

Agenda Date: February 22, 2024
Item Number: A4

Docket: UW-240079
Company Name: Washington Water Supply, Inc.

Staff: Mike Young Regulatory Services

Recommendation

Issue a complaint and Order suspending Tariff Revisions filed by Washington Water Supply, Inc. on January 22, 2024, and combine this docket with UW-230598.

Background

On July 12, 2023, Washington Water Supply, Inc., (Company) filed with the Washington Utilities and Transportation Commission (Commission) a tariff revision in Docket UW-230598 to include a surcharge of \$60 per month for the recovery of purchased water expenses due to well issues and high summer usage on the Echo Glenn water system located in Maple Valley. The total number of customers on the Echo Glenn water system is 42 connections.

On August 10, 2023, the Commission issued Order 01 in Docket UW-230598 that allowed the surcharge in the amount of \$60.00 per month to become effective August 15, 2023, subject to the following conditions:

- (1) the surcharge will expire on November 15, 2023,
- (2) the Company file a general rate case with an effective date no later than February 15, 2024, and (3) per WAC 480-110-455(4), the Company report to the Commission within 60 days of the end of each calendar quarter that the surcharge is in effect:
 - i. Quarter beginning balance.
 - ii. Amounts received, detailed by source (i.e., customer billing, customer one-time payments, or interest earned on amounts held in accounts).
 - iii. Amounts spent, detailed by project or type of expense.
 - iv. Quarter ending balance; and,
 - v. Reconcile the bank balance to the general ledger.

On December 8, 2023, the Company filed tariff pages to re-institute the \$60.00 per month surcharge for a period of six months or until it collects \$13,710.00 whichever occurs first. This filing was suspended by the Commission in Order 01, Docket UW-230997, issued on January 11, 2024.

On January 22, 2024, the Company filed tariff pages in this docket requesting a surcharge in the amount of \$24,000, to recover the costs incurred by the Company to rehabilitate the Echo Glen well.

Discussion

The Echo Glen water system (Echo Glen) well supply has been gradually decreasing over the last few years and the well was in need of repair or replacement. The Company was aware of the decline. According to the Echo Glen customers, a meeting was held in June 2022 with the Company where they agreed at that time on a new well and to interim rates to rehabilitate the existing well.

In April 2023, the Company hired Valley Pump Inc. to rehabilitate the well. Due to an accident where the well driller employee was injured, the well drilling company was not able to complete the work until September 2023. In May of this year the Company again had well capacity issues and started to purchase water which was trucked in and put into the water system to maintain pressure and provide adequate water to customers.

The Company has meters installed on about half of the 42 customers of the Echo Glen Water System but does not read or bill for water usage. The Company's current tariff has a usage rate but does not use it. In answer to Commission staff's (Staff) data request, the Company noted it would cost about \$700 per customer to install a meter connection and would take about four hours per installation.

The Company states it has completed the well rehabilitation and the well is functioning at the required capacity. The Company ceased trucking in water at the end of September, and the system is no longer on a boiled water notice. Staff confirmed with Department of Health (DOH) officials that the Company has provided the necessary documentation to vacate the boiled water notice. DOH officials conveyed to Staff that the well is functioning properly, but the engineering report from the drilling company has not been submitted to DOH due to some disagreement between the water system owner and the drilling company.

In reviewing the filing Staff looked at the costs to be recovered, the proper mechanism to recover any allowable costs, and other requirements of the Company imposed by the Commission. Although further investigation is warranted, Staff believes that the costs the Company is seeking to recover are better recovered through general rates, and that since the Company is already obligated to file a general rate case with the Commission, this filing should be combined with the docket requiring the general rate filing where rates can include proper recovery of capital costs and any other costs the Company may be entitled to recover since its last rate filing in 2001.

In this filing the Company provided evidence it has paid \$24,000 to Valley Pump but has not provided any contracts for service or invoices from the contractor. Staff will request additional supporting documentation to determine the amount of the costs to be recovered in rates.

Surcharges, as described in WAC 480-110-455, are designed to fund three types of financing needs:

1. Future water utility plant.
2. Current water utility plant as required by the Department of Health or the Department of Ecology.
3. Special expenses, which are operating expenses independent and unique from normal operating expenses.

Staff does not believe these costs fit properly into any of these categories. Although it could be argued that the Department of Health required these repairs, the situation with the Echo Glen well was known since at least 2022, when the owner assured customers that it would be taken care of. Nothing was done until the well failed to produce in 2023. If the Company was going to seek a surcharge, it should have initiated the filing in 2022, when problems first became apparent. There was no requirement by DOH, known to Staff, to initiate repairs to the well or drill a new well, prior to the surfacing of issues in 2022.

The costs at issue are capital costs (costs that extend the life of a capital asset) and therefore not special operating expenses. The Company was granted a surcharge to recover costs of trucked in water, which qualified as a special operating expense.

Finally, the Commission regulates investor-owned utilities, which supposes the owner will make the necessary capital investments to maintain safe and sufficient drinking water without being forced to do so by a state agency or commission. Owner investment is normally recovered in general rates, which repays the owner through depreciation of the capital asset, and return earned on rate-base. Commission practice when previously granting surcharges for capital cost recovery has been to limit the amount collected through the surcharge to no more than 70 percent of the total costs. This is because surcharges tend to be for shorter periods of time, often to repay loans, which imposes a larger rate burden on customers than if the cost was recovered in general rates over the useful life of the asset. Requiring the owner to “invest” 30 percent of the costs creates rate-base and gives the owner equity share in the company.

Staff’s review further determined that the Company has not yet complied with the requirements in paragraph 7 of Order 01 in Docket UW-230598. One of those requirements was to file a general rate case by February 15, 2024, since the company has not adjusted rates since 2001. Staff believes combining this filing with the docket requiring the general rate filing will allow these costs to be recovered in rates over all customers as part of the single tariff pricing concept. These costs would be spread over 140 customers rather than the 42 on the Echo Glen system. Staff believes there may be other capital costs incurred on other systems that have not been put into rates that could be recovered as well.

Customer Comments

The Company submitted a draft customer notice to be sent on February 1, 2024. However, the notice has not yet been sent. No additional customer comments have been received by the Commission.

Conclusion

Staff has completed its review of the Company’s submitted filing and does not believe the Company has demonstrated a surcharge is warranted in this instance, and that allowing the surcharge would result in rates that are not fair, just, reasonable, or sufficient.

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