|-----------------------|-------------------|
| Base Charge 3/4 inch meter | \$ 20.33 | \$ 20.33 | --- |
| Block 1: 0 – 700 cubic feet | \$ 1.36 | \$ 1.36 | --- |
| Block 2: 701 – 2,000 cubic feet | \$ 2.31 | \$ 2.31 | --- |
| Block 3: 2,000- 3,000 cubic feet | \$ 2.81 | \$ 4.00 | Plus \$ 1.19 |
| Block 4: over 3,000 cubic feet | \$ 2.81 | \$ 6.00 | Plus \$ 3.19 |

*per 100 cubic feet

The third block usage rates would change from \$2.81 to \$4.00 per 100 cubic feet from 2,000 to 3,000 cubic feet. This is a 42 percent increase in the third block usage rate. An additional fourth block would change from \$2.81 to \$6.00 per 100 cubic feet over 3,000 cubic feet. This is a 113 percent increase in the fourth block usage rate.

If customers continued to use water at the same usage amounts as from 2016, the company could generate in excess of \$42,000 additional revenue. The customer conservation rate **would apply year round for all usage in excess of 2,000 cubic feet.**

Castlerock Proposed Rates

| Monthly Rate | Current Rate* | Proposed Rate* | Difference |
|----------------------------------|----------------------|-----------------------|-------------------|
| Base Charge 3/4 inch meter | \$ 20.33 | \$ 20.33 | --- |
| Block 1: 0 – 700 cubic feet | \$ 1.36 | \$ 1.36 | --- |
| Block 2: 701 – 2,000 cubic feet | \$ 2.31 | \$ 2.31 | --- |
| Block 3: 2,000- 3,000 cubic feet | \$ 2.81 | \$ 2.81 | --- |
| Block 4: over 3,000 cubic feet | \$ 2.81 | \$ 5.00 | Plus \$ 2.19 |

*per 100 cubic feet

The third block usage rates would remain at \$2.81 per 100 cubic feet from 2,000 to 3,000 cubic feet. The fourth block would change from \$2.81 per 100 cubic feet over 3,000 cubic feet of usage to \$5.00 per 100 cubic feet of water usage over 3,000 cubic feet. This is an 80 percent increase in the fourth block usage rate.

If customers continued to use water at the same usage amounts as from 2016, the company could generate in excess of \$22,000 additional revenue. The customer conservation rate **would apply year round for all usage in excess** of 3,000 cubic feet.

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| Block 4: over 2,500 cubic feet | \$ 2.81 | \$ 6.00 | Plus \$ 3.19 |

*per 100 cubic feet

The third block usage rates would change from \$2.81 per 100 cubic feet from 2,000 to 2,500 cubic feet of usage to \$4.00 per 100 cubic feet. This is a 42 percent increase in the third block usage rate. The fourth block would change from \$2.81 per 100 cubic feet over 2,500 cubic feet of usage to \$6.00 per 100 cubic feet of water usage over 3,000 cubic feet. This is a 113 percent increase in the fourth block usage rate.

If customers continued to use water at the same usage amounts as from 2016, the company could generate in excess of \$49,000 additional revenue. The June 1 revised conservation rate **would apply year round for all usage in excess** of 2,500 cubic feet.

Staff has attached a table (Attachment 1) with 2016 water usage summaries.

The upper table (1) shows 2016 water usage by water system for each month. The usage amounts are per customer average for the month indicated based on current customers.

The annual monthly average shows most usage that would be affected by the conservation rates occurs during summer months (May – October).

The middle table (2) shows the annual monthly average usage based on water rights at water system build out capacity. Both country and Reserve have additional customer growth. Talcott water system and development are fully build out. The center columns compare 2016 annual monthly average to projected build out monthly averages.

The lower table (3) shows the number of monthly customer usages that occur at various levels of water usage for each of the affected water systems. The blue shaded row and below represent the monthly customers that would be affected by the company proposed conservation rate. The area between the blue shaded row and the brown shaded row represents the monthly customers that would be affected by the customer proposed third block conservation rate between 2,000 and 3,000 cubic feet. The area below the brown row represents the monthly customers that would be affected by the customer proposed fourth block conservation rate.

Staff has completed its review of the company's filing, supporting financial documents, books, and records. Staff's review shows that conservation rates will produce additional revenue and provide a method for encouraging water conservation to prevent systems from exceeding their water rights.

Recommendation

Staff recommends and the company agrees and has filed conservation rates that are based on the customer rates presented at the May 11, 2017, open meeting. These rates are shown in table two, page 5 above labeled Staff revised (Customer Proposed) Rates.

Issue an Order allowing the tariff sheets filed by H&R Waterworks, Inc. in Docket UW-170216 to become effective June 1, 2017, by operation of law, subject to conditions (a) through (h) set forth in staff's memorandum.