

Agenda Date: February 10, 2022
Item Number: A1

Docket: UW-210560
Company Name: Washington Water Service Company

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

Recommendation:

Allow the tariff pages filed by Washington Water Service Company, on July 15, 2021, as revised on February 2, 2022, and February 4, 2022, to become effective February 15, 2022, by operation of law.

Background

On July 15, 2021, Washington Water Service Company (Washington Water or Company), filed a general rate case with the Washington Utilities and Transportation Commission (Commission) that would generate approximately \$3,115,967 (14.4 percent) in additional annual revenue. To mitigate rate shock, the Company's initial proposal proposed to increase rates over three phases, year one (2.8 percent), year two (5.9 percent), and year three (5.7 percent).

Washington Water is seeking cost recovery in rates because current revenues are insufficient to cover the ongoing cost of continuing to provide service that is safe, adequate, and efficient, and in all respects just and reasonable, while allowing an opportunity for a reasonable return on the Company's needed capital investment.

In June 2020 Washington Water acquired Rainier View Water Company Inc., (Rainier View) now referred to as East Pierce County (EPC) which is a group of large water systems that has been servicing parts of Pierce and Kitsap counties since the 1960's. The Company serves approximately 36,500 customers through two water divisions: Washington Water (Legacy), which has approximately 18,000, and EPC, which has approximately 18,500 customers. Legacy consists of 197 water systems in Clallam, Jefferson, King, Kitsap, Mason, Pierce, San Juan, and Thurston counties; EPC consists of 26 water systems in Pierce County and two systems in Kitsap County. Legacy's last general rate increase became effective December 1, 2018, and EPC's last general rate increase (under Rainier View) became effective September 1, 2019.

Currently, EPC has an established set of rates and a rate structure that is different from the Washington Water "Legacy" systems' rates. This is the first general rate case since Washington Water purchased Rainier View Water Company/EPC. Washington Water proposed to move the separate rate structures that currently exist for each division towards one unified set of rates

known as single-tariff rates as established in Docket UW-200091.¹ This filing is the first step in that process.

Review

Commission Staff (Staff), Washington Water, and the Public Counsel Section of the Attorney General's Office (PC) have spent significant time discussing a fair, just, reasonable, and sufficient revenue requirement and rate structure for Washington Water. The timeline of the filing and those discussions are as follows:

- July 15, 2021, Washington Water filed its proposed general rate case which also proposed a three-year rate plan resulting in a single tariff rate.
- September 3, 2021, PC submitted a Petition for Adjudication.
- September 21, 2021, Washington Water agreed to extend the effective date to February 1, 2022, and to answer PC's data requests. On the same date PC withdrew its Petition for Adjudication.
- December 20, 2021, Washington Water extended the effective date of the tariff to February 15, 2022. Allowing time for the Company to send a second notice regarding the status of the general rate case to customers. This was done because of the length of time the case had taken and the Company's desire to keep customers informed.
- Staff, the Company, and PC met on December 17 and 29, 2021, January 7, 12, 19, and 24, 2022, to discuss and work through issues. During this process an additional yearly revenue amount determined.
- January 13, 2022, the Company sent the second notice to customers.

Three Party Consensus

Staff and PC both separately reviewed the Company's books, records and data request responses and adjusted their respective models to formulate a revenue requirement. Initially there was concern over which expenses were appropriate and to what level. Throughout the course of this case there were discussions which allowed all three parties to work through questions and concerns regarding company expenses and capital investment that would be recovered in rates. All three parties have reached consensus that an additional annual revenue increase of approximately \$1,039,000 is appropriate.

All three parties reviewed and agreed the federal corporate income tax rate used to set water rates is 21 percent. Excess deferred taxes collected by the Company prior 2018 resulting from the

¹ Docket UW-200091, Order 01 Granting Application for Sale and Transfer of Assets; Adopting Tariff.

enactment of the Tax Cuts and Jobs Act are being returned to Washington Water customers as an annual \$56,499 reduction to income tax expense and to East Pierce County as an annual \$49,202 reduction to income tax expense. The Washington Water rate base as of June 30, 2021, was reduced by \$2,874,000 for net deferred income taxes which includes the unamortized excess net deferred tax balance of \$1,054,000. The East Pierce County rate base as of June 30, 2021, was reduced by \$477,000 for net deferred income taxes which includes the unamortized acquisition obligation balance of \$410,000.

Discussion amongst the three parties led to a rate design that adjusts the EPC base rate and usage rates of block one and block two. Block two has also been changed to 601-2,800 cubic feet from 601-3,000 cubic feet. This rate design starts to adjust the block structure in EPC to align with Legacy. The Legacy rates and block structure are unchanged in this filing. Adjustments will be made in future filings until a single tariff rate is achieved.

The revised revenue requirement increase involves a three-party consensus discussed above. While all the parties apply other adjustments to reach the revenue requirement increase the other adjustments were not agreed to by all parties. Staff adjusted the Company's as-filed case to recognize customer growth, cell tower lease revenue, actual payroll, capital leases, and overhead. The Company and Staff agreed to a revised revenue requirement that approximates the increase in the cost of purchased water and power from the previous rate case. These types of costs are pass-through costs which would be recoverable by any owner, previous or current. Thus, the rates produced here are no different than the rates that would have been produced had the Commission not recently approved the transfer of Rainer View Water Company Inc. to Washington Water. Furthermore, the customers of Washington Water "Legacy" have no rate change. The overall revenue requirement produces rates that are fair, just, reasonable, and sufficient.

Proposed Rates, Rate Structure and Average Monthly Bill

Washington Water's original proposal was \$3.1 million of additional annual revenue and a three-year phase-in towards a single tariff rate structure. The revised revenue requirement of approximately \$1,039,000 of additional annual revenue needs no multi-year rate plan. The Legacy and EPC customers will not reach single tariff rates in this case, but the two divisions will have moved closer to a single tariff rate design. The Company is proposing to file a General Rate Case in 2023 using 2022 as an historical test year. At that time, single tariff rates and a rate plan can be evaluated.

To help move both Legacy and EPC closer to a single tariff rate only the EPC rate will be adjusted this time. Legacy customers will see no increase or decrease in rates due to this filing. Thus, the table comparing rates will only show the impact to EPC.

<i>Rate Review</i>						
Bill Comparison	Base Rate*	Block 1 cu. ft.	Block 2 cu. ft.	Block 3 cu. ft.	Summer Rate* cu. ft.	Bill for 750 cu. ft.
		0-600	601-3,000	Over 3,000	Over 3,000	
<i>Current Rates</i>	\$14.90	\$1.13	\$1.30	\$2.49	\$5.00	\$23.63
		0-600	601-2,800	Over 2,800	Over 3,000	
<i>Revised Rates</i>	\$16.40	\$1.40	\$1.61	\$2.49	\$5.00	\$27.22
<i>Company Proposed</i>						
		0-600	601-2,800	Over 2,800	Over 3,000	
<i>year 1</i>	\$18.93	\$1.19	\$1.45	\$2.49	\$5.00	\$28.25
		0-600	601-2,400	Over 2,400	Over 3,000	
<i>year 2</i>	\$22.24	\$1.32	\$1.74	\$2.49	\$5.00	\$32.77
		0-600	601-2,000	Over 2,000	Over 3,000	
<i>year 3</i>	\$23.60	\$1.76	\$2.15	\$2.78	\$5.00	\$37.39

***For standard residential meter 5/8 or 3/4 inch, summer rates apply in May – September**

Given the Commission tasked the Company and Staff to move these systems to rate parity in the future, the following table shows what progress was made in the current filing and what differences remain for future rate designs. Rate design involves not only the rates for each block but also aligning the usage blocks. One significant difference between EPC and Legacy is the summer block 3 as it only exists in EPC during the summer months and is needed to help cover the high cost of purchased water during those months. We did not address this block in this filing, but it will have to be addressed in future filings.

<i>Parity Review</i>					
Rate Review	Base Rate	Block 1	Block 2	Block 3	Block 3 Summer Rate
<i>EPC Current</i>	\$14.90	\$1.13	\$1.30	\$2.49	\$5.00
<i>EPC Revised</i>	\$16.40	\$1.40	\$1.61	\$2.49	\$5.00
<i>Washington Water Legacy</i>	\$23.60	\$3.85	\$4.95	\$6.10	\$6.10
<i>Current Difference</i>	\$8.70	\$2.72	\$3.65	\$3.61	\$1.10
<i>Revised Difference</i>	\$7.20	\$2.45	\$3.34	\$3.60	\$1.10
Block Review					
<i>EPC Current</i>		0-600	601-3,000	3,000+	3,000+
<i>EPC Revised</i>		0-600	601-2,800	2,800+	3,000+
<i>Washington Water Legacy</i>		0-600	601-1,600	1,600+	1,600+
<i>Current Difference</i>		0	1,400	1,400	1,400
<i>Revised Difference</i>		0	1,200	1,200	1,400

Customer Comments

The Company notified its customers of the proposed rate increase in August and September of 2021. On January 4, 2022, the Company mailed updated notices. Customers were notified that

they may contact John Cupp at 1-888-333-9882 or john.cupp@utc.wa.gov with questions or concerns. Staff received 11 consumer comments, all opposed to the rate increase.

General Comments

The amount of the proposed increase is the customers' primary concern. They feel it is excessive for various reasons, including the pandemic, not seeing any service improvements, and being hard on low-income customers. Several comments contained customer service issues. A few customers asked that Staff investigate the Company's request.

Staff Response

Staff explained that state law requires rates to be fair, just, reasonable, and sufficient to allow the Company to recover necessary operating expenses and the opportunity to earn a reasonable return on its investment. Commission Staff performs a thorough review of rate filings to ensure that all rates and fees are appropriate. Staff informed customers how to contact Consumer Protection if they are unable to resolve service issues with the Company.

Conclusions

This filing is a general rate increase and a proposal to move towards a single tariff rate for Legacy and EPC, which historically have had different assets, expenses, and revenues, along with different rate structures. Because this is the first general rate filing since the EPC ownership change, there were several items to work through. This filing was submitted in July 2021 and originally proposed a three-year rate plan. Staff, Company, and Public Counsel believe that the revised revenue requirement in this first combined general rate case does not harm EPC customers and is fair, just, reasonable, and sufficient. All parties acknowledge that while there is no rate plan proposed in this filing, it is essentially the first phase towards single tariff pricing. The Company stated they are going to file a future case in 12 to 18 months, after running the combined operations, and take the next step towards a single tariff rate structure. The revised rates in this case move the two divisions closer to a single tariff rate structure while protecting customers from harm. The revised rates presented and filed by the Company and agreed to by Staff, should be allowed to go in effect by operation of law.

Recommendation:

Allow the tariff pages filed by Washington Water Service Company, on July 15, 2021, as revised on February 2, 2022, and February 4, 2022, to become effective February 15, 2022, by operation of law.