



H&R WATERWORKS, INC.

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March 27, 2017

Chairman David Danner
Commissioner Ann Rendahl
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: UW-161035 via E-FILE

Dear Chairman Danner and Commissioner Rendahl,

The purpose of this letter is to set out the position of H & R Waterworks, Inc. in Docket UW-161035. We are very disappointed to learn after 4 p.m. Friday afternoon that Commission Staff is going to recommend that this matter go to a hearing. This letter is to let you know that the Company cannot afford to go to a hearing on a non-revenue item like this, especially after spending hundreds of hours and thousands of dollars already. Instead, what the Company hopes will happen at the Open Meeting this Wednesday is that the Commission will approve the Water Budget program that the Company has proposed.

Background

The Company has spent literally hundreds of hours researching and developing the Water Budget program. In July of 2015, we began looking for ways in which we could address the fact that we have three water systems that are exceeding their water rights. Those water systems are Talcott Ridge, The Reserve at Cooper Point and Countrywood Estates. The only tool that is currently available to the Company in our tariff is a very draconian approach of disconnecting customers that abuse the water system by using excess water. That is a very difficult tool to use to manage water rights.

The Company set out to find an alternative. After a great deal of research, including meetings and communications with water companies in Arizona, Nevada, Texas, Kansas, and California; and participating in webinars with university, EPA and licensed irrigation professionals the Company came up with the Water Budget approach. This approach establishes an essential water budget (domestic consumption) and a non-essential (outside use or irrigation) water budget. There are many details. However, the concept is simple. Customers are given an essential water budget based upon size of household and are given a non-essential outdoor budget based upon the amount of water that is needed to irrigate an area the size of the

homeowner's lot taking into account existing rainfall patterns, both within the limits of the existing water rights. The customer can use their monthly budget as they see fit. The Company uses public data sources as much as possible.

For some reason, this concept has been difficult for Commission Staff to wrap their minds around. The difficulty is underscored by the fact that the Company met with Commission Staff on Monday, March 20, 2017, and after that meeting Commission Staff said that they would recommend that the tariff take effect and that the suspension be lifted. On Tuesday, the Company heard from the Commission Staff that they had changed their minds and would be recommending that the matter go to hearing. The Company had communicated to Staff very early on that if this matter was going to be set for hearing, it would be withdrawn since the Company cannot afford the expense of a hearing. In any event, after providing Commission Staff with more information, on Wednesday, March 22, the Company was told that Commission Staff would recommend that the suspension be lifted and the tariff be allowed to take effect. Then, late in the afternoon on Friday, March 24, we received an email from Commission Staff that they would be recommending that the matter go to hearing.

All of this is very baffling to the Company. The Company has had several recent meetings and detailed email exchanges with customers and the customers seem to understand the concept.

This is a program that the Company is proposing be offered on a three year trial basis. It is a program that provides a new tool to address water rights issues. What is wrong with allowing the trial to move forward?

Implementation Matters and Assessment of Risk

The Company has held many community meetings and talked with customers on a one-on-one basis. The Company views the water budget approach as a team approach. We will continue to work with customers and plan on having quarterly meetings with the customers of each water system as the program is implemented so that they can ask any questions and we can discuss the water budgets and how they are developed. This program will require the Company to spend a great deal of time working with customers in an effort to make the Water Budget program a success. This is an expenditure of resources that the Company is willing to make to try to make this program work and be acceptable to the customers.

We believe that what is proposed under the Water Budget program is a more customer friendly approach than simply trying to apply the unyielding tool of customer disconnection.

So where does the risk lie? It is the Company's responsibility to take the steps necessary to bring water usage within the scope of water rights. It is the Company that runs the risk of DOE sanctions and fines. It is the Company that must try to find ways to make sure that conservation occurs.

It is slightly ironic that by reducing usage to be within the scope of the water rights, the Company receives less revenue than it has historically from these water systems. However, it is

the right thing to do. In addition, the Company is going to be spending a great deal of resources to try to make the program work.

What all of this means is that the risk is on the Company. If the program does not work, then we will have the information that will show why it did not work and perhaps show what other steps should be taken. Again, the proposal by the Company is to use a three year program ending in January 2020 to test whether this Water Budget concept is viable.

Obviously, if something drastic happens in the interim, the Company can always come to the Commission to end the program prior to its expiration date. The Company has also advised customers that if “tweaks” need to be made to correct unintended consequences, it will do so. However, what the Company is hoping will happen is that it can come to the Commission in three years and ask that the termination date be removed because the program is a success.

Whether the program is a success or not can only be determined if it is allowed to move forward. Sending this to hearing simply terminates any chance that this program will ever go into effect.

Thank you for your consideration of this matter.

Sincerely,

Stephen L. Harrington, Water Distribution Manager 3
General Manager

cc: Commission Staff