

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF BAR CIRCLE "S" RANCH WATER) CASE NO. BCS-W-09-02
COMPANY, INC. FOR AN ORDER)
AUTHORIZING AN INCREASE IN THE)
COMPANY'S RATES AND CHARGES FOR) ORDER NO. 31002
WATER SERVICE IN THE STATE OF)
IDAHO)**

On June 19, 2009, Bar Circle "S" Ranch Water Company, Inc. (Bar Circle "S"; BCS; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase the water rates it charges its customers by approximately 119% (\$80,335). The Company also requested changes in certain non-recurring charges.

On November 5, 2009, the Company in reply comments reduced its rate increase request to \$70,175 (104.34%). The Commission on December 30, 2009, in final Order No. 30970 authorized a \$55,734 revenue increase (or 82.87%) to be collected through a uniform increase in rates. The Commission also approved changes to some of the Company's non-recurring charges.

PETITION FOR RECONSIDERATION

On January 14, 2010, Bar Circle "S" filed a Petition for Reconsideration of certain parts of the Commission's Order No. 30970, i.e., the Commission's determination that (a) the Company's estimated Automated Meter Reading (AMR) investment was "uncertain and speculative" and not entitled to rate base treatment and (b) that the Company's proposed \$2,500 connection charge for new service requests when there is no main line service tap, service line or meter box was not needed. *Idaho Code* § 61-626. The Commission in this Order denies reconsideration on the AMR issue and grants reconsideration and authorizes the requested connection charge.

(a) Automated Meter Reading (AMR)

The Commission's final Order No. 30970 contained the following language regarding AMR:

Staff Rate Base Adjustments

The following [rate base] adjustment of Staff remains contested:

(\$44,985) Automated Meter Reading (AMR).

Staff represented in its report that the Company had withdrawn its request to install the automatic meter reading system at this time (Staff Production Request No. 11, Part D) and removed all of the Company's pro forma adjustments for the AMR system. Staff Report, Atch. 4.

The Company in its filed reply states that it did not "withdraw its request" but rather pointed out a problem that was delaying the project. The Company states "the problem has been resolved and applicant is moving forward with the project. The meters are being ordered the week of November 1, 2009. Installation will commence as soon as the meters arrive. Applicant believes it will be able to complete the project before winter weather interferes."

Status Report: On December 11, 2009, Staff inquired and was informed that the AMR equipment has not been ordered.

Commission Findings

Bar Circle "S" is entitled to rates that will cover its operating costs and provide an opportunity to earn a reasonable rate of return on its investment devoted to utility business. Only "used and useful" property is permitted in rate base. The Commission finds that the Company to date has neither installed nor purchased automated meter reading equipment. While planned as a system improvement by the Company, we find that the proposed investment is still uncertain and speculative. We find no basis, therefore, for including the estimated AMR investment (\$44,985) in rate base and accordingly find it reasonable to exclude same.

Order No. 30970, p. 5.

Petition for Reconsideration

As reflected in its Petition for Reconsideration, on May 4, 2009, Bar Circle "S" Water Company filed an Application for authority to incur debt . . . (Case No. BCS-W-09-01) [for purposes among other things] to convert from manual meter reading to an automated electronic meter reading (AMR) system (\$44,985). The Commission issued Order No. 30832 on June 3, 2009, authorizing the Company to borrow \$55,000 for the system improvements from Community Bank in Post Falls, Idaho. In authorizing the Company to incur debt, the Commission found the proposed conversion to AMR to be of general benefit to the customers of

Bar Circle "S". The Commission went on to state "we expect the Company to present a cost-benefit analysis of its capital expenditures in the next rate case." Bar Circle "S" states that it complied with the Commission's directive and in this rate case (BCS-W-09-02) submitted Exhibit No. 5, a cost-benefit analysis.

Staff, in its report in this rate case, the Company contends, incorrectly concluded that Bar Circle "S" had withdrawn its request to install the AMR project. Bar Circle "S" in its reply to the Staff report explained that an internal ownership problem had delayed the project but the problem had been resolved and the project was back on track. Bar Circle "S" states it intended to order the new meters the week of November 1, 2009, and that it did in fact meet with the equipment suppliers and was provided an updated cost quote. The Company notes parenthetically that due to delays, the escalation in equipment costs have increased the total project cost from \$44,985 to \$51,274. However, Bar Circle "S" states that it grew nervous about placing the order and committing the Company to a large loan requiring monthly debt service costs without assurance that the new rates the Commission would authorize at the end of this case would provide the necessary cash flow. Bar Circle "S" reports that it has not taken out the loan and has diverted owner capital for other projects. Bar Circle "S" states that the Company elected to not place the order until the Commission issued its Order. Bar Circle "S" states its intention to move forward with the project and place the order for installation as soon as spring weather allows, assuming that the Commission provides rates adequate to provide the necessary cash flow.

Bar Circle "S" contends it finds itself in a Catch 22 situation. It cannot commit to a loan it cannot repay. The Commission characterized the project as ". . . uncertain and speculative . . ." (Order, page 5) and denied the project for inclusion in the calculation of revenue requirement to set rates.

Bar Circle "S" specifically requests that the Commission reconsider its decision on this issue, find that the project is beneficial and authorize the Company to move forward with the project. Bar Circle "S" proposes that the Commission consider the rates currently authorized by Order No. 30970 to be interim rates, subject to change upon completion of the AMR project. Exhibit No. 11 attached to the Company's Petition for Reconsideration shows the effect of this proposal on the rates already approved by the Commission's Order. Bar Circle "S" pledges to

provide the Commission with copies of purchase orders, invoices and status reports as the Commission deems necessary.

Commission Findings

Bar Circle "S" requests that the Commission reconsider its findings regarding the Company's proposed AMR project. In our final Order No. 30970, we found no basis to include the estimated AMR investment (\$44,985) in rate base. We found the proposed AMR investment to be uncertain and speculative.

In our June 3, 2009, Order No. 30832 authorizing the Company to incur indebtedness for its proposed AMR project, we recounted Staff's citing of the following potential (quantitative and qualitative) benefits of converting the Company's manual meter reading system to an automated electronic reading system:

The Company cited in its Application, and in additional information provided to Staff, several benefits of this conversion including: (a) avoiding the necessity of hiring additional part-time employees to obtain monthly meter readings; (b) avoiding re-reading meters due to previous reading errors, potential leaks or customer complaints due to unusually high bills; (c) avoiding additional vehicle expenses due to travel from the office to meter sites to re-read meters and conduct investigations; (d) avoiding extra time and expense in correcting meter data computer input, recalculating water usage, preparation of and sending revised bills to customers; (e) being able to identify leaks at the Company's service connection and/or broken meters in a timely fashion thus eliminating potential revenue lost and additional operating expense to the Company; (f) being able to identify leaks on customers' services in a timely fashion; (g) being able to absorb new customer growth with minimal future labor costs; (h) being able to read the meters in the winter season when snow accumulation makes manual reading impossible; and (i) improving the Company's cash flow by being able to bill customers on a monthly basis.

Order No. 30832, p. 3.

We noted Staff's contention that Bar Circle "S" had elected to use a mid-level AMR technology, the mobile or drive-by meter reading system. Such a technology requires installation of a radio frequency transmitter for each customer meter and the meter flow data is automatically read by a mobile reading device that includes navigational and mapping features. *Id.*

In our Order No. 30832 authorizing the Company to borrow money for its AMR program, we found the AMR program to be of general benefit to customers. We directed the

Company to file all final loan-related documents with the Commission upon execution. We stated “we expect the Company to present a cost-benefit analysis of its capital expenditures in its next rate case.” Order No. 30832, p. 4.

Bar Circle “S” has not installed AMR equipment. It has not made any AMR investment. It has not incurred the authorized indebtedness or secured a loan for AMR. The Company’s Exhibit 5 cost-benefit analysis (filed June 2009) is a simple schedule based on 3% customer growth and 3% inflation. The Company’s Application states that the exhibit

demonstrates that customers will initially realize a reduction in rates albeit rather small. The customer benefits will continue for a period of five years. Assuming customer rates are adjusted annually, in years 6-11 customers will see an increase in rates. In the 12-20 years, customers would return to a position of benefit. Over the lifetime of the equipment, customers would realize a net accumulated benefit in year 20. This cost-benefit utilizes the estimated savings of \$3,838, Staff developed in discussion with the Company in Case No. BCS-W-09-01.

The Commission’s decision against inclusion of the Company-proposed AMR investment in rate base in this case was based on the still speculative nature of the Company’s AMR program and did not address the reasonableness of the Company’s Exhibit 5 assumptions. The Company provides no evidence in this case, we find, regarding the actualization of the quantitative and qualitative benefits of AMR cited in Order No. 30832.

We find that the Company has presented in its Petition no reason to grant reconsideration of our AMR rate base decision. The Company to date has not followed through with its AMR commitment. That being said, however, we continue to support AMR to the extent that the Company is able to demonstrate its continued cost-effectiveness and satisfy the “used and useful” standard.

We encourage the Company to file an application to support its case for additional adjustments to rate base and recovery in rates of actual AMR investment. We will expect such an offer of proof to include a detailed schedule showing updated equipment cost estimate documentation, updated year one initial savings and an updated cost-benefit analysis with updated labor cost estimates, updated growth and inflation estimates and adjusted revenue projections.

(b) Connection Charges

The Commission's final Order No. 30970 contained the following language regarding the denied connection charge:

The Company is also proposing to charge new customers a \$2,500 connection fee *when there is no service tap to the Company's water main or no meter box is in place* on the property. Staff does not disagree with the Company on the amount of the \$2,500 connection fee, but questions the merit of putting this into the Company's tariffs when the Company is not expecting a new connection with this condition. Staff recommends that this proposed connection fee be denied at this time.

Commission Findings

The Company proposes a \$2,500 charge for new customers if there is no service tap or meter box in place. Staff contends that such service conditions do not exist on the Company's existing system and recommends at this time that the proposed charge be denied. We find no need to include this charge in the Company's tariff. The Company can request this charge later should its service territory be expanded and service conditions change.

Petition for Reconsideration

The Commission in Order No. 30970 accepted Staff's recommendation and denied this request. The Commission, the Company states, relied on Staff's assessment that there are no lots within the Company's service area that do not have meter boxes installed on the property. Bar Circle "S" states it failed to address the Staff's recommendation in its reply to Staff report.

Bar Circle "S" requests that the Commission reconsider its denial of this requested connection charge and approve the tariff submitted with the original Application. The Commission, the Company notes, has already approved an expansion of the service area to provide service to the Double T Estates subdivision. Order No. 30731, Case No. BCS-W-08-01. As the Double T Estates subdivision is developed, the Company states that no main line service taps or meter boxes have or will be installed until a property is purchased and water service requested. Due to the size of the building lots (five acres and larger) the Company contends that the location of the main line service tap and service line are unknown until the location of structures on the property are known.

Denial of the requested connection charge at this time, the Company contends, will cause the Company to incur additional costs to file another application at a later time, increase the Commission's future caseload and could unreasonably inconvenience and delay a property

owner's construction of a new home. Contractors need access to a water source as well as electricity during the course of construction. With a tariff in place, the Company states, it can respond quickly to a request for new service. Should there be no request for new service for several years, the Company contends the problem is moot and no charges will be assessed.

Commission Findings

Bar Circle "S" requests that the Commission grant reconsideration and approve the proposed \$2,500 connection charge. The Company, we note, failed to address Staff's representations and recommendations in its reply. The Company contends in its Petition for Reconsideration that service conditions in Double T Estates (no service tap or meter box in place) merit approval of the proposed \$2,500 connection charge. We find that facts presented by the Company on reconsideration support its request. We thus find it reasonable to grant reconsideration and to approve a \$2,500 connection charge for new service requests in the Double T Estates subdivision when there is no existing main line service tap, service line or meter box in place on the property.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Bar Circle "S" Ranch Water Company, a water utility, and the issues presented in Case No. BCS-W-09-02 pursuant to Idaho Code, Title 61, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

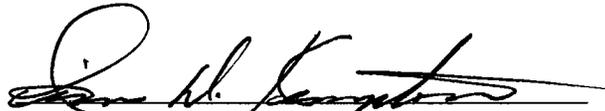
ORDER

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED that Bar Circle "S" Ranch Water Company, Inc.'s Petition for Reconsideration request regarding the Commission's exclusion of proposed AMR investment from rate base is denied.

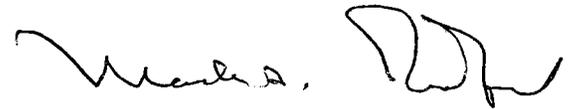
IT IS FURTHER ORDERED that the Company's Petition for Reconsideration request regarding the Commission's denial of a \$2,500 connection charge for new service requests (in Double T Estates) when there is no main line service tap or meter box in place is granted and the requested connection charge is hereby authorized. The Company is directed to file an amended "new customer connection charges" tariff sheet.

THIS IS A FINAL ORDER DENYING AND GRANTING RECONSIDERATION.
Any party aggrieved by this Order or other final or interlocutory Orders previously issued in this Case No. BCS-W-09-02 may appeal to the Supreme Court of Idaho pursuant to the Public Utilities Law and the Idaho Appellate Rules. See *Idaho Code* § 61-627.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 10th day of February 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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