Increasing Water Rates

How are public service commissions involved?

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Editors Note: This is the second of a two-part series covering water rate increases. The first part explained the steps a utility should go through to calculate and justify a rate increase. This article explores the next step: working with the state public service or public utility commission to get the rate structure approved.

Raising a community’s water rates is never easy. Many factors must be considered including the political ramifications, public support or outcry, and necessity of the increase.

One additional step that many utilities must consider is getting the rate increase approved by a state regulatory body, usually a Public Service Commission (PSC) or Utility Commission. Because there are statutory differences among states, some water utilities can merely set their own rates with little state regulatory oversight. But in many states, the water utility must go through a formal process to get the increase approved.

For those utilities that are regulated by their state’s PSC, system staff often must complete a formal application for a rate increase. Some states have no formal application but do expect certain pieces of information that justify a rate increase.

Washington’s Rate Increase Process

In Washington, the legislature gave the Utilities and Transportation Commission rate setting responsibility for some private, investor owned water companies.

Gene Eckhardt, assistant director of the Water and Transportation, says that water companies wanting a rate increase must put together a good case as to why they need the increase. “The burden is on the company to demonstrate that the utility needs additional revenue to recover expenses and earn a fair return on its investment,” he says. “The company must put together a case proving it needs the increase.”

Eckhardt says the company does its own analysis of its revenue needs and then files its proposed tariff and justification with the commission. “Our auditors then check the company’s records and visit the plant,” he says. “We often do preliminary work with a company to determine if a rate increase is needed or help develop rates so that when the company does formally file for a tariff increase, we know the proposal. “We look to see what are the operating costs, the income statement, the balance sheet, the customers’ usage, and meter readings, among other things, over a 12-month period to accurately reflect the operation’s records,” he says. “We review the general ledger, looking for all money that comes in and goes out. We want to get an accurate idea of what it actually costs the company to provide the water to the customer.”

Who’s regulated and who’s not?
The Utilities and Transportation Commission regulates private, investor-owned companies that serve 100 or more customers or receive more than $429 average annual revenue per customer. Only 71 private investor-owned companies are regulated in Washington. But these companies maintain 650 water systems throughout the state. The majority of the utilities are very small systems, with only four companies serving more than 2,000 customers.

Other water systems operated by municipalities, public utility districts, water districts, and homeowner associations do not fall under state regulatory control. In these systems, users have input in rate setting through a democratically elected process where the users vote on board members who ultimately set rates.

Rate Review, Step-By-Step

When a regulated water company decides to increase rates in Washington, it is required to file its proposed rates and justification with the Commission and notify each customer of the proposed rate changes 30 days in advance. It must also offer information that advises how a...
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customer can provide comments to the Commission, either in writing or by telephone.

Eckhardt says his staff reviews customers’ comments. “Often a rate increase notice will prompt customers to file complaints about service problems,” he says. “The customer might say, ‘I’ve had a problem with a system for a long time but the company won’t solve it. Now they want a rate increase.’ Our consumer affairs section investigates those complaints,” Eckhardt notes, “but that’s generally a separate issue from the rate setting side. A lot of customer complaints will raise the question of service quality, which is a consideration in a rate case.”

Commission staff summarize comments for the three-member Commission in a memorandum that discusses the proposed filing, reports staff’s findings, and makes a recommendation to either allow the filing to become effective or suspend the filing for further review. Washington’s commissioners hold an open meeting before the public which is a less formal process and not a hearing. Both the company and the customers may attend these meetings and make comments to the commissioners.

If the Commission takes no action after reviewing the rate review proposal, then the rate increase becomes effective by law. Eckhardt says that if a rate change is allowed, rates almost always go into effect on the first of the month.

A second option may be used whereby the Commission could suspend the filing for a maximum of 10 months. In this case, the Commission would perform additional evaluation and analysis of the company’s proposal. This could lead to a more formal hearing process before an administrative law judge.

Eckhardt says the hearing process includes witnesses’ sworn testimony, exhibits, and cross examination by attorneys. A law judge typically hears the case and drafts a recommended decision. Any party involved can appeal the ruling. The commissioners make the final decision, which can be filed before the courts in Washington. A rate increase can’t be denied without the hearing before a law judge or the commissioners.

Eckhardt says it is uncommon for a rate filing to reach the formal hearing process. “Staff work with the company and in almost all situations, we negotiate a compromise to avoid a formal hearing,” he says. “There have been just two formal hearings in Washington in the last eight years. Our staff resolve 60 percent of rate reviews within the 30 day period. The other 40 percent are resolved within the next few weeks or months. They are generally resolved quickly.

“We like to work with the water company beforehand so it shortens the review process,” Eckhardt notes. “We generally have good working relationships with the companies. We do have different opinions and occasionally have disagreements on various issues, though.

“The bottom line is if a company can demonstrate that it spent money on an item and it spent the money wisely, then we determine its revenue needs and design a rate that will generate the needed revenue,” he says. “We ask ourselves, ‘Did the company make a prudent decision in operating its business?’

“Companies know they need to operate their water system in a fair manner to provide a quality product at a fair rate,” Eckhardt says.

Maine’s Rate Increase Process

In Maine, municipal, investor-owned, and quasi-municipal public service districts are regulated by the Maine Public Utilities Commission (MPUC).

Raymond Hammond is a senior utility engineer with the MPUC and says utilities wanting a rate increase must submit a proposal they put together themselves, although some staff assistance is available, based on need and staff workload. The Commission does have filing requirements that vary with the rate increase method available to the utility. “We usually have from 15 to 30 filings per year,” Hammond says.

The Commission offers two different methods for reviews. One is open to all investor-owned, municipal-owned, and public service districts. Another option is only available to municipalities and public service districts.

Under a standard rate filing, municipal and quasi-municipal systems must file a copy of all relevant supporting documentation with the Commission and then hold their own public hearing where customers can testify. Statutes require that the customers be notified, and that a fair and open hearing be held. The utility may adjust its rate request based on testimony at this hearing. Within 30 days, the utility must submit its rate filing with the Commission that includes the public’s comments and any responses to those comments the utility makes.

At this point, customers can petition for the Commission to investigate the rate filing. A petition must be signed by either 15 percent of the utility’s customers or by 1,000 customers, whichever is less. The Commission can then suspend the rate increase. Continued on next page
Great Lakes RCAP Establishes Safe Water Fund

The Great Lakes Rural Community Assistance Program (RCAP) now has a revolving loan fund to serve as a niche market for financing water and wastewater infrastructure projects. Currently, the loan fund is available only in Ohio. However, the program will soon cover all states in RCAP’s Great Lakes Region.

According to Julie Ward, program manager, the Great Lakes RCAP will serve as the lender for eligible projects, and the loans will be repaid to RCAP to relend for future projects. “Potential projects include equipment replacement and repair, gap financing, interim financing, predevelopment costs, land acquisition, and new source development,” says Ward.

Eligible applicants include local units of government, as well as nonprofit and regional water and wastewater service providers. According to Ward, loan terms range from one to six years, the interest rates ranges from 4 to 6 percent, and the loans range from $5,000 to $250,000.

“The Safe Water Fund is a source of funding available with lower than market interest rates, and it is easier to access than other sources of federal and state funds,” says Ward. “RCAP technical assistance providers will work with communities to complete the application and put together the total financing package, depending on the project's funding needs.”

To learn more about the Safe Water Fund, contact Ward at (419) 332-2074 or visit the Great Lakes RCAP Web site at www.wsos.org/programs/glrcap.htm.

Free Groundwater Poster Is Available

The National Drinking Water Clearinghouse (NDWC) has numerous copies of a popular groundwater protection poster available at no charge.

Titled “Groundwater Protection Begins at Home,” the poster shows how household hazardous waste can contaminate groundwater. The back of the poster contains articles about household hazardous waste and disposal, as well as information about how to set up a household hazardous waste disposal program.

For a copy of the poster, call the NDWC at (800) 624-8301 or (304) 293-4191 and request item #DWSPE40.
You may also order the poster online at ndwc_orders@mail.estd.wvu.edu.

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“The first person to sign the petition is the lead petitioner,” Hammond says. “The lead petitioner can sign off on a stipulation on behalf on the petitioners but in an investor-owned case all the parties would have to sign off or have a chance to be heard.”

The utility can then challenge the suspension whereby the Commission holds another public hearing about the validity of the customers’ petition. If the Commission finds the petition to be invalid, it must lift the suspension and the rate increase goes into effect.

Small Utilities Get Help

Hammond says that the small utilities may need extra help in bringing their rate reviews before the Commission. “A fair number of small systems take advantage of our support service,” he says. “We assess their need because we don’t want to be in competition with the consultants that do that kind of work. “A number of small systems have been in dire financial straits and we’ve provided them with assistance,” he says. “We answer any general questions and offer guidance. We’re more than happy to answer questions to help them put together a rate case, but ultimately the burden is on the utility to justify the rate increase.”

To speak with Gene Eckhardt, call (360) 664-1160. Raymond Hammond may be reached at (207) 287-3831. To learn more about the regulatory requirements for your system, contact the Public Service Commission or Utility Commission in your state found in the government listings section of your phonebook.