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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
CAPITOL WATER CORPORATION FOR) **CASE NO. CAP-W-08-2**
AUTHORITY TO INCREASE ITS RATES AND)
CHARGES.) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Modified Procedure issued in Order No. 30713 on January 6, 2009, in Case No. CAP-W-08-2, submits the following comments.

BACKGROUND

On November 17, 2008, Capitol Water Corporation filed an Application for authority to increase its rates for water service by 7.8%. The Application states that the Company provides water services to approximately 2,560 residential and 150 commercial customers in the City of Boise's west bench area bordered approximately by Curtis Road to the east, Maple Grove Road to the west, Ustick Road to the north and Northview Street to the south.

Capitol Water's current rates and charges were authorized by Order No. 30198 issued on December 13, 2006. Since that time, the Company states the Ustick Road widening project

caused it to incur \$102,006 in costs beyond its control. As part of this Ada County Highway District (ACHD) project, the Company was required to relocate distribution piping, fire hydrants and customer service connections located in the public right-of-way. In addition, in October 2008, the pump at Well No. 6 failed. The cost to repair the pump and put the well back in service was \$11,234.

Since 2006, the Company maintains that it has also experienced a significant increase in its electric power rates. The Company asserts that its cost for electric power is the single most expensive cost over which the Company has no control. The Company seeks to put a mechanism in place that would allow rates to be adjusted coincident with changes in its electric rates. The Company requests that the Commission immediately approve its proposed rate increase, “but hold the Case open pending a ruling by the Commission regarding Idaho Power Company’s current rate case” (Case No. IPC-E-08-10). Application at 4. Upon completion of that case, Capitol Water proposes that “the Commission revisit this case and authorize recovery of any additional electric expense [it] will realize” as the result of a potential rate increase by Idaho Power. *Id.* The Company characterizes its Application as a “make whole” request limited to the three issues stated above.

On December 9, 2008, the Commission issued Order No. 30700 relating to the Notice of Application and Notice of Intervention. No party petitioned to intervene.

On February 3, 2009, the Company filed an amendment to its Application to reflect the effect of Commission Order No. 30722 issued on January 30, 2009, in Idaho Power’s general rate case (Case No. IPC-E-08-10). The Company changed its rate increase request from 7.80%, as originally proposed, to 8.257%.

STAFF ANALYSIS

As a preliminary matter, based on the relative stability in customer totals and the lack of significant revenue requirement changes in other areas since the Company’s last general rate case, Staff believes it is reasonable to limit its review to the Ustick Road project, Well No. 6 failure, and electric power expenses as requested by the Company in its Application.

REVENUE DEFICIENCIES AND ADJUSTED REVENUE REQUIREMENTS

Ustick Road Rebuild Project and Well No. 6 Rebuild Cost

The Company is proposing to add to rate base the costs of the Ustick Road Rebuild Project and the Well No. 6 Rebuild for recovery in rates. Staff has audited these costs and finds them accurately recorded and reasonably incurred.

As part of its evaluation of the Ustick Road Rebuild Project, Staff reviewed Ada County Highway District (ACHD) Resolution No. 330, which obligates Capitol Water Corporation to pay for the relocation of the Company's water distribution facilities. The Resolution states in pertinent part that, "[s]hould the District require that any facility of a utility or sewer company be relocated from its existing location to a new location within the public right-of-way, all relocation costs shall be the responsibility of the utility or sewer."

Based on Resolution No. 330 and the description of the relocation project, Staff believes it was appropriate for the Company to pay the costs of relocating its main and distribution lines and related appurtenances. Staff also believes that the cost of relocating these facilities was reasonable. Instead of hiring a general contractor to perform all the tasks needed to complete the project, the Company undertook the project management, coordination of work with the ACHD, procurement of materials, laying and connecting pipes and appurtenances, and related tasks using existing personnel. The Company hired some contractors to perform specialized tasks such as trenching and paving. Staff believes that the Company spent considerably fewer dollars than it would have spent if it had hired a contractor to complete the project. Similarly, the price paid by the Company to rehabilitate Well No. 6 was reasonable when compared to other projects of similar size and scope. Staff believes the Company acted quickly to rebuild the facilities in a cost effective manner.

Staff has reviewed the calculations and supports the Company's proposal to put these items in rate base and to modify current rates to include these capital items. Staff has verified an annual revenue deficiency associated with these capital improvements of \$21,832. This represents a 3.495% increase over current rates. See Attachment 1 with Staff's recommendation.

Adjusted Electric Power Expenses

As part of its Application, Capitol Water has proposed a mechanism to adjust (either up or down) the Company's Commission-approved rates coincident with changes to Idaho Power Company's electric rates. The Company states that electric power cost is its single largest

operating expense and largely beyond its control. The Company further states that Idaho Power rates billed to Capitol Water have significantly increased since Commission Order No. 30198 was issued on December 13, 2006, establishing the level of power costs recoverable through Capitol Water's rates. The Company requests that the Commission approve the adjusted power cost as outlined in its filing but hold the case open pending a ruling by the Commission regarding Idaho Power's rate case currently before the Commission. Upon completion of that case, the Company proposes the Commission revisit this case and authorize recovery of any additional electric expense the Company will realize.

Staff does not necessarily object to tracking power costs paid by small water utilities if rising costs cause financial hardship. The Company has indicated that its power costs are its single largest operating expense. Staff reviewed the power costs the Company has incurred from 2005 to the present and found that the percentage of annual power costs to the total annual operating costs ranges from 16% to as high as 22.8%. The percentage of annual power costs to the revenue requirement was 13.3% in 2005 and 10.2% in 2008. The annual power costs are also presented in the graph in Attachment 2. However, the power costs incurred by the Company have not dramatically increased as the Company has claimed. In fact, power costs dropped from 2005 to 2007, then slightly increased in 2008 but still remain below the power cost level incurred in 2005.

Capitol Water is proposing an adjustment to its electric power expenses based on an estimate of the incremental cost of power in 2008 over 2005 (Test Year for the most recent Company rate case, Case No. CAP-W-06-1). The Company created a spreadsheet model using the 2005 energy usage for all metered points and applying the applicable 2005 Idaho Power rate schedules (Schedules 7, 9, 54, 55, 95 and 91) to estimate the total payments for that year. The total amount estimated by the model for 2005 (\$82,874) was about the same as the actual total electric bills paid by the Company in that year. Using the same cost model, the Company estimated the total 2008 power cost using 2005 test year energy usage and 2008 Idaho Power rates. The estimated amount was \$96,734 or an increase of 16.7 % in total power cost from 2005 to 2008 using this approach. However, the actual electric power cost paid by the Company in 2008 was only \$65,724. This reflects a decrease of \$17,150 or 20.7% less than the power costs actually incurred in 2005. The 2008 power costs already include all current Idaho Power base energy rates, PCA rates and other applicable schedules.

For comparison purposes, Staff also estimated 2008 power costs by increasing 2005 actual power costs by the weighted average electric power increase from 2005 to 2008. The weighted average was calculated taking into account the change in base and PCA rates from 2005 to 2008 for the applicable rate schedules (Schedule Nos. 7 and 9). The calculated weighted average power rate increase was 12.68% as shown in Attachment 3. Applying the 12.68% increase to the \$82,874 actual power cost in 2005 resulted in estimated 2008 power costs of \$93,382 using this method.

Neither of these methods accurately estimates the actual cost of power paid by the Company in 2008. To determine why power cost has actually declined, Staff audited the energy usage data from 2005 to 2008. Staff found that energy consumption declined over the period by 29.6% from 1,940,776 kWh in 2005 to 1,367,198 kWh in 2008. Actual power costs paid by the Company in 2008 were lower than the amount paid in 2005, in spite of the 12.68% increase in Idaho Power's rates because annual energy consumption declined by 29.6% over the same period.

To verify that 2008 energy consumption and power costs were representative of what might be expected in a normal year, Staff normalized energy usage by calculating the average energy used from 2005 to 2008. Staff found that 2005 energy consumption was (1,940,776 kWh) higher than normal (1,575,995 kWh) and 2008 consumption was lower than normal (1,367,198 kWh). Using normalized energy usage and 2005 power cost and consumption data, Staff calculated normalized power costs of \$67,297 in 2005. Staff then escalated those costs to 2008 using Idaho Power's rate increases of 12.68% actually experienced over the period. Normalized 2008 power costs were calculated to be \$75,830 ($\$67,297 + \$67,297 \times 12.68\%$). These normalized 2008 power costs are still lower than the 2005 power costs of \$82,874 presently included in base rates.

Based on the analyses described above, Capitol Water is not facing a financial hardship due to increasing power costs. While it is true that Idaho Power's rates have increased since the Commission last established Capitol Water's annual revenue requirement, the Company's annual power costs have actually declined. Even with the Idaho Power rate increase recently granted by the Commission, the Company's actual power costs should be less than the amount currently included in rates. Consequently, Staff concludes there is no reason to increase Capitol Water's rates to recover a higher level of power costs and there is clearly no financial need for a power cost adjustment mechanism at this time.

In summary, Staff believes that the power costs included in the 2005 test year for the Company's last general rate case (Case No. CAP-W-06-1) are sufficient to sustain the Company's current operation. Therefore, due to lack of demonstrated need and to maintain rate stability, Staff recommends that the power cost adjustment proposed by the Company be denied.

RATE ISSUES

System Condition

As part of the evaluation process, Staff conducted a field tour of the water system on January 9, 2009, accompanied by Robert Price, Company President, and Jim Carson, certified water system operator. The tour focused mainly on Well No. 6, which was recently renovated, and the relocated distribution system and other appurtenances due to the Ada County Highway District (ACHD) Road Expansion Project on Ustick Road between Maple Grove and Curtis roads. Several pumping sites were also visited briefly including Well Nos. 3, 4, 5, and 7. Well Nos. 3, 5 and 7 were operating during the tour, while Well Nos. 4 and 6 were not operating since the water system did not need additional water from these well pumps, which are automatically controlled by pressure switches.

The vertical turbine pump in Well No. 6 unexpectedly failed to operate in October 2008 due to damaged pump bearings, column, shaft and impellers, which necessitated the Company to restore the pump to operating condition. Staff believes that this is an allowable and reasonable expense since it is expected that some components of the water pumping system will fail within its operating life due to various factors. The Company maintains a shop close to Well No. 6 where it stocks spare parts and repairs/modifies various parts for the components of the water system. Based on Staff's facility visit, Staff observed that the pumping plants appear to be in good condition and well maintained.

Staff was not able to inspect the relocated distribution lines since they were all underground with the exception of the relocated above ground appurtenances such as fire hydrants. Staff asked the Company if it is required by the Idaho Department of Environmental Quality (IDEQ) to submit design plans for the relocated distribution system. Staff was apprised by the Company that it was not necessary to submit such plans.

Rate Design

Based on the tariffs submitted as part of its initial Application, the Company proposes to collect the 7.8% revenue deficiency by a uniform increase in all rate components. Staff supports the Company's proposal for a uniform rate increase. The total number of customers served has not changed significantly since 2006 when the Company filed its last general rate case and none of the residential customers are metered. Staff sees no reason to change the rate structure or spread the increase on anything other than a uniform basis.

Based on Staff's recommended revenue requirement increase of \$21,832 and a current total revenue requirement of \$624,713 authorized by the Commission in the Company's latest rate case in 2006 (CAP-W-06-1), a rate increase of 3.495% is required. The monthly flat rate for residential customers with ¾ inch service size in summer (May 1 to September 30) would increase from \$27.50 to \$28.46. Staff's proposed rates are shown in Attachment 4.

Rate Schedules

The Company has submitted a copy of its proposed Rate Schedules as Exhibit 3 of the Application. When approved, these rate schedules will become part of the Company's tariff. The current rate Schedule Nos. 1, 2 and 4 include the Boise City franchise fee of 3% and the IDEQ Public Drinking Water Fee of \$ 0.34 per month within these schedules. These fees are established by Boise City and IDEQ. Staff believes the fees should be placed on a separate schedule of recurring charges to clarify that the Commission allows the Company to recover these fees from customers. This tariff change will also make it administratively easier to revise the tariff if the fees are changed in the future. In the present format, if either Boise City or IDEQ revised their fees, the Company would be required to submit a tariff advice for three schedules instead of just one.

Company Tariff Issues

As part of its review of the Company's filing, Staff has assessed the status of the Company's current tariffs and believes that they should be further updated in conjunction with this case. The current Company tariff consists of its rate schedules, along with a version of the General Rules and Regulations for Small Water Utilities dated 1987 and a copy of the Uniform Main Extension Rule for Water Utilities dated 1986. The General Rules and Regulations for Small Water Utilities includes obsolete references to rules found in the Commission's Utility

Customer Relations Rules (UCRR) and Utility Customer Information Rules (UCIR) that have since been revised or removed.

Staff has developed a model tariff that incorporates the latest changes in the Commission's Rules and Regulations and recommends that the Company adopt the model tariff. The model tariff is available in electronic format, which will allow the Company to easily incorporate new rates and other future revisions. Staff also recommends moving recurring and non-recurring charges from the Rules and Regulations section of the tariff to separate pages itemizing these changes to increase customer awareness. The consolidation of the charges will also make future changes easier to incorporate into the tariff. Staff is willing to assist the Company in revising its tariff to ensure that it is in compliance with the Commission's Rules and Regulations.

CUSTOMER RELATIONS

The Company provided customers notice of the proposed rate increase in its December 2008 billing. The notice meets the requirements of the Utility Customer Information Rules (UCIR), IDAPA 31.21.02.000 *et seq.* A press release was not filed with the original Application as required by the UCIR, but the Company subsequently submitted a copy of its press release on December 19, 2008.

Three comments have been received to date with two of the three in favor of the rate increase.

On February 3, 2009, the Company submitted an amended Application to increase the proposed rates as a result of the recent Idaho Power rate increase. The Company has not notified its customers of the further increase in rates proposed in the amended Application.

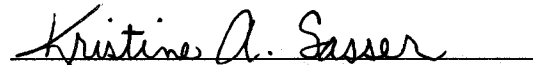
STAFF RECOMMENDATIONS

Staff recommends:

1. The Commission approve a revenue requirement increase of \$21,832 or 3.495% over the total revenue requirement of \$624,713 authorized by the Commission in Order No. 30198.
2. The Commission approve the new rates proposed by Staff in which the 3.495% increase in revenue requirement is applied uniformly across all applicable schedules.

3. The Commission deny the Company's request to increase power costs recovered in rates.
4. The Commission reject the Company's proposal to put in place a mechanism for rate adjustment due to changes in power costs.
5. The Company revise its Rate Schedules and General Rules and Regulations for Small Water Utilities using the model tariff and create a separate tariff schedule for the IDEQ Public Drinking Water Fee and Boise City Franchise Fee.

Respectfully submitted this 24TH day of February 2009.



Kristine A. Sasser
Deputy Attorney General

Technical Staff: Kathy Stockton
Gerry D. Galinato
Chris Hecht

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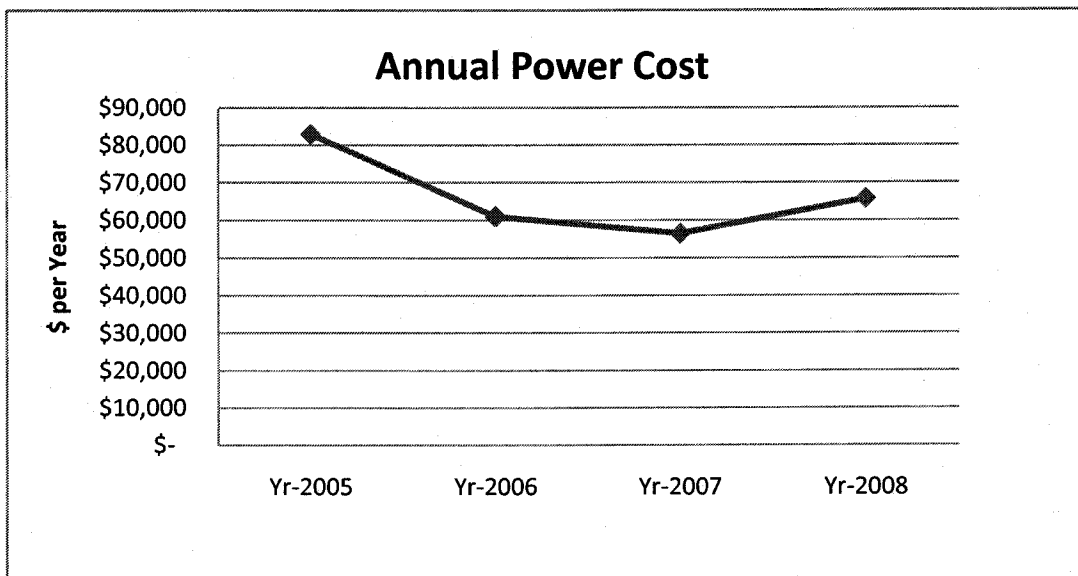
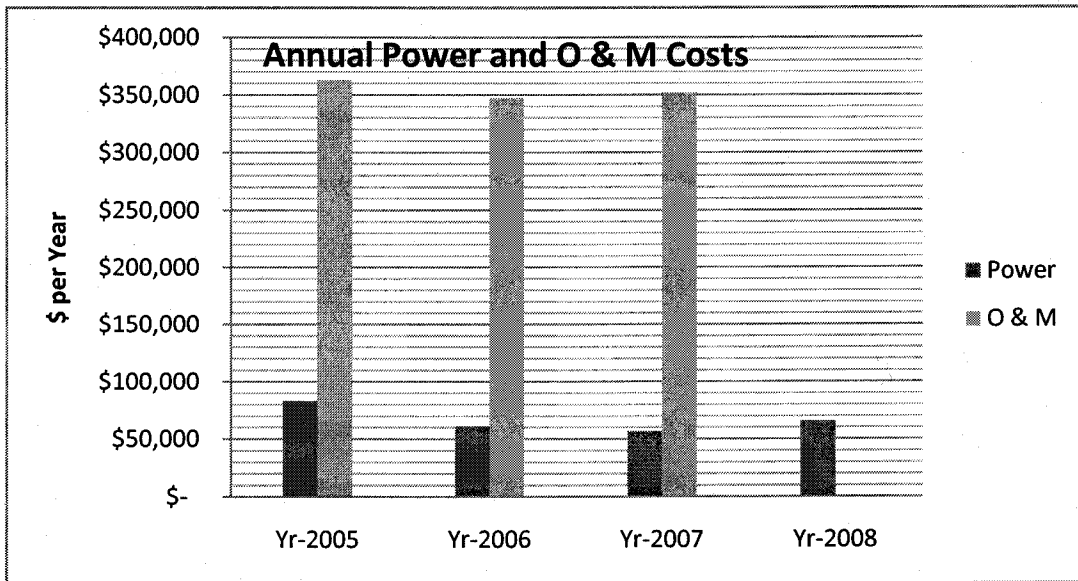
Staff Attachment 1
 IPUC Staff Recommendation
 Capitol Water Company
 Make Whole Revenue Requirement

1 Rate Base Approved by Order No. 30198 (Case CAP-W-06-1)	\$	942,326
2 Add Ustick Road Rebuild Project		102,006
3 Add Well No. 6 Rebuild Cost		11,234
4 Adjusted Rate Base	\$	1,055,566
5 Rate of Return Authorized by Order no. 30198		11.48%
6 Income Requirement with Improvements	\$	121,179
7 Income Requirement Determined in Order No. 30198		108,152
8 Incremental Income Requirement	\$	13,027
9 Gross-up Factor From Order No. 30198		128.21%
10 Incremental Revenue Requirement	\$	16,702
11 Add Depreciation Expense - 2008 Ustick Project	4,080	
12 Add Depreciation Expense - 2008 Pump Repair	449	
13 Incremental Depreciation Expense		4,530
14 Total Incremental Revenue Requirement-Plant in Service	\$	21,232
15 Add Amortization of Rate Case Expense (\$1,800/3yrs)		600
16 Total Incremental Make Whole Revenue Requirement	\$	21,832
17 Revenue Requirement Approved by Order No. 30198	\$	624,713
18 Increase Required		3.495%

Capitol Water Corporation

Annual Power Cost, Percent of O & M Costs, and Percent of Revenue Requirement

Year	Power	O & M	% of O & M	Rev. Reqt.	% of RR
Yr-2005	\$ 82,874	\$ 363,005	22.8%	\$ 624,713	13.3%
Yr-2006	\$ 60,998	\$ 347,235	17.6%		
Yr-2007	\$ 56,494	\$ 352,195	16.0%		
Yr-2008	\$ 65,724	N/A	N/A	\$ 646,545	10.2%



PERCENT INCREASE OF IDAHO POWER RATES					
(Includes Base and PCA Rates)					
<u>YEAR 2005 TO 2008</u>					
	Ave. Power	Ave. Power	Increase	% Sch. 7 & Sch. 9 Cost	Weighted
	Cost-c/kwh	Cost-c/kwh	%	To Total	Ave. Rate Increase
Schedule No.	2005	2008			
Schedule 7 (Base Rate)	7.166	7.918			
PCA Rate	0.6039	0.7864			
Total Rate-Sch. 7	7.7699	8.7044	12.03%	1.57%	
Schedule 9 Base Rate)	3.977	4.376			
PCA Rate	0.6039	0.7864			
Total Rate-Sch. 9	4.5809	5.1624	12.69%	98.43%	
			Total	100.0%	
Weighted Ave. Increase					12.68%
<u>YEAR 2005 TO 2009</u>					
	Ave. Power	Ave. Power	Increase	% Sch. 7 & Sch. 9 Cost	Weighted
	Cost-c/kwh	Cost-c/kwh	%	to Total Cost	Increase
Schedule No.	2005	2009			
Schedule 7 (Base Rate)	7.166	7.988			
PCA Rate	0.6039	0.7864			
Total Rate-Sch. 7	7.7699	8.7744	12.93%	1.57%	
Schedule 9 Base Rate)	3.977	4.596			
PCA Rate	0.6039	0.7864			
Total Rate-Sch. 9	4.5809	5.3824	17.50%	98.43%	
			Total	100.0%	
Weighted Ave. Increase					17.42%

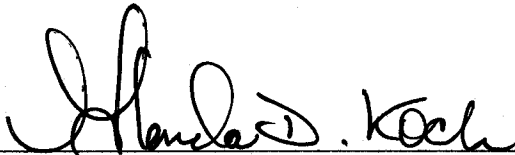
Capitol Water Corporation				
CAP-W-08-01				
Tariff Design				
Revenue Requirement Approved in Order No. 30198			\$624,713	
Staff Proposed Revenue Deficiency:			\$21,832	
Staff Proposed Increase:			3.495%	
RESIDENTIAL SCHEDULE 1, MONTHLY FLAT RATES				
		Company Proposed	Staff Proposed	
Service size	Current Tariff	Tariff	Tariff	
3/4"	\$12.10	\$13.07	\$12.52	
1"	\$14.50	\$15.69	\$15.01	
1 1/4"	\$16.20	\$17.53	\$16.77	
Sprinkling Charge: From May 1 through September 30, the following rates will be added to the base monthly rates				
	Current Tariff	Company Proposed	Staff Proposed	
	Sprinkling Rate	Sprinkling Rate	Sprinkling Rate	
	\$15.40	\$17.97	\$15.94	
COMMERCIAL SCHEDULE 2, METERED RATES				
Minimum Monthly Charge: Customers using less than the following minimum charge allowance will be billed the minimum charge.				
	Min. Charge	Current Tariff	Company Proposed	Staff Proposed
	Com. Allowance	Minimum Charge	Tariff-Min. Charge	Tariff-Min. Charge
Service size	cu. ft.	\$/mo.	\$/mo.	\$/mo.
3/4" & smaller	653	\$7.70	\$8.34	\$7.97
1"	915	\$10.80	\$11.69	\$11.18
1 1/2"	1,597	\$15.80	\$17.10	\$16.35
2"	3,760	\$27.30	\$29.55	\$28.25
3"	8,080	\$48.90	\$52.94	\$50.61
Commodity Rate Charge:				
		Company Proposed	Staff Proposed	
Quantity Over	Current Tariff	Tariff	Tariff	
Minimum	\$/100 cu.ft.	\$/100 cu.ft.	\$/100 cu.ft.	
1st 1,000 cu. ft.	\$1.18	\$1.28	\$1.22	
2nd 2,000 cu. ft.	\$0.67	\$0.73	\$0.69	
Balance	\$0.50	\$0.54	\$0.52	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 24TH DAY OF FEBRUARY 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-08-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY