DATE: 1/6/16

NAME: Department of Health, Office of Drinking Water

TITLE: UTC Proposed Rulemaking Response 1/4/15

1.      General comment about Docket UW-143295:

The Department of Health supports finding ways to improve the financial viability of investor owned water utilities (IOU). We have observed that investor owned water utilities (IOU) in Washington include 3 typical characteristic owners:

* Tier 1, owners with managerial and financial capacity to navigate the commission’s regulations.
* Tier 2, owners that struggle to make continuous investment.
* Tier 3, owners at risk of spiraling towards negative investment status.

This also includes owners who may have existed for some time but have recently come under UTC jurisdiction due to reaching the connection or rate threshold and those who are not yet subject to UTC jurisdiction.  Often it is just a matter of time for a system to change from Tier 2 to Tier 3.

This pilot project should attempt to enhance capable systems and encourage non-capable systems toward restructured ownership.  The amount of time and effort involved in filing a general rate case is useful in identifying the true characteristics of the utility owner and should not be bypassed to make it easier for poorly capable owners.

2.      Comment about Section 1. - Marginal Investment Approach (Restructured Investment):

Concern: Utility owners with negative investment typically have already taken the value of the assets out of the company and should not be rewarded with opportunities to continue to do so.  The ability to earn a return on new investment should be based upon a UTC / DOH approved ownership or management **restructuring** that clearly addresses past bad practices.  Once a company is successfully transferred or restructured, the concept of the marginal investment approach is an important tool for financial and managerial recovery.

Fairness to rate payers:  Rate paying customers may not like the idea of forgiving bad past practices and may be especially unwilling to allow a utility owner with poor customer relations to earn a profit on new investment.  However, this emotional and financial cost may be the price of restructuring.  It may be the best regulating agencies can do given the current regulatory landscape.  It is useful to keep in mind that customers have the option of forming / working with a public entity to acquire the utility infrastructure from the failed investor owner.

3.      Comment about: Section 2. - Operating Ratio Rate Setting, and

 Section 3. - Inflation Adjustment Filing:

Concern: These options may be appropriate only if a utility has previously been successful filling a general rate case.  These options may make sense under the unique circumstances of a utility’s history.

Fairness to rate payers: See above.