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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
BAR CIRCLE "S" WATER COMPANY, INC.) **CASE NO. BCS-W-09-2**
FOR AN ORDER AUTHORIZING AN)
INCREASE IN THE COMPANY'S RATES AND)
CHARGES FOR WATER SERVICE IN THE) **STAFF REPORT**
STATE OF IDAHO.)
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Scheduling, Notice of Public Hearing and Notice of Comment/Protest Deadline issued on September 23, 2009 in Case No. BCS-W-09-2, submits the following Staff Report.

BACKGROUND

Bar Circle "S" is a water utility that provides water service to approximately 160 residential and commercial customers on the Rathdrum Prairie approximately 15 miles northwest of Coeur d'Alene in Kootenai County, Idaho. Certificate of Convenience and Necessity No. 296. The Company's principal office and place of business is located at 2953 North Government Way, Coeur d'Alene, Idaho.

On June 19, 2009, Bar Circle "S" Water Company, Inc. (Bar Circle "S"; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to

increase the water rates it charges its customers. The Company in its Application has requested an annual revenue requirement increase of \$80,335 or 119%. The Company is proposing to spread the increase on a uniform basis to all rates and schedules, resulting in a metered water rate change from \$15.00 for the first 7,500 gallons to \$32.92 and a change in additional consumption charges from \$0.95 per thousand gallons to \$2.08 per thousand gallons. The Company proposes to change first time connection fees from the current \$750 to a basic meter installation fee of \$480. An additional charge of \$2,500 would be assessed if a service line is not in place from the Company's water mains to the customer's property line. Finally, the Company proposes to increase customer reconnection fees and implement a returned check charge and charge for customer-requested service calls.

STAFF ANALYSIS

System Condition

As part of the evaluation process, Staff conducted a field tour of the water system on July 27, 2009, accompanied by Rob Turnipseed, operations manager and certified operator of Bar Circle "S" water system. The tour involved inspecting the various components of the water supply and distribution system, and focusing on Company projects that were recently completed or are in the process of being completed.

Bar Circle "S" has currently two production wells as sources of water supply. Well No. 1, located in a pump house on East Garwood Road, is a 6-inch well equipped with a 15-hp submersible pump with design capacity of 55 gpm. Well No. 2, located at Circle S Trail, is a 16-inch well equipped with a 60-hp submersible pumping unit with a design capacity of about 483 gpm. During the tour, the pump at Well No.2 was pumping approximately 480 gpm at a discharge pressure of 20 psi. Both pumping units at Well No. 1 and Well No. 2 are discharging water directly to the 185,000-gallon above-ground concrete tank located close to Well No. 1. Operation of the well pumps is controlled by switches tied to the water levels in the concrete tank. Four 10-hp centrifugal booster pumps operating in parallel are installed at the beginning of the distribution line shortly after the concrete storage tank. Each booster pump has a capacity of 180 gpm at 75 psi, or a total capacity of 720 gpm when all the booster pumps are running. In addition, one 110-hp fire pump operating in parallel with the booster pumps with a capacity of 1,500 gpm is also a key component of the system. Operation of the booster pumps and fire pump is controlled by changes of pressure in the distribution system via the hydro-pneumatic tanks.

For normal operation, the pressure settings of the booster pumps range from 38 psi to 72 psi. The booster and fire pumps are equipped with a 250-kW back-up power generation unit.

The distribution network is comprised mostly of 4-inch to 12-inch PVC pipes, although some older pipes are ductile and steel pipes. Water is delivered to various residential and commercial customers using manually read service meters with sizes ranging from ¾-inch to 3-inch meters. During the tour, Staff also visited some typical customer meters being planned for retrofitting to automated meter reading system. Bar Circle "S" currently serves a total of approximately 160 residential and commercial customers.

Recent System Improvements

Since the Company's last rate case application in 1989 (Case No. BCS-W-89-1), it had undergone several major improvements and expansion of the water system which includes: a) installation of standby generator for the booster and fire pumps (2004); b) replacements of the 60-hp pumping unit in Well No. 2 (several times); c) mainline improvements (2002); d) Garwood reservoir improvements (2001); and e) well sites improvements (several times). In addition, the Company recently installed a 6-inch recording flow meter on the discharge side of the Company's booster pumps as required by the Idaho Department of Environmental Quality (IDEQ) and plans to convert the Company's manual meter reading system to automated electronic reading system.

As part of the Company's Application, Bar Circle "S" proposes to recover the capital expenditures of the various system improvements discussed above by including them in rate base. Detailed Staff discussions for ratemaking treatments of these improvements and evaluation for prudence are discussed in the Staff's analysis below.

Revenue Requirement

The Company has asked to increase its revenue requirement by \$80,335. This increase is based on additions to rate base and increases in operating expenses. Staff has reviewed the Company's Application and audited the Company's records. Based upon this review, Staff is recommending an annual increase of \$49,147 for the Company as shown on Attachment No. 1. The difference is based upon both adjustments to rate base and annual operating expenses. These adjustments are discussed below.

Rate Base Adjustments

Staff recommends that the plant in service costs presented by the Company be adjusted in three (3) accounts.

1. Water line Improvements – The Company claims to have spent \$111,531 for mainline improvements completed by the Company in 2002 as shown in Plant and Depreciation Work Papers, line 16, Column C. In reviewing this capital expenditure, Staff requested that the Company (Production Request No. 16) provide the following: a) a description of this project and an explanation as to why it was built; b) as-built project plans; c) a copy of any documents and communication from IDEQ indicating approval of construction plans and operation of the project; and d) cost breakdown into various categories, including materials, equipment rental, labor, engineering, etc. for the development of the project.

In response to the Production Request, the Company cited the language from Commission Order No. 28895, dated November 15, 2001, in Case No. BCS-W-01-1 giving prior approval for expansion of the system and that the PUC Staff thoroughly investigated the project in that case and the information requested should already be in the Commission's case files.

Commission Findings:

The Commission has reviewed and considered the filings of record in Case No. BCS-W-01-1 including comments and recommendations of Commission Staff. We find that present and future public convenience will be served by approving the purchase of the Garwood Business Center Water System by Bar Circle "S" and authorizing the Company requested expansion of its certificated service area. We find Garwood Purchase price and estimated costs of interconnecting the two water systems to be reasonable...

In addition to the above project (Garwood interconnection with the Bar Circle "S" Water System), the Company responded,

Bar Circle "S" completed approximately 1,600 feet of 8" water line to loop a portion of its water system to improve system reliability and maintenance of the system.

Staff reviewed Case No. BCS-W-01-1, including Staff Comments, Staff Production Requests, Company responses to Staff Production Requests and Order No. 28895. Staff found that the estimated cost of interconnection cited in Order No. 28895 was \$64,000. However, this cost was broken down into four categories:

| | |
|-----------------------|--------------|
| 1. Water line | \$41,000 |
| 2. Generator | 5,000 |
| 3. Generator Building | 12,000 |
| 4. Control Unit | <u>6,000</u> |
| Total | \$64,000 |

The actual cost of the generator was \$5,500 (Response to Production Request No. 15), the cost of generator building was \$9,777 and the cost of the control unit was \$12,947 (Response to Production Request No. 17). These costs are separately listed as items to be recovered as shown in the Company's Plant and Depreciation Work Papers. As shown above, Staff believes that the cost of the water line found reasonable by the Commission was \$41,000 not the total amount of \$64,000. The Company initially submitted invoices documenting the total costs of \$111,531 for the water line project. After additional discussions with the Company, it later clarified that the \$111,531 cost is broken down into two categories: 1) the actual cost for the water line interconnection for Garwood and Bar Circle "S" is \$67,810.80, and 2) the cost for the construction of the 1,600 feet of 8-inch water line loop is \$43,720. The Company claims the preliminary estimate of \$41,000 as approved in Order No. 28895 was made before any engineering estimates were prepared. While Staff expects that the estimate can be subject to some changes, the difference in this case is quite large. It is about 65% over the original \$41,000 accepted as a reasonable interconnection cost by the Commission. Some of the construction costs were paid to Avondale Construction, an affiliated company of Bar Circle "S", but Staff was unable to distinguish what amount of the total cost is attributed to Avondale Construction. Staff believes that the actual cost of \$67,811 for the interconnection project is not prudent and reasonable and adjustments to this amount are recommended.

Staff believes a 15% contingency within the original cost estimate previously presented to the Commission is fair and reasonable. Therefore, a total cost of \$47,150 (\$41,000 + 15%) should be recommended as the allocated cost for the interconnection.

Similarly, the actual cost for the mainline loop project as presented by the Company is \$43,720. In the absence of various costs by category and other construction information requested by Staff (Production Request No. 16), it was difficult for Staff to assess the reasonableness of the \$43,719.95 cost for constructing the 1,600 feet of 8-inch water line loop. However, Staff obtained a telephone bid to construct this type of project at this time from a local contractor in the area and the cost submitted was \$24-25 per foot. This cost includes the cost of pipe, fittings, excavation and fill, bedding, etc. Using the higher costs of \$25 and applying a cost contingency of 15%, the construction cost per foot is \$28.75. Without adjusting to 2002 price level, the estimated cost to construct a 1,600 feet of 8-inch mainline using \$28.75 per foot is approximately \$46,000. Staff believes the actual cost incurred by the Company appears to be reasonable. Therefore, the total cost of both projects should be \$90,870 (\$47,150 + \$43,720) and

not the \$111,531 presented by the Company. Staff recommends an adjustment to the mainline cost by \$20,661 [$\$111,531 - \$90,870$]. See Attachment No. 4.

2. Equipment (placed in service on 6/15/06) – This account represents the purchase of fire hydrant locks. The Company had a problem with individuals taking water from the systems hydrants without paying any compensation for the water. To solve this problem, the Company purchased hydrant locks. The original order was for 66 hydrant locks for a total of \$5,375 (average price: \$81.44). The Company sold 7 to a third party for \$570, leaving the balance of \$4,805 or the balance claimed by the Company in this account. Staff determined that an additional \$1,171 was received by the Company from Diamond Bar Estates Water for hydrant locks. Staff subtracted this amount from the account balance and reduced the account to \$3,634. See Attachment No. 4.

3. Automated Meter Reading – The Company has withdrawn its request to install the automatic meter reading system at this time. See the Applicant's Reply to Production Request No. 11, response to part D. As such, Staff removed all of the Company's proforma adjustments for this system. The Company included the amount of \$44,985 in its calculation of rate base. See Attachment No. 4.

Expense Adjustments

Staff reviewed the annual operating expenses submitted by the Company to support this revenue increase. Based upon that review, Staff is proposing 5 adjustments as set forth in Attachment No. 3.

1. Labor Expense: The Company has proposed an increase in the labor cost for the water master and the bookkeeper over the amount paid in 2008. Both of these services are provided by Avondale Construction Co., (Avondale) an affiliate company of the water company. The increase is technically an increase in the contract amounts paid by the Company to Avondale for the services provided by Avondale employees. The Company is asking that the annual amount for the water master service be increased from \$7,200 to \$18,000 and that the annual amount for the bookkeeping services be increased from \$8,850 to \$10,950.

The increase requested for the water master services is an increase of \$10,800 or 150%. Also, this calculates to \$1,500 per month for water master services on a system that serves 154 customers. Staff contacted other water master services in the area and found one instance where a water company only paid \$1,300 per month for a water system that served over 300 customers. This large of an increase cannot be justified when there is no significant increase in labor or

services required that were not provided in the 2008. Staff does believe that some increase is justifiable, and therefore is recommending that the contract amount for this service be increased from \$7,200 to \$12,000 or a 67% increase. Staff's adjustment is a decrease of \$6,000 (\$18,000 - \$12,000) as shown on Attachment No. 3, line 7.

The increase requested for the bookkeeping services is an increase of \$2,100 or a 24% increase. The Company currently only reads meters and calculates statements based on water usage for 6 to 7 months of the year depending on weather conditions. For the other months (because meters may be buried in the snow), the Company only bills the basic charge. If the Company were to convert to the automated meter reading system, the customers would be billed on actual usage every month. This would require additional bookkeeping services. Those additional services are not now required with the Company's decision to not do automated meter reading, and the increase for bookkeeping should not be allowed. Staff has increased the annual amount by \$50 to allow for increase in postage and other increased costs to do the billing resulting in a \$1,950 adjustment as shown Attachment No. 3, line 14.

2. Pumping Power Expense: At the time the Company filed the Application, it included power costs at the 2008 rate. Since the filing, Kootenai Electrical Cooperative has increased rates. Staff has worked with the Company to determine what the increase in cost will be under the new power rates, and Staff has increased the 2008 annual power expenses by \$2,445 for an annual pumping power expense of \$17,478 or an increase of 16%. See Attachment No. 5 and Attachment No 3, line 8.

3. Normalized Water Testing: The Company proposes an adjustment to its water expense cost of \$1,221 (\$1,565 - \$344). The Company presented cost calculations in its Water Testing Schedule and Cost Worksheet showing a normalized annual testing cost of \$1,565. The \$344 was the water testing amount booked for the 2008 test year. Staff disagrees with its calculations due to some errors in its assumptions. The Company indicates that total Coliform bacteria tests are done per well source. There are two well sources in the Bar Circle "S" Water system. IDEQ's Coeur d'Alene office informed Staff that Coliform bacteria tests are only done in the distribution system. According to IDEQ, Bar Circle "S" has obtained waivers for testing contaminants in its water sources such as IOC-Asbestos, IOC-Cyanide, and Fluoride. In addition, testing of synthetic organics is done every nine (9) years not three (3) years, and testing of Radium 226 and Radium 228 is done once every nine (9) years, not every five (5) as the Company has claimed. The normalized annual cost of water testing for Bar Circle "S" as

provided by IDEQ is \$746. See Attachment No. 6. Staff proposes to adjust the water testing expense proposed by the Company of \$1,565 be reduced by \$818 to reflect the actual water testing costs of \$747. See Attachment No. 3, line 11.

4. Professional Services: The Company included in its proposed annual expenses for professional services the amount of \$13,128. Staff has proposed reducing this amount by \$12,628 to a balance of \$500. The Company included \$11,628 of expenses paid to consultants and engineers for services provided to the Company that related to the preparation and approval of the intertie between the Company's system and the Double T Subdivision. These are not costs that the customers of Bar Circle "S" are required to pay. The Commission in its Order approving the extension of its service area to include Double T Subdivision stated that, "(P)ursuant to terms of the Water Main Extension Agreement, the developer of Double T Estates Subdivision agrees to pay Bar Circle "S" for the cost of construction of the water main extension and related water system improvements to provide service to the Double T Estates Subdivision." These costs should not be paid by the Company, and they should not be included in the revenue requirement used to determine rates. Additionally, these costs are of a one-time nature and are not reoccurring, and should not be included as an ongoing operational expense. Staff has not reduced the amount of professional services expended for the preparation of its taxes, and has therefore allowed \$500 as a reasonable amount for annual professional services. See Attachment No. 3, line 17.

5. Depreciation Expense: With the adjustments that Staff recommended in the rate base amounts, the depreciation on the adjusted costs will be adjusted also. Attachment No. 4 sets forth Staff's calculation of the annual depreciation expense based upon the rate base costs as adjusted by Staff. The annual depreciation expense as determined by Staff is \$15,989 and is \$4,316 less than the amount claimed by the Company. See Attachment No. 3, line 25.

Rate Base Calculation

The Company's rate base including the adjustments proposed by Staff is set forth in Attachment No. 2. The Company proposed a total rate base of \$287,219. Staff is proposing that total rate base be \$207,891 or \$79,328 less. The main differences are the result of the adjustments explained above and calculated in Attachment No. 4. The other difference is in the amount of working capital included in total rate base. Both the Company and Staff calculated the working capital requirement by taking one-eighth of annual cash expenditures. Staff

determined that the Company's annual cash expenditures totaled \$67,098. See Staff Attachment No. 3. One-eighth of this amount is \$8,387.

Capital Structure and Authorized Rate of Return

The Company's capital structure is deemed to be 100% common equity. Staff agrees with the Company's treatment of the debt from the owners as common equity in the Company. The Company requested a return on equity of 12%. Staff also adopted 12% as a reasonable rate of return. The Commission in several recent small water cases has allowed a 12% rate of return. Stoneridge Water Company in Case No. SWS-W-06-1, Order No. 30342; Falls Water Company in Case No. FLS-W-05-1, Order No. 30027; Capitol Water Company in Case No. CAP-W-06-1, Order No. 30198; Spirit Lake East in Case No. SPL-W-06-1, Order No. 30279.

Revenue Requirement Calculation

Staff's calculation of the Company's revenue requirement that reflects all of Staff's adjustments is set forth in Attachment No. 1, Column C. The Company's net rate base as adjusted by Staff is \$207,891 (line 1) and produces a return of \$24,947 (line 3) at the recommended rate of return of 12% (line 2). This return must be grossed-up to account for federal and state taxes that will need to be paid on this revenue. The net to gross multiplier is 128.1% (see the bottom of Attachment No. 1). When the gross-up factor is applied to the authorized return of \$24,947, the Company must receive gross revenues of \$31,955 to cover the additional taxes to be paid with the additional income from the return on rate base. The total revenue requirement increase is calculated by adding the net operating loss of (\$15,832) from Attachment No. 3, line 27 to the grossed-up revenues of \$31,955 for a total required increase of \$47,147.

The Company incurred costs in the preparation and filing of this rate case. Those costs total \$6,668. Staff reviewed the costs and found them to be reasonable. The Company proposed that these costs be recovered in rates over a 3-year amortization schedule. Staff does not agree with the 3-year amortization, and proposes that the rate case costs be amortized over 5 years. If amortized over 5 years, rates would include an additional \$1,334 to recover the costs. The Company has not had a history of filing frequent rate cases with its last filing in 1989. Therefore, it should not be able to amortize over the shorter 3-year period.

When the \$1,334 for rate case costs recovery is added to the revenue requirement increase of \$47,813, rates for the Company should be increase by a total of \$49,147. The

Company is currently receiving revenues of \$67,255; therefore, the Company should be authorized a revenue increase of 73.08%.

Rate Design

The Applicant is proposing an across the board increase of 119.45% to all rates and charges contained in its current water rate schedules. Application at 9. The Company believes that equal percentage increase to all customer rate schedules is the most equitable and fairest approach. In response to Staff Production Request No. 4, the Company indicated that its rationale in proposing across the board increase in its current rate schedules is that the consumption patterns have not changed significantly since the Commission established the current rate schedules. Staff attempted to analyze the water use patterns of customers by comparing the monthly usage of customers by selecting a representative period closest to the time the Commission established the current rate schedule (early 1990s). However, complete water use data are not available during that period, although 2001 data was partially available. The Company also provided Staff with three years of water use data from 2006 through 2008. Monthly readings, however, were not available during the winter period although the total volume of water sold was recorded. The average monthly winter water usage per customer was calculated by dividing the total of water sold by the number of months between readings and the number of customers. Water use patterns were compared for all the four years of available records. As shown in the line graphs presented in Attachment 7, the pattern of monthly usage per customer is quite similar and follows the same trend. Staff sees no reason to change the rate structure and Staff agrees with the Company and supports its proposal for a uniform rate increase.

One customer of Bar Circle "S" wrote to the Commission that consumption usage should be reviewed to determine whether the 19-year-old first 7,500 gallons should be increased to a more realistic figure. The customer cited his 7-month usage of 35,000 gallons. Staff reviewed the average monthly usage during the three winter periods from 2005-06 to 2007-08. The monthly usage ranges from a low of 7,668 to a high of 10,048 or an average of 8,925 gallons per customer. See Attachment 8. Staff believes it is still reasonable to maintain the first 7,500 gallons of water use as a basis for the fixed charge.

The same customer also asked the Commission about the average usage per household (residential) and businesses (commercial) in Bar Circle "S" and raised the issue of equity between the rates paid by the residential and commercial customers. In addition, the customer

pointed out that traditionally, business rates are higher because they are an operating expense. Staff reviewed the water usage of residential and commercial customers in 2008 and found that the total water usage for commercial customers was approximately 5.78 million gallons and for residential customers, 45.86 million gallons, or 11.2% and 88.8%, respectively of the total volume of water sold (51.64 million gallons). In addition, at the end of the 2008 test period, there were only 8 commercial customers compared to 147 residential customers (Company response to Production Request No. 20). Staff believes that the commercial usage and the number of customers are not significant enough to warrant a different rate design for commercial customers.

Based on Staff's recommended revenue requirement increase of \$49,147, a rate increase of 73.08% is required. At the recommended revenue requirement, the monthly rate for residential customers increases from \$15 to \$25.96 for the first 7,500 gallons of water usage. Changes to additional usage over 7,500 gallons will increase from \$0.95 per 1,000 gallons to \$1.64 per 1,000 gallons. Staff's proposed rates are shown in Attachment 9. The average monthly cost for a residential customer using the Staff's recommended rate with an average usage of 27,056 gallons per month will increase from \$33.58 to \$58.03.

Other Water System Operational Issues

Staff reviewed the monthly water production and consumption data for calendar years 2006, 2007 and 2008 and calculated the water losses due to leaks and unaccounted water loss. Staff notes that the total volume of water pumped to the reservoir may not be necessarily the actual volume of water delivered to the distribution system due to the residual amount of water stored at the reservoir in between readings. However, Staff believes that this amount is not significant enough to affect the water loss calculations. With the newly installed recording flow meter, the Company will be able to accurately record the volume of water delivered to the distribution system in the future. The calculated average yearly water system loss is 18%, 13% and 6% in 2006, 2007 and 2008 respectively. It is encouraging to note that the trend of water losses in the Company's water system is going down to a reasonable level. It appears that the Company is managing its system well in bringing down leaks and other losses to an acceptable level.

Based on the data shown in Attachment 10, there are two months (August 2007 and September 2008) when the recorded volume of water sold was more than the volume of water pumped indicating a negative water loss. This discrepancy of data may have been caused by

meter reading errors or faulty water production meters or customer meters. Staff recommends that the Company investigate the potential causes of these discrepancies and institute appropriate actions to correct them.

As part of its review of the water system, Staff also looked at both the water quality and water rights issues to assure that the Company can adequately and reliably provide service. A Sanitary Survey was conducted by the Idaho Department of Environmental Quality (IDEQ) on November 26, 2007 on the Company's water system. A Sanitary survey is an onsite review of the water source, facilities, equipment, operation and maintenance to assure a public water system provides an adequate source of supply, and is distributing safe drinking water. Generally, for community systems, IDEQ conducts a Sanitary Survey every five (5) years, with some exceptions. According to IDEQ, effective 2013, a Sanitary Survey will be conducted every three (3) years. During the 2007 Sanitary Survey, IDEQ found a number of regulatory deficiencies that must be addressed which were contained in its letter to the Company on November 28, 2007. It is Staff's understanding that these are minor deficiencies and that the Company is working with IDEQ to correct these deficiencies. With the exception of the required installation of a flow monitor at the mainline immediately downstream of the booster pumps as discussed previously, and the regulatory deficiencies in the 2007 Sanitary Survey, it appears that present system is in compliance with IDEQ's Rules for Drinking Water Systems. In addition, no water quality related or low water pressure complaints have been recently received by the Company and the Commission.

Staff briefly reviewed the Company's water rights and it appears that its water rights licenses are adequate to provide water to existing customers and future customers at full build out of the present system. Staff was informed by the Idaho Department of Water Resources (IDWR) that Bar Circle "S" has appropriately filed adjudication claims on January 22, 2009 for the two water rights currently held by the Company.

New Customer Charges

The Company at present has an approved non-recurring charge for new customers connecting to the water for the first time with a total fee of \$750. This total fee is comprised of \$500 for installation of the water meter and \$250 for water hook-up. Bar Circle "S" proposes to change the fees to more accurately recover the Company's real cost of making a first time connection to the water system.

Bar Circle "S" is proposing a basic installation fee of \$480 if an existing service line and meter base are already in place. In response to Staff Production Request No. 9, the Company provided a more detailed estimate for this cost which includes \$392 for the cost of a new meter and \$88 for 3.5 hours of labor to purchase, deliver and install the meter. The Company did not specify the size of the meter in its estimate. Staff reviewed the proposed \$480 cost of installing new meters if existing service line and meter base are already in-place. Based on Production Request No. 8, the Company indicated that there are 28 vacant undeveloped properties within the service area excluding the recently approved Double T Estates expansion. All of these lots have a mainline service tap, service line to the property, meter box, meter base and 5-ft stub out line on the customer side of the meter box.

Staff believes the proposed connection cost for new customers is high for several reasons. First, in Commission Order No. 30455 (Case No. DIA-W-07-01, Diamond Bar Estate Water Company) issued on October 22, 2007, the Commission approved a connection fee of \$310 for new customers with meter box already in place. Diamond Bar is in close proximity with Bar Circle "S" and both systems are owned and operated by Mr. Robert N. Turnipseed. Assuming the same cost was applied to Bar Circle "S" in 2007 and adjusting the cost from \$310 (2007) to \$480 (2009), the increase is almost 55% in two years. Second, the quote provided by the GenPac Water to Bar Circle "S" for a 1-inch Record M70 meter with register and Orion Transmitter with cable is \$279 for 1-inch meter and \$230 for ¾-inch meter. Third, an independent quote obtained by Staff from a service meter dealer in Coeur d'Alene indicated a cost of \$207 for ¾-inch and \$301 for 1-inch meter. Assuming that the remaining undeveloped properties will be requesting installation of a 1-inch meter (90% of the meters installed in Bar Circle "S" are ¾-inch meters), Staff believes a meter cost of \$301 is reasonable estimate. Adding \$88 for labor in installing the meter based on Company estimate to the cost of meter (\$301), the estimated total cost for new hook-up is \$389. Allowing a minor amount for contingencies, Staff recommends that the hook-up fee for new installation when existing service line and meter base are already in place be set at \$400.

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 requested the Company to provide a more detailed cost estimate for the proposed \$2,500 connection charge (Staff Production Request No. 10). However, instead of providing Staff the

cost estimate requested, the Company cited Commission Order No. 30455 in Case No. DIA-W-07-1 upon which the Applicant had relied in making the proposal in its Application.

Commission Findings:

We find the following charges to be reasonable and necessary:

- (1) an increase in the connection for new customers where a service line tap and meter box are already in place from \$200 to \$310;
- (2) a hook-up fee where there is no service line tap or meter box of \$2,500; and (3) an additional charge to the \$2,500 if the service line tap must cross a road – to be determined on a case by case basis....

Staff does not disagree with the Company on the amount of \$2,500 connection fee, but Staff questions the merit of putting this as part of the Tariff when the Company is not expecting any new connection with this condition. As previously discussed, the Company indicated that the remaining 28 undeveloped properties within the Company's service area already have mainline service tap and meter base. Staff recommends not to include the \$2,500 connection fee in this Tariff when there is no service tap to the Company's water main.

Bar Circle "S" proposes to remove the charges for new customer connection charges from its existing non-recurring charges schedule to a new separate schedule. The Company asserts that the new schedule makes the Company's Tariff simpler to understand. Staff does not oppose the proposed change. There are other small water utility companies that have separate schedules for new customer charges or hook-up fees previously approved by the Commission. Staff recommends that the Commission approve the Company's request to remove the charges for new customer connection from its non-recurring charges schedule to a new separate schedule.

Bar Circle "S" is also proposing to model its proposed Tariff schedule after the currently Commission-approved rate schedule for the Diamond Bar Estates Water Company. Bar Circle "S" is located within few miles from Diamond Bar Estates and the Company utilizes the same suppliers of materials, equipment and labor. The Applicant is proposing a new Tariff schedule which is identical to the approved Diamond Bar Estates Tariff (Order No. 30455, Case No. DIA-W-07-1) except the meter rates have been updated to reflect current cost.

Staff reviewed the Diamond Bar Estates Water Company Tariff for new customer charges which is shown below:

For a first time connection to the Diamond Bar Estates Water Company system when an existing service line and meter base are already in place on the property the cost is \$310.00.

If there is no service line tap to the Company's water mains or meter box in place on the property the cost is \$2,500.00

