

Agenda Date: October 28, 2005  
Item Number: A26

**Docket:** UW-051444  
Company Name: Kayak Estates Water, LLC

Staff: Jim Ward, Regulatory Analyst

**Recommendation:**

Issue a complaint and order suspending the tariff revision filed by Kayak Estates Water, LLC, in Docket UW-051444.

**Background:**

On September 26, 2005, Kayak Estates Water, LLC, (Kayak Estates Water or Company) filed a general rate increase. The annual revenue increase is \$49,746 (36.8%). Kayak Estates Water system serves approximately 358 residential customers and is located south of Stanwood in Snohomish County.

The Company states the reason for this general rate increase is that the existing rates do not provide sufficient revenue for the Company to provide high-quality service to its customers. The new metered rate would increase both the base charge and first usage block rate. The customers were notified of this increase in a mailing on September 23, 2005. The current and proposed rates are provided below:

<u>Rates</u>	<u>Current</u>	<u>Proposed</u>
Base Rates	\$ 17.00	\$ 22.75
Usage (per 100 cubic feet or portion thereof)		
0 - 1,000	\$ .75	\$ .95
1,001 – 2,000	\$ 1.50	\$ 1.50
Over 2,000	\$ 3.00	\$ 3.00

**Discussion:**

The Commission received comments from sixteen customers, all opposed to the increase. Many of these customers commented on the poor quality and quantity of their water, and of leaks in the system. Most of these customers have been working with the Department of Health regarding these issues. A few letters expressed hope that a proposed sale of the company to Snohomish County PUD No. 1 will go through. A lot of the customers' letters mention poor response to customer calls and repairs by the company. These customers have been encouraged to contact Consumer Affairs regarding future response concerns.

### **Customer Issues:**

During the Commission Staff's review of the rate increase proposal, many issues were presented by the customers.

**Snohomish County PUD purchase of Kayak Estates Water system.** Snohomish County PUD has completed a feasibility study that evaluates the purchase and upgrade of the water system. The study results will be shared with customers at a meeting scheduled for Wednesday October 26, 2005, at 6:30 pm, in the Stanwood High School Old Auditorium. The PUD will present an overview of the proposal and request customer input. The PUD's key issues are improvements such as:

- Add water system monitoring equipment, replace the storage tanks, add pressure reducing valves, treat the wells to remove manganese, abandon the line from the wells to the storage tanks along 66<sup>th</sup> Ave NW, and add more fire hydrants.

- The proposed cost (purchase and upgrades are about \$1,477,000) will be in the form of a surcharge of about \$14 - \$17 per customer per month above regular water rates.

- The PUD is continuing its review and discussions are on-going at this time.

**Can the Commission delay rates until the PUD takes over?** No. The Commission is charged with setting rates that are fair, just, reasonable and sufficient. Simply delaying rates for some future event may not be in anyone's best interest and is not allowed by the Commission.

**Water quality may not be appropriate.** Staff understands that the water currently has high iron and manganese, and that those are secondary contaminants that do not require treatment and filtration. These conditions cause dirty water, and stains both clothing and plumbing fixtures. This item should be addressed to the Department of Health. Currently, DOH notes that the water system testing is in compliance. The PUD feasibility study notes manganese removal would be part of its purchase plan. The feasibility study also noted that customers were asked in September 2003 if they would pay an additional monthly charge for manganese removal treatment. Of the 288 customers who responded to the company survey, a large portion (77%) voted no. Based on that vote, no water treatment was installed and the company continues to flush water mains in an attempt to minimize manganese in the water.

**Water system pressure previously low at times.** The feasibility study reviewed the water system infrastructure and physical terrain. It appears that low pressure resulted from elevation differences and lack of pumping. To help correct this problem the booster station was installed to help ensure higher water pressure. However increased water system pressure has created new problems.

- High pressure may be causing high flow rates (more water used by customers).
- High pressure may be causing leaks and breaks.

**Previous rate increases did not improve water quantity or quality or service.** Neither Kayak Estates Water, LLC nor Kayak Point Water Co., Inc. have asked for or received rate increases from the Commission. Kayak Estates Water did file and receive a metered rate schedule for use in November 2003. The meter rate schedule replaced the flat rate schedule and was intended to approximate the same revenue the company received from the flat rates. Since the company initially filed tariffs with the Commission in June 1994 (at \$25 flat per month), the Commission has not approved a rate increase. The Commission uses historical cost recovery for reasonable and prudent expenses and improvements. The current rate increase request is under review and Staff has several outstanding data requests for information and justification of the proposed rates.

**Meter rates may not have been revenue neutral.** Staff reviewed the company-provided information and believes that current rates do not generate the historical average flat rate of \$25. Part of this rate case will review charges for monthly water service based on the historical test period cost of 2004 and current number of customers served.

**Customers think their water system may not have adequate fire flow or fire hydrants.** Fire protection jurisdiction is the exclusive responsibility of the local fire marshal. Currently, the Company has no outstanding request for fire flow by the fire marshal. If customers desire fire protection service on their water system, they can contact the Company or local fire marshal to determine what would be required. Since fire protection is not currently required by a government agency, water customers requesting additional services would share the cost if any upgrades were done. The PUD feasibility study notes additional fire hydrants would be part of its purchase plan.

**Company response time for repairs is not appropriate.** Consumer Affairs received one complaint, in 2004, that the Company had not made a repair in a timely manner. Upon investigation, staff found the repairs were made within 24-hours, which is in compliance

with the WAC 480-110-315. Commission Staff will continue to review this item on a going forward basis.

**Company response time for customer complaints is not appropriate.** Consumer Affairs has received two complaints since 2000 in which the company's failure to return calls was an issue. Violations of response rules were not noted in either complaint. Under WAC 480-110-315 the water company has 2 business days to respond to non-emergency inquires. Commission Staff will continue to review this item on a going forward basis.

Commission Staff contacted DOH about water system complaints. DOH's records show 66 complaints on various subjects since 1996. The complaints were generally about iron and manganese, non-responsiveness to customer calls or complaints, lack of timely repairs or poor repairs and low pressure or no water at all.

**Company repair of private roads is not appropriate.** Staff is reviewing this item. However it appears that the private road repair issue is between the water company and the road association. Consumer Affairs does not handle this type of complaint, as damages are not jurisdictional.

**Other Issues.** The following were raised by a customer in an email.

- Usually, we are not even told when they flush the lines.
- We don't feel comfortable with them taking the water samples, this should be done by an independent person.
- When there has been major problem, such as the pumps running dry, we don't even find out until days later! This is unacceptable and dangerous.

These items are under the jurisdiction of the Department of Health and should be forwarded to them.

**Staff Analysis:**

Kayak Estates Water, LLC has not responded to Staff's data request. The Company has not supported the rate increase at this time.

**Conclusion:**

The Company has not yet demonstrated that the proposed rates are fair, just, and reasonable. Therefore, Staff recommends that the Commission issue a complaint and order suspending the tariff revision filed by Kayak Estates Water, LLC, in Docket UW-051444.