

Agenda Date: June 24, 2021  
Item Number: A2

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

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

### **Recommendation:**

Take no action, thereby allowing the tariff pages filed by Cascadia Water, LLC, on December 8, 2020, as revised on May 17, 2021, and again on June 21, 2021, to become effective July 1, 2021, by operation of law.

### **Discussion**

This memo is an update to Staff's memo of May 20, 2021.

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. 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.

### **Update**

This item was first presented at the May 20, 2021 Open Meeting. At that meeting Staff presented its results of the review of Cascadia's general rate filing and recommended, with company agreement, a reduced revenue requirement and a 4-phase, single tariff pricing recommendation.

Sea View serves 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 serves 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.

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

Estates serves 365 customers near Sequim in Clallam County. The utility's system 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.

### **May 20, 2021, Proposed Rates, Rate Structure and Rate Plan**

In the Company's original filing they proposed a phased-in approach for 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 as 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.

### **Public Counsel comments from May 20, 2021**

To briefly summarize public counsel's points, they believe the revenue requirement is appropriate however a longer phase-in approach is warranted to avoid rate shock to customers. Public counsel pointed out that a longer period is in line with a previous filing at the commission from 2018, Summit View Water Works' general rate case under docket UW-180801.

### **Customer comments for May 20, 2021**

To briefly summarize customer's points, they believe the revenue requirement is too high, a split tariff (peninsula systems separate from island systems) is more appropriate, and a longer phase-in approach is warranted to avoid rate shock.

Customers on the Cascadia systems located near Sequim (peninsula systems) advocated for separate rates as they did not feel they should have to pay for capital improvements for the water 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 systems in the coming years.

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 for 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 to all customers.

### **Customer Update**

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 112 consumer comments regarding the proposed rate increase; 109 oppose the rate increase, two are in favor, and one customer just had questions.

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, 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. 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 112 comments, 98 are from customers in the Sequim area and 85 of the 98 are on the Estates Water System. Nine customers from Whidbey Island commented. Staff was unable to determine the location of five 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.

### **Review**

Staff has completed its review of the filing/revenue requirement and reviewed two proposals: a four-phase rate plan and a six-phase rate plan. Single tariff pricing has been the practice in water regulation for many years and is also used by the state's major electric and gas utilities. The four-phase rate plan, as shown below, would include the carrying cost. Carrying cost for the four-phase plan is \$16,531. The six-phase rate plan is also shown below and would include carrying cost of \$44,817. The additional cost for lengthening the recovery period would be over \$28,000 which will be embedded in rates. The final rates for both plans would be the same and set to generate the same amount of rate increase of \$325,531. Four phases reduce the carrying cost which are calculated as part of the rates being passed on to customers. As demonstrated in the un-metered rates shown in the table below, which are set equal to the average monthly bill, the difference in bill impacts between the two approaches are minimal due to the more substantial carrying costs in the 6-phase approach.

While Staff's recommendation is to stay with the same four-phase single tariff rate approach as proposed at the May 20, 2021, open meeting, there have been slight changes to the rate design. Staff and the Company have discovered an error in the usage data used to calculate the rate design. This would have resulted in an approximate \$10,000 under-recovery at the final phase. There was also a slight change in the calculation of carrying costs, which were slightly overstated under the initial proposal, by about \$2,000, over the phase in period.

Also, the Company and Staff have agreed that the initial phase would now last five months rather than six months so that the phases remain on the same summer and winter schedule as proposed at the May 20 open meeting. This would shorten the total phase in period to 17 months, instead of 18 months. Aside from a slight reduction to the carrying costs, this does not impact the rates proposed in the first phase or the following phases.

4 Phase Rate Plan

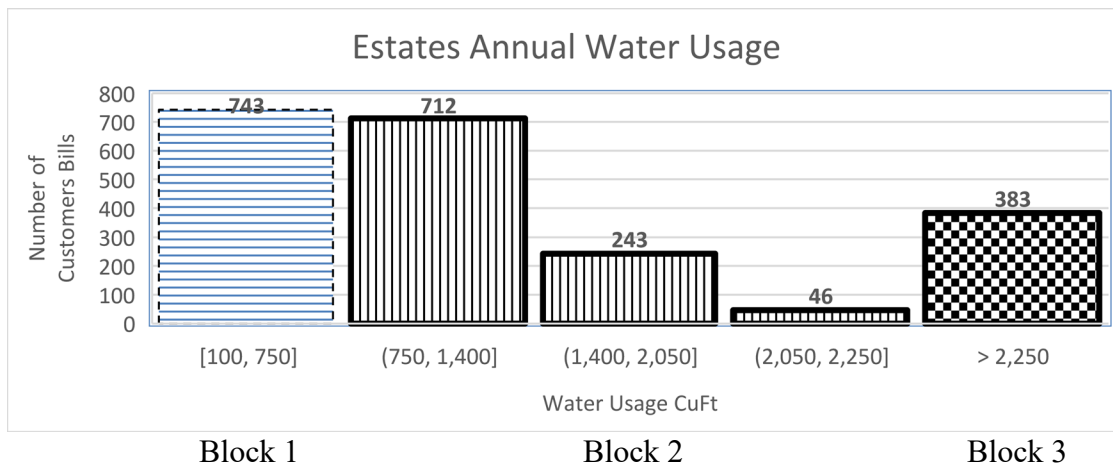
	Base	Block 1	Rate 1	Block 2	Rate 2	Block 3	Rate 3	Un-metered
Phase 1	19.95	750	1.60	2,250	2.50	2,251	3.50	32.95
Phase 2	22.15	750	2.00	2,250	2.80	2,251	3.50	37.37
Phase 3	24.75	750	2.00	2,250	3.25	2,251	4.25	41.33
Phase 4	25.90	750	2.25	2,250	3.50	2,251	4.50	44.11

6 Phase Rate Plan

	Base	Block 1	Rate 1	Block 2	Rate 2	Block 3	Rate 3	Un-metered
Phase 1	19.95	750	1.50	2,250	2.25	2,251	3.20	32.03
Phase 2	21.35	750	1.75	2,250	2.75	2,251	3.50	35.49
Phase 3	22.50	750	2.00	2,250	3.00	2,251	3.95	38.49
Phase 4	24.60	750	2.00	2,250	3.25	2,251	4.25	41.18
Phase 5	25.60	750	2.25	2,250	3.50	2,251	4.50	43.82
Phase 6	25.90	750	2.25	2,250	3.50	2,251	4.50	44.11

The customers on Estates' water system currently use an average of 872 cubic feet per month. At the current rates, this usage would generate a bill of \$26.54. The average usage of the Lehman water system is 729 cubic feet and Seaview is 554 cubic feet. If the customers of Estates were to reduce their average usage to 729 cubic feet per month on average, their bill would decrease to \$25.47. This is a \$1.07 savings per month at current rates. At the final phase of the proposed rates, the bill for usage of 872 is \$47.05 and at 729 cubic feet the average bill would drop to \$42.30, or a savings of \$4.75 per month. Customers have the ability to control their water bills by controlling their water usage.

Most customers use less than the amount for block 3 as shown below. As shown below, a large number of customers do not even use water beyond block 1.



This higher usage for Estates' customers is in the summer, which correlates to outdoor water usage. The average summer usage for the Estates water system for the test period was 1,273 cubic feet per month. The average winter usage for the Estates water system was 509 cubic feet per month for the same test period. Summer usage is over twice the amount of water used for winter, or what is considered indoor usage.

### **Ready To Serve (RTS) charges**

At the May 20 open meeting, one customer commented the proposed Ready-To-Serve rate was too high for a connection which currently uses no water. Under staff's Glossary of Regulatory Definitions, the Ready-To-Serve charge is defined as:

*Ready-To-Serve (RTS)* – A limited-use charge made by a water utility to a property owner between the time when water service is made available to the property and the time when the property connects to the utility's facilities and starts using the service.

The RTS charge is used to recover capital-related costs and other ongoing costs incurred by a utility when constructing facilities for the potential customer. It is assessed only when a connection has been made from the water system to the property, but no water is used by the customer. Once a meter is installed and a customer starts using water, the normal water-rate structure takes over and the ready to serve charge is terminated. The charge is assessed by the water utility when:

- The water utility has the ability to provide water service;
- The water utility has committed to provide water service; and
- There is an installed service connection at the customer's property.

In the 2018 rate case for Estates, the RTS charge increased from \$5.00 per month to \$10.00 per month while the base meter charge remained steady at \$20.00. Commission practice has been to set the RTS charge equal to the base rate for metered service since both costs are intended to help recover the fixed costs of plant. Prior to this case the base charge included an allowance and only one rate for all water consumed. When a RTS charge was first implemented, the rate was \$60.00 annually. Under WAC 480-110-375 billings must not exceed three months, so the company shifted to monthly billing of the RTS charge. The current rate case will bring the RTS charge in-line with commission practice and other water utilities in which the RTS is equal in amount to the base meter rate.

### **Department of Health**

Department of Health (DOH) personnel made several points at the May 20, 2021, open meeting:

- Water system plans are a tool for the company and DOH to ensure safe and reliable water service now and into the future.
- Asset management and component replacement help the company continue to provide service and several large components on the peninsula water systems are near the end of their useful life and should be replaced or updated soon.

- Meter installation, which was to be completed in January 2017, is now underway to allow for water system monitoring of all water uses to help prevent wastage of the resource.
- Due to the relative time of ownership, several water systems on Whidbey Island have seen equipment updates while the review process for the peninsula water systems is just now beginning.

### **Single Tariff v. Split Tariff Rates**

Customers on the Estates water systems believe that a split tariff would be best for them. As has been pointed out, the initial split tariff would result in lower rates to the peninsula customers based on review of historical costs and plant assets. However, the Company points out that several large capital projects for both the Estates and the Monterra water systems are planned for the near future. As pointed out by DOH during its presentation at the May 20 open meeting, the Estates and Monterra water systems are over 40 years old. Both systems will need updates, and in the case of Estates, new storage tanks. Single tariff pricing would allow the company to recover these costs from more customers, lowering the cost per customer of the new plant. By using a split tariff design and setting rates based on the peninsula systems and the island systems separately, these capital improvements could cause higher rates for Estates customers in the future than would a single-tariff design.

Customers on the Cascadia systems located near Sequim (peninsula systems) advocated for separate rates. They do not feel they should have to pay for capital improvements for the water systems located on Whidbey Island. Customers were able to view the DOH filed water system plan from Cascadia that only included updates to the Island water systems. Since the purchases of the peninsula water systems and having operated them for a while, the Company is now in the process of reviewing the peninsula water systems and will be filing an amendment to the company wide water system plan soon.

Split tariff pricing would cause the Company to continue to manage multiple rates and billing systems and track all costs more stringently, which will be more costly than with a single tariff rate. For shared costs or overhead costs, allocations would also need to be used to ensure costs are correctly distributed to the two tariff areas.

### **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. Because 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 in the proposed four phases and single tariff pricing implemented for all customers on all water systems.

**Recommendation:**

Take no action, thereby allowing the tariff pages filed by Cascadia Water, LLC, on December 8, 2020, as revised on May 17, 2021, and again on June 21, 2021, to become effective July 1, 2021, by operation of law.