

Agenda Date: May 20, 2021
Item Number: A12

Docket: UW-200979
Company Name: Cascadia Water, LLC

Staff: Greg Hammond, Regulatory Analyst
Jim Ward, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation:

Allow the tariff pages filed by Cascadia Water, LLC, on December 8, 2020, as revised on May 17, 2021, to become effective June 1, 2021, in Docket UW-200979.

Discussion

On December 8, 2020, Cascadia Water, LLC (Cascadia Water or Company), filed a general rate case with the Washington Utilities and Transportation Commission (Commission) that would generate approximately \$418,000 (69.4 percent) in additional annual revenue. To mitigate rate shock, the Company's initial proposal would increase rates over three phases, effective April 1, 2021 (23.1 percent), October 1, 2021 (18.8 percent), and April 1, 2022 (15.8 percent). Each of the three phases would increase revenues by \$139,549, above the annual revenue collected during the test period (\$603,207) in this general rate proceeding.

After analysis and adjustments, Commission Staff (Staff) found the Company's requested revenue was overstated. Staff and the Company have agreed to a revised revenue requirement of approximately \$325,531 (53.5 percent) in additional annual revenue.

Cascadia 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.

Over the last several years Cascadia Water acquired water systems each having its own rates and rate structures which became effective more than six years ago for Sea View, more than seven years ago for Lehman, more than two years ago for Estates, and twenty-one years ago for Monterra. Cascadia Water is proposing that it consolidate its separate rate structures that currently exist for each water system and offer one unified set of rates across all water systems, known as single tariff pricing. (see attachment 1)

Cascadia Water also is proposing to consolidate its separate Ancillary Charges that currently exist for each water system and offer one unified set of charges across all water systems. (see attachment 1)

In addition, the Company is installing meters on the Monterra water system, which will allow customers on that system to track their individual use and help prevent unnecessary leakage of resources. Meter installation is also part of Department of Health policy to monitor water usage and promote conservation measures.

The Company serves approximately 1,750 customers on two water systems located near Sequim in Clallam County and 12 water systems located on Whidbey Island in Island County.

Background

The sale and transfer of the various water systems to Cascadia are outlined below. As a result of these sale and transfers over the last several years, no rate changes were made. This is typical since the new owner had not yet established the cost to operate each water system. In order to change the rates, a general rate case requires 12 months of historical revenues, expenses, customer usage, and cost of new plant purchases to determine the revenue requirement needed to operate. The revenue requirement is then used to determine the rates (based on customer usage) that will generate the needed revenue.

On July 17, 2018, Sea View Water LLC (Sea View) and Lehman Enterprises, Inc. (Lehman) filed with the Commission applications for sale and transfer of assets pursuant to the provisions of RCW 80.12 (Transfer of Property). The transfer of assets and tariff adoptions became effective October 15, 2018, in Dockets UW-180629 and UW-180630 respectfully.

Sea View served 190 customers near Oak Harbor on Whidbey Island, in Island County. The utility's system is known as Sea View Water (ID#79245N / 1970).

Lehman served 904 customers on ten water systems near Freeland, on Whidbey Island, in Island County. The utility's systems are known as Beachcomber H2O, CAL Waterworks, T.E.L. #1, #3, #4, #5, #6, #10, #11, and WB Waterworks.

On February 21, 2019, Monterra, Inc. (Monterra) and Estates Water Systems, Inc. (Estates) filed with the Commission applications for sale and transfer of assets pursuant to the provisions of RCW 80.12 (Transfer of Property). The transfer of assets and tariff adoptions became effective March 25, 2019, in Dockets UW-190116 and UW-190117 respectfully.

Monterra served 185 customers near Sequim in Clallam County. The utility's system is known as Monterra Water (ID# 55990Y / 1979).

Estates served 365 customers near Sequim in Clallam County. The utility's systems is known as Estates Water (ID# 081669 / 1981).

The acquisition of the Del Bay water system (ID# 18575K / 1978) took effect November 12, 2020. Del Bay serves 39 customers with 2 lots unimproved. The current rates of \$510/year (improved lot) and \$270/year (unimproved lot) will remain the same for one year, with bi-monthly billing. Customers will receive their first invoice the beginning of March, for January/February service.

Effective November 12, 2021, customers will then switch to Cascadia's tariffed rates as metered customers.

Staff Adjustments

After review of the Company's submitted financial workpapers and subsequent data requests, Staff made several adjustments which reduced the Company's revenue requirement from its proposed \$418,000 to the revised revenue requirement of \$325,000 in additional annual revenue.

Staff made several adjustments to restate account totals shown on the Company's income statement to the amounts shown in the Company's general ledger and removed transactions which occurred outside of the test year, with the most significant variance being attributable to the "Miscellaneous Expenses" account. The effect of these adjustments was an approximate \$32,000 decrease in the revenue requirement.

Staff also corrected the useful lives of several assets which had been misclassified and corrected errors in the Company's workbook which caused the amortization of Contributions in Aid of Construction (CIAC) not to be recognized in the "Net Depreciation/Amortization" account and caused rate base to be misstated. The total effect of these adjustments was an approximate \$67,000 decrease in the revenue requirement.

Other adjustments included the correction of the Company's adjustment factor in its water model, and corrections to a few of the Company's proposed proforma adjustments. These adjustments resulted in a net \$6,000 increase to the revenue requirement.

Proposed Rates, Rate Structure and Average Monthly Bill

Cascadia Water's current tariff, WN U-1, is more than 90 pages. Each Water System has its own rules, regulations, and rates for service. The Company is using this general rate increase filing as an opportunity to consolidate those separate sections of each Water System into a unified set of rules, regulations, and rates also known as single tariff pricing. Proposed rates and charges are shown on UW-200979 Attachment 1. Rates not shown are available in the proposed tariff.

In the Company's original filing they proposed a phased in approach to rates. The phase-in involved 3 phases, six months apart, and of equal revenue amounts of \$139,549. Staff and the Company have agreed to a revised phase-in approach to the rates. The revised phase-in will have 4 phases, six months apart. Due to the longer time period of the phase-in until full rates are enacted, Staff and Company have agreed that the delayed amounts of the rate increase should have carrying costs associated with each phase. The carrying cost is calculated at the delayed revenue amount multiplied by the prime rate (3.25 percent). Based on company-wide average usage, monthly average bills will increase \$10.75 (37.0 percent) from the current \$29.05 to \$39.80 at the end of phase 4.

Customers on the Cascadia systems located near Sequim advocated for separate rates as they did not feel they should have to pay for capital improvements to the systems located on Whidbey Island. Staff believes that separate rates, although initially lower for the peninsula systems, would ultimately end up costing peninsula customers more per customer when capital improvements are added to their system. By applying the single tariff pricing concept, costs are spread over a larger customer base, resulting in lower per-customer costs. Customers pointed out that the forward-looking Water System Plan filed by Cascadia with the Department of Health (DOH) did not include any capital improvements on the peninsula systems. The Water System Plan was drafted before the purchase of the peninsula systems was complete, and the Company asserts that an update to the Water System Plan will be filed with DOH as soon as the appropriate study has been completed. In discussions with the Company, Staff learned that there will be capital improvements on the peninsula systems starting with meter installations and including increased storage for future capacity as well as repairs and replacements. Therefore, Staff finds the single tariff pricing rate structure to be the most effective way of distributing all costs incurred in operating all the Company's systems.

The proposed rates are somewhat in line with rates charged by other systems located near Sequim as shown in the table below. Estates current average bill of \$26.54 is well below average bills for other systems found in areas near Sequim. After complete phase-in of the planned rates, the new average bill of \$46.58, would place Estates customers' average bill in the higher range of bill amounts but would still be substantially under the \$71.93 average experienced by Aquarius customers.

Average Bill Comparison	Estates Current Rates	Estates Proposed Rates Phase 4	Pedersen Family	Community Water at Dungeness Heights	Aquarius	Solmar	Olympic Water and Sewer
Effective date of rates	5/31/2021	12/1/2022	11/1/2022	4/1/2019	11/1/2014	1/1/2014	5/22/2008
Average Estates Usage of 872 cu. ft.	\$ 26.54	\$ 46.58	\$ 40.94	\$ 38.39	\$ 71.93	\$ 36.72	\$ 37.87

Customer Comments

On December 15, 2020, the Company notified its customers by mail of the proposed rate increase. Customers were notified that they may access relevant documents about this rate increase on the Commission's website, and that they may contact John Cupp at 1-888-333-9882 or john.cupp@utc.wa.gov with questions or concerns. Staff received 110 consumer comments regarding the proposed rate increase; 107 oppose the rate increase, two are in favor, and one customer just had questions.

The initial customer notice in this case was confusing to customers on the Sea View and Estates systems, and it appeared their rates would result in bills of around \$1,200 per month. Staff received two or three calls from worried customers and worked with the Company to have a clarification notice sent to customers on the two systems. The Company sent the clarification notices on January 8, 2021, and Staff received no more calls on the topic.

Given the complexity of the case and the number of comments and questions, Staff held two virtual meetings with customers. The purpose of the meetings was to provide information about the UTC, what we do in a rate case, and to answer questions.

On March 2, 2021, Staff met with customers on systems in the Sequim area. Approximately 20 people attended, and Staff answered many questions. Staff met with Whidbey Island customers on March 31, 2021. Two customers attended and Staff was able to answer their questions.

Staff participated in numerous meetings with various combinations of the different parties – customers, Company representatives and Public Counsel.

Comments

Of the 110 comments, 97 are from customers in the Sequim area and 84 of the 97 are on the Estates Water System. Nine customers from Whidbey Island commented. Staff was unable to determine the location of four customers who commented.

Almost all commenters in both areas believe the requested increase amount is excessive. Many say the timing of the proposal is bad due to the pandemic and current economic conditions. Many feel the duration of the proposed phases are too short to ease the financial burden of the increase.

Almost all customers on the Estates system believe the increase as proposed will be harmful to them and any form of single tariff pricing will only benefit Whidbey customers. They believe the water systems on Whidbey Island have many problems, and that repairs and maintenance of these systems is far more expensive than on the Estates system. Many say the Company is raising and unifying rates to recover from what they believe are bad investments on Whidbey Island. Estates customers feel their current rates are appropriate because Estates Water rates increased in 2018 shortly before being sold to Cascadia.

The two customers in favor of the Company's proposal are on the Estates system. One spent his career in the water industry and has worked with the Arizona Corporation Commission. He believes the proposed rates are necessary in "supporting the ever-increasing costs associated with regulatory requirements, operation and maintenance, and capital improvements to keep our water purveyor sustainable into the distant future."

Staff Response

Staff has explained rate making and the reasons for single tariff pricing. Staff also explained that state law requires rates to be fair, just, reasonable, and sufficient to allow the Company to

recover reasonable operating expenses and the opportunity to earn a reasonable return on its investment. Customers were told that Commission Staff performs a thorough review of rate filings to ensure all rates and fees are appropriate.

Conclusions

The nature of this filing is a general rate increase and a proposal to create a single tariff rate for five water systems that have historically had different assets, expenses, and revenues, along with different rate structures. Due to the fact that this is the first rate increase for many of the water systems, the need for historical documents from different sources extended the normal time for review, so that Staff could substantiate the Company's rate base. Staff issued several data requests for information which was reviewed by the Company and Staff. Staff has completed its review of the Company's supporting documents and records and finds the Company has demonstrated that the revised rates are fair, just, reasonable, and sufficient. Staff believes that the agreed upon revised rates should be allowed to go into effect and implement single tariff pricing for all customers on all water systems.

Recommendation:

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