Agenda Date: December 7, 2023
Item Number: A1

Docket: **UW-230132**
Company: Olympic Water and Sewer, Inc.

Staff: Mike Young, Regulatory Services
Jaclynn Simmons, Regulatory Services

Recommendation

Dismiss the Complaint and Order issued June 15, 2023, and allow the tariff pages filed by Olympic Water and Sewer, Inc. on February 24, 2023, to become effective on December 8, 2023, on a permanent basis.

Background

In April 2019, Olympic Water and Sewer, Inc. (Olympic Water or Company) filed Docket UW-190160 with the Washington Utilities and Transportation Commission (Commission), which was a request for a special surcharge to start recovery of the costs of a water treatment plant that was required to be constructed by the Department of Health. In Order 01 of that docket, a $5.00 per month per customer surcharge was allowed to begin recovery of 70 percent of the total cost of the treatment plant, which amounts to $2,014,214. On April 14, 2022, the Company filed with the Commission in the same docket a request for a decrease of the special surcharge. Order 02 of that docket revised the surcharge to lower the amount per month from $5.00 to $3.50. The requested lower amount was due to the Company being able to reduce costs from the original projections. The surcharge is set to expire June 20, 2038, or upon recovery of $1,558,526, whichever occurs first. In Order 02 of Docket UW-190160, the Commission also ordered the Company file a general rate case with an effective date no later than May 1, 2023.

This case is a compliance filing associated with Order 02 of Docket UW-190160. On February 24, 2023, the Company filed tariff revisions that, as originally filed, would have generated approximately $187,015 (23.3 percent) additional annual revenue.

Olympic Water provides water service to approximately 1,740 customers in Jefferson County near Port Ludlow. The Company's last general rate increase was June 21, 2021.

On April 12, 2023, the Company filed for an extension to provide additional required documents as laid out in WAC 480- 07-530(4)(h), (i) and to give ample time for review.

On April 20, 2023, the Company emailed its affiliated interest report and schedule of separation of revenues and expenses between its regulated and unregulated operations to Commission Staff (Staff). Staff reviewed the documents and found that they complied with the WAC and confirmed that the Company included the separation of the regulated and non-regulated income statements.

On April 14, 2023, the Company filed a motion for continuance for Docket UW-190160, to extend the effective date of the compliance general rate case to an effective date of June 19, 2023.

On May 16, 2023, Staff met with certain customers of the Company – members of the Port Ludlow Village Council (PLVC) – and gave an overview of how the Commission determines fair, just, reasonable, and sufficient rates. The overview provided customers with an understanding of Commission processes for auditing rates and calculating a Company's revenue requirement. Staff also explained at the meeting that the wastewater side of the Company is not within the Commission's jurisdiction for regulation according to RCW 80.04.110(29)(a)(b).

On May 17, 2023, Staff met with the Public Council Division of the state Attorney General's Office (PC) and discussed wastewater regulations and why the Company does not meet jurisdiction for regulation by the Commission. Staff also discussed that the Company was required by the state Department of Health (DOH) to install the new filtration system for iron, manganese, and arsenic contamination that was found through required testing.

On June 9, 2023, PLVC filed a Petition to Intervene, requesting to participate in the proceeding.

The matter was heard at the June 15, 2023 open meeting where the Commission issued Order 01, suspending the tariff pages filed by the Company, allowing the filed rates to become effective June 19, 2023, on a temporary basis subject to refund, and instituting an investigation of the Company's books and records.

Staff assigned a new staff member to review the rate case, and on July 5, 2023, Staff met with representatives from the Company, PLVC, and PC to discuss how to proceed with the case and resolve PLVC's concerns. The parties agreed to engage in a discovery process consistent with the procedures set forth in WAC 480-07-400 and to a discovery cut-off date of August 23, 2023. PLVC subsequently sent Staff two sets of requests for information, totaling 27 data requests. Staff timely and completely responded to all 27 data requests. During the discovery process, both PLVC and PC also sent data requests to the Company. Staff did not receive data requests from any other party but PLVC.

The parties met again on September 12, 2023, to discuss the results of the discovery process. During this meeting, PLVC raised additional questions about Staff's discovery responses as well as new issues it perceived with the Company's filing. Staff therefore agreed to meet again in person at Port Ludlow to go over and resolve these questions. On September 26, 2023, PLVC provided Staff with a written list of its eight remaining questions and concerns.

On October 20, 2023, all parties attended an in-person conference in Port Ludlow. Staff addressed each of PLVC's written questions in turn and explained why none of the raised concerns rendered the rates unreasonable and responded to additional questions from PC. At the end of the meeting, PLVC stated that they will confer internally before letting Staff know how they would like to proceed.

On November 3, 2023, PLVC reached out to Staff and requested a meeting to discuss next steps. Staff agreed.

On November 9, 2023, the parties met again. During this meeting, PLVC raised more questions about the case, including some already addressed during discovery and the October 20 meeting. PLVC requested the opportunity to raise its remaining concerns in front of the Commission at an open meeting.

On November 15, 2023, Counsel for Staff alerted the Administrative Law Division (ALD) to the procedural status of the case, as well as PLVC's open meeting request. ALD instructed Staff to put the matter on the agenda for the next available open meeting.

Discussion

Throughout this case, PLVC has repeatedly raised a number of concerns it has regarding the Company's filing, mostly centered around the allocation of expenses between the Company's water operations and the affiliated unregulated wastewater operations.

On April 27, 2023, following Staff's review of the affiliated interest report and schedule of separation of revenues and expenses, Staff discussed with the Company again how it separates the water Company revenues and expenses from the wastewater revenues and expenses, and it was repeated the Company uses different accounting ledgers for each. During Staff's initial review of the compliance filing, Staff used the Company's general ledger for water to determine that the costs associated with the water Company were only for the water side, and not the Company's unregulated wastewater entity. Staff were able to verify the amounts submitted to the Commission by looking into these accounts, ensuring that only water costs were determined in the setting of customer water rates.

During the ongoing investigation, Staff met with PLVC and PC on July 5, September 12, October 20, and November 9 to discuss PLVC's concerns. As detailed above, Staff provided responses to 27 data requests issued by PLVC and, at the October 20 meeting, provided responses to the eight additional "concerns" communicated by PLVC that remained after the end of the agreed-upon discovery period. PLVC's eight additional written concerns are attached to this memo as "Attachment 1" and Staff's written responses to these eight concerns are included as "Attachment 2."

Staff reviewed the initial audit including data requests and responses, the model filed by the Company that supported the current rates temporarily in effect, the general ledgers provided by the Company, and Staff's original model, which generated a higher revenue requirement than that filed by the Company. In the investigation, Staff also reviewed the decision to use a hypothetical capital structure in its model.

The investigation found that the Company supported its expenses and its allocation method, which was consistent with previous allocation methods accepted by the commission. One concern identified by PLVC was the inadvertent addition of hours to the payroll cost calculation, but the amounts were immaterial to the calculation of the revenue requirement. The Company also supported its rate base calculation in determining the remaining 30 percent of the treatment plant to be recovered in rates, which was the basis for this filing in the first place.

Staff's investigation found several differences between the model filed by the Company and that used by Staff for its initial review:

- The Company included $21,000 which was a loan fee billed by DOH for the Drinking Water Revolving Fund loan. This fee was paid and recorded as expense according to Generally Accepted Accounting Principles (GAAP), however for regulatory purposes the loan fee should have been included in the calculation of the surcharge. Staff did not remove this amount in its model, but would normally have amortized the amount of the loan over the loan period.

- The Company included approximately $27,000 as an expense classified as a "management fee" which in reality is simply a percentage of revenue paid to the parent investors. Staff removed this amount in its model.

- The Company's model mistakenly zeroed out any federal income tax effect; Staff's model properly included an imputed amount of federal income tax.

- Staff had initially removed approximately $67,000 of payroll costs, to adjust payroll to the 2019 rate case levels. The investigation found this to be incorrect as the general ledgers supported the amounts paid, and the allocation methodology was the same as used in the 2019 rate case. These increased costs resulted from normal wage and salary increases, as well as increased activity due to the implementation and operation of the treatment plant. Staff believes these costs should be allowed to be recovered in rates.

The net effect of these differences, if they were to be rectified, would result in a revenue requirement greater than that originally determined by Staff, and would require rates higher than those currently in effect.

Finally, Staff determined that since Olympic Water is a wholly owned subsidiary, and all the equity is held in the parent's books, it is appropriate to utilize a hypothetical capital structure, as Staff did in its original review. Staff explained its decision to utilize the hypothetical capital structure in response to PLVC's data request no. 10.

Customer Comments

There have been four additional comments, outside of those provided by PLVC, since June 15, 2023, bringing the total number of comments to 16. Of those, 14 are opposed and two undecided. Two of the four comments recently received express concerns with the amount of the rate increase; two of the comments discuss water quality.

Rate Comparison

3/4 -inch Metered Rates

	Current Rate	**Company Proposed Rate**	**Staff Revised Rate**	**Percentage Rate Increase**
Base Charge	$19.25	$22.25	$22.00	14.3%
Block 1	$2.70	$3.57	$3.50	29.6%
Block 2	$3.40	$5.00	$4.75	39.7%
Block 3	$4.40	$6.00	$6.00	36.4%
Usage Blocks	**Current**	**Proposed**	**Revised**	
Block 1	0-1,000	0-1,000	0-600	
Block 2	1,001-1,800	1,001-1,800	601-1,800	
Block 3	>1,801	>1,801	>1,801	

- Blocks are set up to promote conservation.
- Block one was lowered to be more accurate of average customer water usage in the winter.
- The water treatment surcharge of $3.50 still applies and expires June 20, 2038.

Bill Increase

	Current Bill	**Company Proposed Bill**	**Staff Revised Bill**
Average	$35.03	$43.37	$42.43
Bill Increase		$8.43	$7.43
Percent Increase		23.8%	21.2%

- The current bill is based on annual average usage at 585 cubic feet per month.

Conclusion

Staff has completed its investigation of the Company's books and records, and Staff's initial audit and revenue requirement calculation. Staff's investigation shows that the rates proposed by the Company in its original filing of February 24, 2023, are fair, just, reasonable, and sufficient.

Recommendation

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