

# SENATE BILL REPORT

## SB 5006

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As Reported by Senate Committee On:  
Energy, Environment & Telecommunications, February 12, 2013

**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:** Senators Rolfes, Honeyford, Hatfield and Delvin.

**Brief History:**

**Committee Activity:** Energy, Environment & Telecommunications: 1/24/13, 2/12/13 [DPS].

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### SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

**Majority Report:** That Substitute Senate Bill No. 5006 be substituted therefor, and the substitute bill do pass.

Signed by Senators Ericksen, Chair; Sheldon, Vice Chair; Billig, Brown, Chase, Cleveland, Honeyford and Litzow.

**Staff:** William Bridges (786-7416)

**Background:** The Washington Utilities and Transportation Commission (UTC) regulates the rates and charges of 72 privately-owned water companies in the state. Each company has at least 100 customers or has rates that exceed an average of \$557 per year. The UTC does not regulate water systems owned by local governments, cooperatives, or homeowners' associations.

There are no restrictions on how often a water company may adjust a rate or charge, but it has the burden of demonstrating to the UTC that any change is fair, just, reasonable, and sufficient. A water company seeking to adjust a rate or charge must give 30-days' notice to the UTC and affected customers. During this period, the UTC initiates an investigation. By the end of 30 days, the commission must act by approving the adjustment at an open meeting, suspending the adjustment pending further investigation, or setting the matter for a formal hearing.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Summary of Bill (Recommended Substitute):** Allowing Water Companies to Adjust Their Rates Up to 3 Percent Without UTC Hearings. Until June 30, 2019, a water company regulated by the UTC may use a new process for adjusting its rates if it is experiencing the following problems: (1) employee hiring or retention due to the competition for qualified employees; and (2) frequent increases in the costs of electricity and motor fuel. A water company experiencing these problems may adjust its rates up to 3 percent without a tariff suspension or adjudication if it meets specified conditions, such as:

- the company filed a successful general rate case within the previous three years, and did not adjust rates more than four times since the last general rate case;
- the company has not adjusted its rates within the previous 12 months;
- the company is current in the regulatory fees due to the UTC;
- the company is in compliance with all Board of Health and Department of Health safe drinking water rules;
- the company is not the subject of a UTC complaint or other pending UTC actions;
- the company must give 60-day written notice, 30 days in the underlying bill, of the proposed rate adjustment to the UTC and rate payers; and
- the company must report to the UTC how it spent the money raised from the adjusted within 12 months of the increase.

A water company may still file for rate changes under current law and regulations, and the UTC continues to retain other powers within the scope of its authority.

Requiring a UTC Report. The UTC must report to the Legislature by October 1, 2018, on the new process for adjusting rates, explaining how the rate changes affected the financial stability of water companies, and whether and how the new process resulted in a reduction in the UTC's costs of regulating water companies.

**EFFECT OF CHANGES MADE BY ENERGY, ENVIRONMENT & TELECOMMUNICATIONS COMMITTEE (Recommended Substitute):** Adds specific conditions if a private water company seeks to adjust its rates up to 3 percent without a UTC hearing. Clarifies that a water company may still file for rate changes under current law and regulations, and that the UTC continues to retain other powers within the scope of its authority. Requires the UTC to report to the Legislature by October 1, 2018, on the new process for adjusting rates. Adds an expiration date of June 30, 2019.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Original Bill:** PRO: This bill will help reduce expenses by reducing costly and sometimes lengthy rate cases, which have become more complicated over the years. Some rate cases now require the assistance of expensive outside accountants and lawyers. Because rate cases are long and are based on the previous 12

months of earnings, by the time a rate is determined it can already be inadequate. Insurance and employee benefits are the two largest operating expenses of water companies, which go up faster than rates determined by the UTC. By allowing water companies to recover labor and insurance expenses without a rate case, the company can actually keep costs down.

OTHER: The UTC is concerned the bill would allow annual rate increases that could harm rate payers. Most water companies are owner-operated so automatic rate increases could lead to automatic raises for owners. The bill needs more clarification; for example, the cost of water is undefined, employee expenses are unclear, the applicable UTC requirements that otherwise must be followed are unclear, and there is no mechanism for the UTC to monitor the compliance of automatic rate cases.

**Persons Testifying:** PRO: Mike Ireland, WA Water Service Co.; Phil Watkins, Cascade View Water Co.

OTHER: Ann Rendahl, UTC.