

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

ILIAD WATER COMPANY, LLC,

Petitioner,

For Approval of a Surcharge for
Parkwood Treatment Assessment

DOCKET UW-181055

ORDER 01

ORDER CONDITIONALLY
APPROVING SURCHARGE;
ALLOWING TARIFF REVISIONS TO
BECOME EFFECTIVE BY
OPERATION OF LAW

BACKGROUND

- 1 On October 1, 2018, Iliad Water Company, LLC (Iliad Water or Company) filed with the Washington Utilities and Transportation Commission (Commission) tariff revisions that would generate approximately \$244,527 (34.01 percent) in additional annual revenue. The filing is prompted by increases in operating expenses. The Company filed several extensions to the effective date of the tariff revisions, most recently on March 28, 2019, to extend the effective date to May 1, 2019. The Company filed replacement tariff pages on January 29, 2019, to correct errors in several of the tariff sheets.
- 2 On March 26, 2019, the Company filed replacement tariff pages to reflect a revenue increase of \$154,065 (21.9 percent) in lieu of the \$244,527 proposed increase previously filed on October 1, 2018. The Company serves approximately 900 customers on various water systems in Clallam, Kitsap, Snohomish, Pierce, King, Island, Lincoln, and Jefferson Counties. On October 1, 2018, Iliad Water notified its customers by mail of the proposed rate increase. Commission staff (Staff) has received and reviewed 49 customer comments on the rate increase.
- 3 Staff has completed its review of the Company's supporting financial documents, books, and records and confirms that the financial information provided supports the requested revised revenue requirement and the revised rates and charges. Staff believes that the revised rates are fair, just, reasonable, and sufficient.

Parkwood System Improvement Surcharge

- 4 In its filing, among other revisions, Iliad Water proposes to recognize and place in the Company's tariff a "System Improvement Charge" for the Parkwood water system. Iliad Water filed the Parkwood treatment surcharge tariff to service a \$232,800 loan from

investors. Proceeds from the loan were used for a capital improvement project on the Company's Parkwood water system for installation of arsenic and manganese treatment (Parkwood Treatment). The Parkwood Treatment loan has a 12-year term, with interest at 8.5 percent and quarterly payments.

5 Staff has reviewed the System Improvement Charge and recommends that the Parkwood Treatment surcharge should be allowed to continue as a surcharge noted separately in the Company's tariff. This surcharge would apply to only 10 of the 30 customers on the Parkwood water system. Originally, Parkwood water system customers were given the choice of a one-time payment of \$7,760, or a monthly rate of \$86.14. Twenty of the 30 Parkwood water system customers chose to make the one-time payment of \$7,760. This assessment was implemented by the Company for improvements made in 2015 and paid by customers prior to regulation. Including the remaining balance of the assessment in regular rates would be harmful to those customers who have already paid the assessment in full, and would provide an unwarranted benefit to those customers who chose to pay in installments.

6 Staff believes that allowing the 10 installment customers to continue paying for their share of the plant by surcharge is more reasonable, since this water treatment improvement plant only benefits the Parkwood water system. Therefore, the remaining balance of the assessment was removed from the rate calculation. Instead, those 10 customers will continue to pay installments until the surcharge expires on November 1, 2028, or upon collection of \$232,800, whichever occurs first.

7 On October 1, 2018, Iliad Water notified its customers of the surcharge by mail. The Commission has received two customer comments on this portion of the filing dealing with the assessments. Both customers made lump-sum payments in 2015 and support the continuation of the Parkwood Treatment surcharge for installment payment customers.

8 Staff responded to these customer comments individually and agrees with the customers' opinions. The proposed surcharge will service part of the loan for a capital improvement project required to meet Safe Drinking Water Act requirements.

9 Staff has reviewed the Company's supporting financial documents, books, and records, including the cost for the treatment project, and the terms and conditions of the surcharge. Staff concludes that the proposed surcharge is fair, just, reasonable, and sufficient.

10 Repayment of the Company's Parkwood Treatment obligations relies on two revenue sources:

- Monthly surcharges paid by current and future customers; and

- Funds previously collected from Parkwood customers through one-time assessments of \$7,760 and monthly assessments of \$86.14, totaling \$176,132.02.

11 Staff recommends that the Commission approve the Parkwood Treatment surcharge subject to the following conditions:

- a) The surcharge only applies to the water customers who have not paid the one-time assessment on the Parkwood water system. The surcharge expires on November 1, 2028, or upon recovery of \$232,800 in principal, whichever occurs first.
- b) Monthly payments received from customers will first be allocated to the Parkwood Treatment reserve account, and the remaining amounts will be applied to normal operating expenses.
- c) The Company will, within five business days of receipt, deposit all monthly and one-time assessment payments in the Parkwood Treatment reserve account specified in condition (g) below.
- d) Parkwood Treatment surcharge funds will be deposited in a separate interest-bearing account, if available.
- e) Funds received from the surcharge, including interest earned on the funds while held in a Parkwood Treatment reserve account, will be treated as contributions-in-aid-of-construction.
- f) All funds received through the Parkwood Treatment surcharge, including any interest earned on the funds while held in Parkwood Treatment reserve account, will be used to pay the Parkwood Treatment (loan) account until the surcharge expires.
- g) Parkwood Treatment surcharge funds collected and interest earned upon such funds must be held in a separate Parkwood Treatment 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 surcharge funds will be transferred to the new owners of the Company.

- h) The Company must report the following Parkwood Treatment reserve account information to the Commission within 60 days of the end of each calendar quarter:
 - i. Beginning balance;
 - ii. Amounts received, detailed by source;
 - iii. Amounts spent, detailed by project or expense;
 - iv. Ending balance;
 - v. Copy of bank statement(s) detailing loan reserve account for the quarter;
 - vi. Reconciliation of bank balance to general ledger.
- i) The Company must maintain Parkwood Treatment records separate from normal daily operations, including: revenues, expenses, assets, liabilities, and equity in a manner that will allow the Company to provide a detailed breakdown, by account, in its next general rate case.

DISCUSSION

12 We grant Iliad Water's request for the Parkwood Treatment surcharge, subject to the conditions that Staff recommends, and allow the proposed tariff revisions to become effective by operation of law. We retain conditions (e), (g) and (h), noting, however, that these requirements apply to the Parkwood Treatment surcharge in any event under WAC 480-110-455(4). Finding that all of the remaining proposed tariff revisions also are fair, just, reasonable, and sufficient, the Commission allows those revisions, as filed on March 26, 2019, and revised on April 17, 2019, to become effective by operation of law.

FINDINGS AND CONCLUSIONS

- 13 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including water companies.
- 14 (2) Iliad Water is a water company and a public service company subject to Commission jurisdiction.
- 15 (3) This matter came before the Commission at its regularly scheduled meeting on April 25, 2019.

- 16 (4) WAC 480-110-455 allows companies to file surcharge tariffs, including that for which Iliad Water seeks approval. No company may collect a surcharge or facilities charge except by Commission order or approval.
- 17 (5) Staff has reviewed the tariff revisions Iliad Water filed in Docket UW-181055, including related work papers.
- 18 (6) The surcharge tariff in this docket was created to fund a capital project known as the Parkwood Treatment.
- 19 (7) The Company's Parkwood Treatment repayment proposal relies on two revenue sources: a monthly surcharge paid by current and future customers, and funds previously collected from Parkwood customers through one-time assessments of \$7,760 and monthly assessments of \$86.14, totaling \$176,132.02. To ensure that the Company has sufficient revenue to service the Parkwood Treatment, Staff recommends that Commission approval of the surcharge should be subject to the conditions listed below:
- a) The surcharge only applies to the water customers who have not paid the one-time assessment on the Parkwood water system. The surcharge expires on November 1, 2028, or upon recovery of \$232,800 in principal, whichever occurs first.
 - b) Monthly payments received from customers will first be allocated to the Parkwood Treatment reserve account, and the remaining amounts will be applied to normal operating expenses.
 - c) The Company will, within five business days of receipt, deposit all monthly and one-time surcharge payments in the Parkwood Treatment reserve account specified in condition (g) below.
 - d) Surcharge funds will be deposited in a separate interest bearing account, if available.
 - e) Funds received from the Parkwood Treatment surcharge, including interest earned on the funds while held in a Parkwood Treatment reserve account, will be treated as contributions-in-aid-of-construction.
 - f) All funds received through the Parkwood Treatment surcharge, including any interest earned on the funds while held in Parkwood Treatment reserve

account, will be used to pay the Parkwood Treatment obligations until the surcharge expires.

- g) Surcharge funds collected and interest earned upon such funds must be held in a separate Parkwood Treatment 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 surcharge funds will be transferred to the new owners of the Company.
- h) The Company must report the following Parkwood Treatment reserve account information to the Commission within sixty days of the end of each calendar quarter:
 - i. Beginning balance;
 - ii. Amounts received, detailed by source;
 - iii. Amounts spent, detailed by project or expense;
 - iv. Ending balance;
 - v. Copy of bank statement(s) detailing loan reserve account for the quarter;
 - vi. Reconciliation of bank balance to general ledger.
- i) The Company must maintain Parkwood Treatment records separate from normal daily operations, including: revenues, expenses, assets, liabilities, and equity in a manner that will allow the Company to provide a detailed breakdown, by account, in its next general rate case.

20 (8) After reviewing Iliad Water's tariff revisions filed in Docket UW-181055 on October 1, 2018, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the proposed surcharge should be granted, subject to conditions (a) through (i) set forth in paragraph 19 of this Order.

21 (9) Finding that all of the remaining proposed tariff revisions also are fair, just, reasonable, and sufficient, the Commission allows those revisions, as filed on March 26, 2019, and revised on April 17, 2019, to become effective by operation of law.

ORDER

THE COMMISSION ORDERS:

- 22 (1) Iliad Water Company, LLC's surcharge filed on October 1, 2018, is approved to become effective May 1, 2019, subject to conditions (a) through (i) set forth in paragraph 19 of this Order.
- 23 (2) Finding that all of the remaining proposed tariff revisions also are fair, just, reasonable, and sufficient, the Commission allows those revisions, as filed on March 26, 2019, and revised on April 17, 2019, to become effective by operation of law.
- 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. Nor shall this Order granting a surcharge be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 25 (4) The Commission retains jurisdiction over the subject matter and Iliad Water Company, LLC, to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective April 25, 2019.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner