

# HOUSE BILL REPORT

## HB 1046

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**As Reported by House Committee On:**  
Environment

**Title:** An act relating to uncontested rate modifications for utilities and transportation commission regulated water companies.

**Brief Description:** Concerning uncontested rate modifications for utilities and transportation commission regulated water companies.

**Sponsors:** Representatives Fey, Upthegrove, Takko, Seaquist, Zeiger, Walsh, Blake, Kochmar and Haigh.

**Brief History:**

**Committee Activity:**

Environment: 2/14/13, 2/21/13 [DPS].

**Brief Summary of Substitute Bill**

- Allows private water companies meeting certain criteria to adjust their charges by up to 3 percent without a hearing in front of the Utilities and Transportation Commission.

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### HOUSE COMMITTEE ON ENVIRONMENT

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Upthegrove, Chair; McCoy, Vice Chair; Crouse, Farrell, Fey, Kagi, Lias, Morris, Nealey and Tharinger.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Short, Ranking Minority Member; Pike, Assistant Ranking Minority Member; Overstreet.

**Staff:** Jacob Lipson (786-7196).

**Background:**

Private, investor-owned water companies that serve more than 100 customers or have an average annual per-customer gross revenue exceeding \$557 are regulated by the Utilities and

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Transportation Commission (UTC). The UTC regulates the rates these companies may charge customers, as well as the terms and conditions of the services they provide. The UTC reviews the rates charged by private water providers to ensure that they are just, fair, reasonable, and sufficient.

A private water company seeking to adjust the rates charged to customers must file a proposed rate adjustment with the UTC and notify customers 30 days before the new proposed charges would go into effect. To facilitate the review of a company's rate adjustment petition by the commissioners of the UTC, stakeholders and UTC staff have the opportunity to speak to the company's rate adjustment petition at periodic public meetings held by the UTC. The UTC commissioners have 30 days after a company files a rate adjustment petition to approve the rate adjustment, deny it, or suspend it.

If the UTC decides to suspend the proposed rate increase of a water company, the UTC may designate an administrative law judge to subsequently preside over a formal hearing. Formal hearings, orders, appeals, and other administrative proceedings related to suspended proposed rate adjustments are governed by the state Administrative Procedure Act (RCW 34.05), in conjunction with rules adopted by the UTC.

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### **Summary of Substitute Bill:**

Private, investor-owned water companies may adjust the tariff rates charged to customers for water service by up to 3 percent in a calendar year without the rate change petition being suspended and subject to an adjudicative hearing in front of the UTC. The UTC retains the ability to approve or deny a 3 percent rate increase application under the new alternative rate adjustment process; the only option under a 3 percent rate increase application that is foreclosed to the UTC is a suspension of, and subsequent adjudicative hearing for, the application. Under the new alternative rate adjustment process, the UTC would have 60 days after application receipt to approve or deny the company's proposed rate increase; by comparison, the UTC has 30 days to approve, deny or suspend an application under the traditional rate increase process.

To be eligible to make a 3 percent rate adjustment without suspension and a UTC hearing, the company must:

- have increased their rates through the traditional UTC rate adjustment process within the three years prior to the company's initial rate increase application under the alternative process;
- not have made an alternative process rate increase within the last year;
- not have made more than four consecutive alternative process rate increases without having made a rate increase through the traditional UTC process;
- be in compliance with safe drinking water regulations and UTC report filing and fee payment requirements;
- not be subject to a UTC complaint or pending action;
- submit a statement demonstrating that the rate increase is necessary to retain employees or to pay rising electricity and motor fuel costs; and
- report to the UTC how it used the additional funds generated by the rate increase.

When a water company proposes to make a 3 percent rate increase through the new alternative process, the company must provide written notice to the UTC and to current customers 60 days prior to the effective date of the increase.

The bill has an expiration date of June 30, 2019. Prior to the expiration date, the UTC is to report to the Legislature by October 1, 2018, on how the creation of the alternative rate adjustment process has affected the UTC's regulatory costs and water company financial stability.

**Substitute Bill Compared to Original Bill:**

The substitute bill requires that a water company must be in compliance with safe drinking water rules and UTC report-filing and fee payment requirements in order to file for a 3 percent rate adjustment without a hearing in front of the UTC. In submitting a rate increase application under the new alternative process, a private water company must demonstrate that the proposed rate increase is necessary to retain employees or to pay rising electricity and motor fuel costs. Within one year after the rate increase takes effect, the water companies must report to the UTC on the use of the additional funds accruing from the rate increase. The substitute bill also places limits on the timing and frequency of the submission of alternative-process rate increase applications. Finally, the substitute bill adds a 2019 expiration date to the alternative rate adjustment process, and requires that the UTC report to the Legislature in 2018 an evaluation of the new alternative process.

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**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on February 21, 2013.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The proposed substitute bill streamlines the process for routine rate increases for companies that are in good standing with applicable requirements. The bill will also reduce the UTC's regulatory costs. The bill allows appropriately increased flexibility for water companies, while retaining sufficient protection for ratepayers via UTC oversight over local water service monopolies. The 60-day notice provision in the bill will give the UTC and ratepayers ample time to review the 3 percent rate change application. The UTC will also still have the discretion to deny a company's 3 percent rate change application.

If private water companies can skip the formal rate-setting process, they will spend less money on lawyers and consultants, and those savings can be passed on to consumers. Under current UTC procedures, rate increases are a time-intensive and expensive process: while waiting for the UTC approval of a rate increase, nonrecoupable costs continue to rise. These costs cannot be recovered because rate-increases are reactive to past costs, rather than

anticipative of future costs. The investor-owned water industry is challenged by rising fuel costs for reaching dispersed customers, and is also challenged by the high costs for certifying and training qualified employees and retaining experienced employees. Without a streamlined process allowing for small rate increases, water companies will not have the flexibility needed to retain their employees, who can find better-paying jobs with public utilities or other employers.

(Opposed) None.

**Persons Testifying:** Representative Fey, prime sponsor; Phil Watkins, Rainier View Water Company; Mike Ireland, Washington Water Service; and Ann Rendahl, Utilities and Transportation Commission.

**Persons Signed In To Testify But Not Testifying:** None.