

Agenda Date: November 13, 2008
Item Number: A1

Docket: UW-080631
Company Name: H&R Waterworks, Inc.

Staff: Chris Mickelson, Regulatory Analyst
Dennis Shutler, Consumer Protection Staff

Recommendation

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by H&R Waterworks, Inc.;
2. Allow the temporary rates to become effective December 1, 2008, on a permanent basis; and
3. Require the company to notify all multi-family building flat rate customers of the difference between the two flat rate classes, along with instructions on how to request installation of a meter.

Discussion

On April 14, 2008, H&R Waterworks, Inc., (H&R or company), filed revisions to its tariff with the Utilities and Transportation Commission (commission) seeking \$225,839 (14.2 percent) in additional annual revenue. The company serves 3,602 customers in Thurston, Mason, Lewis and Pierce Counties. The company's proposed increase in rates was prompted by higher costs for labor, benefits, fuel, insurance and new plant (pumps and pipes). The company's last general rate increase became effective on October 1, 2005.

Staff's review of the company's operations and financial records indicated that the company's proposed rates were excessive. Staff and the company reviewed the company's original filing and agreed to a revised revenue requirement and a revised rate design. On May 21, 2008, the company filed revised rates at the staff recommended level that would generate \$106,803 (6.7 percent) additional revenue per year.

On May 28, 2008, the commission entered a Complaint and Order Suspending Tariff Revisions to allow customers the opportunity to comment on the revised rates before determining whether the revisions were fair, just, reasonable, and sufficient. The commission allowed the revised rates to go into effect June 1, 2008, on a temporary basis, subject to refund.

On November 5, 2008, the company filed revised tariff language to clarify the difference between the two flat rate classes.

Customer Comments

On March 31, 2008, the company notified its customers of the rate increase by mail. The commission received 24 customer comments which staff summarized and responded to in its

May 28, 2008, memorandum. On May 28, 2008, Consumer Protection staff sent all customers who previously commented on the company's filing a letter advising them of the staff's recommended revised rates. The commission received 12 additional comments that raised the following new issues:

- **Customer Comment** – How are the two flat rates calculated? In addition, what is the distinction between the two flat rate classes in order to charge different rates as between the two classes?

Staff's response –The company's original tariff proposed one flat rate for apartments and a different flat rate for all other unmetered connections. The tariff language did not clearly define the application of the two flat rates. Staff and the company worked together to clarify the tariff and on November 5, 2008, the company filed revised tariff language. Any customer who believes that charging them a flat rate is inappropriate can request the company to install a meter. The company has agreed to notify all multi-family building flat rate customers, through a bill insert, of the difference between the two flat rate classes, along with instructions on how to request installation of a meter.

The company serves 774 flat rate customers. The Department of Health's rules require the company to meter all services by January 22, 2017. The company has prepared a work plan that will meter all customers by the end of 2011. In calendar year 2008, the company has metered 79 customers with an additional 30 expected by year's end.

The two flat rates are calculated based on the company's revenue requirement allocated to all customers as well as historical water usage data. Staff uses the customer usage data to determine the winter, summer and annual averages. Staff also uses those averages to design usage rates for all customers. The first flat rate of \$27.90 is based on the historical winter average usage for all customers, which staff believes is a reasonable estimate of only indoor water usage. The second flat rate of \$36.85 is based on the historical annual average rate for all customers, which staff believes is a reasonable representation of both indoor and outdoor water usage.

After exploring alternate ways to charge flat rates, staff concludes that the method used by the company to distinguish between apartment units and all other (condominiums, multi-family units, and single family units) flat rate customers is reasonable. Other jurisdictions set flat rates using size of the service pipe (unavailable for these services), square feet of indoor living area and / or lot size, number of people occupying a residential unit, seasonal flat rates and number of water delivery devices (e.g. toilets, sinks, hose bibs, etc.).

- **Customer Comment** – The company should have sent a formal notice indicating there was a planned increase and why the increase was necessary.

Staff's response – The company sent a notice by mail to all customers on March 31, 2008, which included the last rate filing, increase justification, proposed monthly rates, open meeting dates, and instructions on how to file comments. That notice complied with the commission's customer notice requirements.

- **Customer Comment** – The company’s revised rate increase is excessive because:
 - The amount requested is unreasonable and outrageous;
 - Customers are struggling to keep up with other cost-of-living increases. Many customers are seniors on a fixed income; and
 - The company should find ways to contain costs without having to raise rates;

Staff’s response – Although staff understands the customers’ concerns regarding the amount of the increase, we do not explicitly consider the amount of the increase in preparing recommendations. Staff’s goal is to recommend the “right” rates that will allow the company to recover reasonable operating expenses and provide an opportunity to earn a reasonable return on investment.

Rate Comparison

Monthly Rate	Current Rate	Proposed Rate	Revised Rate
Flat Rate - All Residence Dwelling Units except for Apartment Units * Formally known as “Unmetered” flat rate.	\$36.85	\$42.25	\$36.85
Flat Rate - Apartment Units	\$18.50	\$21.00	\$27.90
Ready-To-Serve	\$8.50	\$8.50	\$17.00
Base Rate (¾-inch meter)	\$23.55	\$27.80	\$20.33
0 – 650 cubic feet	\$1.25	\$1.20	\$1.36
651 – 700 cubic feet	\$1.25	\$1.80	\$1.36
701 – 1,000 cubic feet	\$1.25	\$1.80	\$2.31
1,001 – 2,000 cubic feet	\$1.65	\$1.80	\$2.31
Over 2,000 cubic feet	\$1.65	\$1.80	\$2.81

Ancillary Charges (monthly)	Current Rate	Proposed Rate
Backflow Assembly Test Applies only to customers with a backflow assembly	N/A	\$2.25

Average Bill Comparison

Average Monthly Usage 1,040 cubic feet	Current Rate	Proposed Rate	Revised Rate
Base Rate (¾-inch meter)	\$23.55	\$27.80	\$20.33
0 – 650 cubic feet	\$8.13	\$7.80	\$8.84
651 – 700 cubic feet	\$0.61	\$0.88	\$0.68
701 – 1,000 cubic feet	\$3.77	\$5.42	\$6.93
1,001 – 1,040 cubic feet	\$0.33	\$0.72	\$0.92
Average Monthly Bill	\$36.39	\$42.62	\$37.70
		17.1%	3.6%

Commission staff has completed its review of the company’s supporting financial documents,

books and records. Staff's review shows that the expenses are reasonable and required as part of the company's operations. Additional comments received from customers do not change staff's opinion that the company's financial information supports the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

Conclusion

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