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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-17-01
AUTHORITY TO INCREASE ITS SCHEDULE)	
NO. 3 PURCHASE POWER ADJUSTMENT)	COMMENTS OF THE
RATE)	COMMISSION STAFF
)	

The Staff of the Idaho Public Utilities Commission submits the following comments in support of Capitol Water Corporation's Application to increase its Schedule No. 3 rates.

BACKGROUND

On June 26, 2017, Capitol Water Corporation filed an Application to adjust its Schedule No. 3 Purchased Power Cost Adjustment (PPCA) rate to "recover the Company's cost of electricity related to Idaho Power Company's electric rate schedules that have been approved by the Idaho Public Utilities Commission." *Application* at 1. Capitol Water proposed an effective date of August 15, 2017. *Id.* at 3. However, the Commission suspended that effective date until September 15, 2017. Order No. 33812.

Capitol Water states that the increase in Schedule No. 3 rates is driven by a rise in electric power expenses. *Application* at 2. The Company claims that its current 2.8% PPCA rate is too low when factoring in the increase in power rates and the Company's costs to file this Application. *Id.* The Company thus requests a new PPCA rate of 3.1%. *Id.*

The Company states that its "current base rates were established by Order No. 30762 in Case No. CAP-W-08-02." *Id.* at 1. It summarizes that: "the Commission adopted a three (3)

year average of 1,454,401 KWh of electricity consumption at an average cost of 5.19¢, to establish rates for Applicant.” *Id.* This results in a total approved electric power cost recovery of \$75,483.41. *Id.* The Company claims that its actual costs for electric power in 2016 was \$19,126.83 more than what is embedded in base rates, not including the current purchased power cost adjustment mechanism. *Id.* at 2. The current PPCA mechanism produced \$18,249 in 2016, based on its current Schedule No. 3 Purchased Power Cost Adjustment rate of 2.8%.

The Company estimates its costs associated with the preparation and filing of this Application to be \$1,100. It is seeking the Commission’s authorization to recover the preparation and filing costs, along with the electric power costs described above, by increasing its current Schedule No. 3 Purchased Power Cost Adjustment rate from 2.8% to a revised rate of 3.1%.

The Company also included with its Application, a worksheet detailing its calculations (Exhibit Nos. 1-3), a sample customer notice that was included in the July 2017 billing (Exhibit No. 4), a copy of the proposed Schedule No. 3 in legislative format (Exhibit No. 5), and a news release that was printed in the Idaho Statesman and Idaho Business Review. *Id.* (Exhibit No. 6).

Finally, the Company proposes changing the method of calculating its PPCA rates. It requests that in future years, the Company compare the most recent year’s costs with the costs embedded in base rates. This method eliminates the use of a computer model, and “can be completed internally by the Company without the need for outside consultant assistance.” *Id.* at 2-3.

STAFF REVIEW AND ANALYSIS

PPCA ADJUSTMENT

Staff fully reviewed the Company’s Application requesting authorization to increase the PPCA. Staff recommends the Commission authorize the proposed 3.1% PPCA rate, which changes the Company’s current adjustment from \$18,249 to \$20,227. *See* Exhibit No. 3 - Application.

Staff reviewed the Company’s filing, including verifying that the supporting documents were accurate and correct. Through Audit Request, Staff obtained copies of the power bills for the months January 2016 through June 2017. Staff then compared the information in the bills with the information supplied by the Company in the Application and accompanying

workpapers. Staff verified that the calculations made in the Application and the workpapers are correct. Staff also verified that the actual power costs in calendar year 2016 are \$94,610.24.

Based on Staff review, the revisions to the Company's Schedule No. 3 that reflect the proposed 3.1% PPCA rate are cost-based and appropriate. Therefore, Staff recommends Commission approval of the Company's proposed Schedule No. 3. The effect of this change on customers' bills is small. The total annual bill – excluding the City of Boise franchise fee and Department of Environmental Quality fee - for a customer with flat-rate, one-inch service will increase from \$268.74 to \$269.59, an increase of \$0.85 (0.3%).

PPCA METHODOLOGY

Previously, the Commission directed the Company to “consider future changes in consumption and rates going forward to ensure the purpose of the PPCA--to accurately match the Company's power supply costs--is fulfilled.” Order No. 33565. In response, the Company proposed a different methodology to calculate the adjustment. Put simply, it is based on the difference between actual electricity cost during the previous calendar year and the cost of electricity embedded in Schedule No. 3 rates instead of past energy use and electricity rates in the upcoming year. Although this is a significant departure from the current method, Staff believes the method's simplicity is a good fit for the Company's situation and recommends that the Commission authorize the Company's proposed PPCA methodology for use in this year's adjustment and in future PPCA filings.

Staff identifies four reasons supporting its recommendation for the Commission to authorize the Company's proposed methodology. First, Staff believes the Company's proposed method is more simple and straightforward than the current approach and meets the intent of the PPCA. Second, it will eliminate the need for a consultant and associated fees to perform the calculations. Third, the Company will have more time to complete the PPCA filing by using the previous calendar year. Finally, Staff will still be able to determine the prudence of actual electricity costs by requiring the Company to supplement the filing with customer count, electricity usage, and water consumption information.

In prior years, the PPCA only adjusted for changes in electricity rates. Last year's PPCA adjusted for energy consumption in addition to changes in electricity rates. The Commission authorized a change in energy consumption during the previous 12 months due to system efficiency improvements. *See* Order No. 33565. This method requires the Company to reconcile

electricity consumption patterns during a historic time period with differing rate structures related to electricity demand and time-of-year energy use in the upcoming year. The complexity of the method requires the Company to hire an outside consultant at significant expense to perform the analysis and calculations.

By contrast, the Company's proposed method is much less complex. The Company will use actual energy charges directly from Idaho Power's bills and compare it to energy cost embedded in base rates to calculate the PPCA. This establishes a PPCA rate that is based on a historical base-versus-actual time period and will ensure that customers pay no more and no less than actual cost. The proposed PPCA changes create essentially a deferred cost recovery mechanism. Staff recommends that the Company be authorized to recover these deferred power costs as proposed by the Company. Staff agrees with the Company that by using this simpler approach, future PPCA filings can be completed in-house without the need of a consultant. *Application* at 3. This will eliminate \$1,100 in annual consulting fees to process the PPCA, which is 56% of this year's increase.

In addition, the Company proposes to use billing information from the previous calendar year (2016 in this case) instead of the most recent 12-month period and match this against the embedded cost of electricity recovered through base rates during the same period. Although this creates a time lag in the adjustment, Staff recognizes this delay will provide the Company adequate time in-house to calculate and file the adjustment in future PPCA's filings. Using actual Company energy billing information based on calendar year 2016, customers will see an increase to the PPCA of \$1,978. *See* Exhibit No. 3.

In future filings, Staff recommends the Company provide calendar year information on total average number of customers, total volume of water pumped in gallons (gal), and total electric energy used in kilowatt-hours (kWh). Due to the current customer charge rate structure, the Company's proposed method can maintain its simplicity and remain accurate without a true-up as long as the number of customers remains stable over time. Although Staff is not overly concerned that the Company will grow, having customer count information filed in its yearly application will allow Staff to monitor the situation. In addition, having electricity usage and water consumption information will allow Staff to monitor how well the system is being operated and to perform a rough prudence analysis. For example, in last year's PPCA filing, Staff recognized a trend of decreasing energy use over time in relation to the amount of water pumped which resulted in an adjustment in the PPCA rate benefitting customers.

Finally, Staff recommends that only costs related to the supply of metered energy be used in the calculation of the PPCA. Costs related to late payment fees or services beyond the delivery of metered energy should be excluded from the calculation.

CUSTOMER NOTIFICATION

In last year's PPCA filing, the Commission directed the Company to work with Commission Staff to revise its description of the PPCA in Schedule No. 3 of the Company's tariff and on its billing statements. Order No. 33565. The Company was also directed to comply with the Commission's requirements for customer notices and press releases in future PPCA filings.

At the conclusion of last year's PPCA case, the Company worked with Staff and made the appropriate changes to its tariff and billing statements. As revised, Schedule No. 3 clearly describes how the PPCA charges are applied. Staff found that there were some space constraints on billing statements with respect to the labeling of line items. Due to those constraints, the PPCA will be identified as "PPCA ADJ" on billing statements. The notice provided to customers in conjunction with this case explains changes made to billing statements. Staff is satisfied with the changes to the Company's tariff and billing statements.

With regard to customer notification, the Company filed a copy of its customer notice and press release along with its Application. Staff reviewed the documents and determined that both met the requirements of Rule 125 of the Commission's Rules of Procedure. IDAPA 31.01.01. The notice was included in customers' July billing statements. The Company sent a press release to the Idaho Statesman and the Idaho Business Review.

As of Tuesday, August 8, 2017, no customer comments have been received.

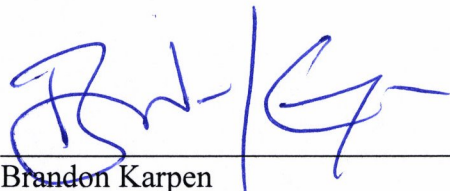
STAFF RECOMMENDATIONS

Staff recommends the following:

1. The Commission authorize an overall 3.1% PPCA rate effective September 15, 2017.
2. The Commission approve the Company's proposed Schedule No. 3, which reflects the 3.1% PPCA rate.
3. The Commission authorize the \$1,100 case preparation fee for recovery recognizing that this cost will not be incurred in the future.

4. The Commission authorize the Company to implement the proposed deferred accounting treatment and approve the Company request to base the PPCA on actual energy billing for calendar year 2016. Future PPCA filings will use the same approach tied to the respective prior calendar years' billing information.
5. The Company in future filings provide the total volume of water pumped, the total amount energy used, and the total average number of customers for the test year.

Respectfully submitted this  day of August 2017.



Brandon Karpen
Deputy Attorney General

Technical Staff: Bentley Erdwurm
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Rick Keller
Kathy Stockton

i:umisc/comments/capw17.1bkrkcwhbekls comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 9TH DAY OF AUGUST 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-17-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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