

Agenda Date: May 15, 2008
Item Number: A1

Docket: UW-072431
Company Name: Washington Water Service Company

Staff: Chris Mickelson, Regulatory Analyst

Recommendation

Grant Washington Water Service Company's request for an Accounting Order to defer costs related to the windstorm of December 14, 2006, subject to conditions (a) through (f) set forth below.

Discussion

On December 24, 2007, Washington Water Service Company (Washington Water Service or company), filed with the Utilities and Transportation Commission (commission) a petition seeking an Accounting Order under WAC 480-07-370(1)(b) authorizing Washington Water Service to defer all costs related to damages caused by a powerful windstorm on December 14, 2006. The company incurred \$63,886 in labor and materials costs to maintain water service to approximately 250 water systems using portable generators during the windstorm. The company's last rate increase became effective on September 28, 2006.

The commission has established certain criteria for approval of accounting petitions based on previous accounting orders, such as, materiality and frequency. This petition conforms to these criteria. Washington Water Service does not normally plan for severe weather incidents that exceed the company's normal expenditures, such as the windstorm on December 14, 2006, because these severe weather incidents occur only very infrequently, every eight to ten years. The last severe weather incident occurred in 1996.

The company's last general rate case, Docket UW-060761, became effective September 28, 2006. The commission allowed rates to become effective that were projected to generate \$520,909 return on equity. The company's 2006 Annual Report shows \$294,543 return on equity. The requested \$63,886 deferral is 12.3 percent of the company's authorized equity return and 17.8 percent of the company's reported 2006 equity return if the company had not incurred the costs related to the windstorm.

The company requests deferral of the costs related to the windstorm on December 14, 2006, to account number 186.3; "*Other Regulatory Assets*." The expenses deferred pursuant to the requested accounting order would be subject to the following conditions:

- a) Costs that are deferred will be reduced by any insurance proceeds or payments from other responsible parties received by the company with respect to such costs.
- b) Costs eligible for deferred accounting treatment will include only those costs shown on work papers reviewed by staff and related to Docket UW-072431 (i.e., "*Storm Labor and Vendor Amount*"). The breakdown of deferred windstorm-related costs is as follows:

windstorm overtime labor expenses of \$28,778.43, third-party vendor expenses of \$22,277.01, and fuel expenses of \$12,830.66.

- c) Net deferred costs are the total expenditures, as defined in item (b), less any recoveries from third parties and/or insurance proceeds.
- d) Any net deferred costs existing at the time of the company's next general rate case will be subject to review, and net deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes.
- e) Amortization of net deferred costs will be a five-year period commencing on the effective date of the company's next general rate case, tentatively scheduled for 2009.
- f) Any deferred costs will be included in a separate account labeled 186.3; "Other Regulatory Assets" in future rate proceedings.

Staff recommends approval of the petition for the following reasons:

- a) There is a significant timing difference between the company incurring the expenditures and recovering the expenditures from customers. Most deferral accounting petitions in which expenditures are deferred and recovered from rate payers, will most likely be recovered at a later date. No deferred costs have been passed on to rate payers since the company last filed for general rates in 2005 and incurred these costs in late 2006.
- b) The prudence determination of any amount of proposed recovery from rate payers will take place in a general rate case.
- c) Under WAC 246-290-420, the Department of Health requires that water service be maintained at all times to prevent health and safety risks to customers.

Staff has reviewed the petition in Docket UW-072431 and related work papers. Staff believes the proposed accounting order Washington Water Service requests is reasonable and should be granted, subject to conditions (a) through (f) set forth above.

Conclusion

Grant Washington Water Service Company's request for an Accounting Order to defer costs related to the windstorm of December 14, 2006, subject to conditions (a) through (f) set forth above.