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February 7, 2022

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Amanda Maxwell
Executive Director and Secretary
Washington Utilities and Transportation Commission
621 Woodland Square Loop SE
Lacey, WA 98503

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 COMMISSION

Re: *In the Matter of Washington Water Service Company Tariff Revision* (General Rate Increase)
Docket UW-210560

Dear Director Maxwell:

The Public Counsel Unit of the Washington State Attorney General's Office ("Public Counsel") respectfully submits these comments in advance of the February 20, 2022, Open Meeting. These comments address Washington Water Service Company ("Washington Water" or "Company") proposed general rate increase, effective February 15, 2022. Public Counsel requested information from the Company during our review of the filing, and we appreciate the Company's responses to our informal data requests and willingness to discuss specific issues.

The Company originally requested to increase total annual revenues by \$3.11 million (14.4 percent) while incorporating the East Pierce service area, which was purchased from Rainier View Water Company, Inc. in mid-2020, into its rates. The Company requested collecting an additional \$3.7 million (50.8 percent increase) in annual revenue from its East Pierce service area while decreasing the annual revenue collected from the remainder of its service territory ("Legacy system") by \$625,101 (4.7 percent). The Company proposed to increase rates in East Pierce over three years. After discussions with Staff and Public Counsel, the Company refiled tariffs on February 2, 2022, that significantly modified its rate case. The Company now requests to increase annual revenues by \$1.039 million.

Public Counsel's Recommendation

Public Counsel recommends that the Commission allow the Company's revised filing to become effective. The Commission should re-evaluate the calculation of return on owner equity for water companies in a policy docket, stakeholder collaborative, or rulemaking. Market conditions have changed since the effective policy was set in 2002.

Revised Rate Case Filing

Public Counsel understands the necessity for the Company to meet expenses in order to maintain safe and reliable service for its customers, in addition to the opportunity to earn a fair return.

To: Amanda Maxwell, Executive Director & Secretary
Re: In the Matter of Washington Water Service Company Tariff Revisions, General Rate Increase
Docket UW-210560
Date: February 7, 2022
Page 2 of 3

Public Counsel also acknowledges the complexities involved with integrating the East Pierce service area into the overall operations of the Company. The Company's original filing, however, would have increased the revenue collected from East Pierce customers by \$3.7 million and created significant rate shock for customers. Public Counsel initially filed a Petition for Adjudication on September 3, 2021, but withdrew its petition when the Company agreed to extend the effective date of its proposed tariffs to give sufficient time for parties to thoroughly review the filed request. Public Counsel engaged a revenue requirement consultant to review the Company filing.

Lengthy discussions between Staff, Public Counsel, and the Company resulted in a revenue requirement increase of only \$1.039 million. Additionally, the rate structure has been modified so that the increase to East Pierce has been significantly reduced and customers will no longer be burdened by three years of rate increases. Rates for the Legacy system will remain unchanged. Public Counsel, therefore, finds the revised filing reasonable and recommends that the Commission allow the Company's revised filing to become effective.

Return on Equity Recommendations

Given the party discussions and significant changes to the filing, Public Counsel finds the revised revenue requirement to be fair, just reasonable, and sufficient. Public Counsel does not have specific concerns regarding Washington Water's return on equity (ROE) at this time. Public Counsel, however, does not consider the consensus reached in this proceeding to set a precedent for any future rate cases for Washington Water or any other water utility. As previously stated in comments on the LakeLand Village Water Company rate case (Docket UW-210744),¹ Public Counsel recommends that the Commission re-evaluate the underlying basis for water utility ROEs since the current 12.0 percent recommendation for all water utilities was set more than 20 years ago, based on the outcome of a general rate case filed in 2001.²

Return on equity for regulated utilities should be set at an amount to simulate the conditions of a competitive market. Furthermore, the *Bluefield*³ and *Hope*⁴ standards require that a fair ROE should be (1) comparable to what investors expect on investments of similar risk in a competitive environment, (2) adequate to maintain financial integrity, and (3) sufficient to attract capital. With this in mind, it is critical that the authorized ROE for all regulated utilities, including water utilities, reflect current market conditions. It is safe to say that market risk and overall conditions have shifted since the Commission set the 12.0 percent ROE in Docket UW-010877. Generically applying a 12.0 percent ROE since 2002 without any re-evaluation of market conditions is

¹ Comments of Public Counsel Unit, at 3-4, Docket UW-210744, *LakeLand Village Water Co. General Rate Case* (filed Dec. 20, 2021).

² See *Wash. Utils. & Transp. Comm'n v. Rainier View Water Co.*, Docket UW-010877, Sixth Supplemental Order, ¶ 105 (July 12, 2002).

³ *Bluefield Water Works and Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923) ("Bluefield").

⁴ *Fed. Power Comm'n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944) ("Hope").

To: Amanda Maxwell, Executive Director & Secretary
Re: In the Matter of Washington Water Service Company Tariff Revisions, General Rate Increase
Docket UW-210560
Date: February 7, 2022
Page 3 of 3

neither just nor reasonable. As such, it is critical that the Commission examine evidence of market conditions to develop a fair, just, and reasonable ROE for all water utilities serving Washington customers. Public Counsel does not recommend a specific methodology at this time, but requests that the Commission open a policy docket, stakeholder collaborative, or rulemaking to evaluate current policy and develop means to set ROEs that actually reflect evidence and market conditions while acknowledging the dynamics of large and small water companies.

Public Counsel appreciates the opportunity to submit these comments. Public Counsel also plans to offer brief oral comments at the Open Meeting on February 10th. If you have any questions about this filing, please contact Nina Suetake at (206) 389-2055 or via email at Nina.Suetake@ATG.WA.GOV or Stephanie Chase at (206) 521-3212 or via email at Stephanie.Chase@ATG.WA.GOV.

Sincerely,

/s/ 

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NMS/CM
Enclosures