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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF CAPITOL WATER)
CORPORATION'S APPLICATION TO) **CASE NO. CAP-W-19-01**
INCREASE ITS SCHEDULE NO. 3)
PURCHASE POWER ADJUSTMENT RATE) **COMMENTS OF THE**
) **COMMISSION STAFF**
)
)
)

The Staff of the Idaho Public Utilities Commission, submits the following comments regarding the above referenced case.

BACKGROUND

On June 20, 2019, Capitol Water Corporation (“Capitol Water” or the “Company”) filed an Application to increase its Schedule No. 3 Purchased Power Cost Adjustment Rate to “recover the Company’s [increased] 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.

Beginning with Case No. CAP-W-09-01, Capitol Water has submitted an annual filing requesting Commission approval to raise or lower its Schedule No. 3 Purchased Power Cost Adjustment Rate (the “PPCA”) to account for increases or decreases in electric power supply costs the Company incurs for the electric power it uses to operate its water system. In general, Capitol Water’s electric power supply costs increase or decrease annually due to Idaho Power

Company's ("Idaho Power") Power Cost Adjustment mechanism, Fixed Cost Adjustment mechanism and any other miscellaneous annual Idaho Power rate changes. *See* Order No. 30881 at 3; *see also* Order No. 33128.

Capitol Water states its "current base rates were established by Order No. 30762 in Case No. CAP-W-08-02." *Id.* Capitol Water asserts in Order No. 30762 "the Commission adopted a three (3) year average of 1,454,401 kWh of electricity consumption [by the Company] at an average cost of 5.19¢, to establish rates for Applicant." *Id.* at 1. The Company asserts this results in a total electric power cost of \$75,483 that is incurred by Capitol Water. *Id.*

Capitol Water asserts in Case No. CAP-W-17-01 the Commission adopted, the most recent twelve months of power costs as a more efficient method for Capitol Water to recover its' increased electric power costs. *Id.*; *see also* Order No. 33876.

Capitol Water requests an increase in its PPCA due to increases in electric power supply costs it incurred in 2018 from Idaho Power. *Id.* Specifically, Capitol Water claims the actual electric power supply cost it incurred in 2018 was \$94,571 which is \$19,088 more than what is currently embedded in the Company's base rates. *Id.*; *see also* Exhibit 1 to the Application.

Capitol Water asserts its current 2.61% PPCA¹ is too low to recover the higher electric power costs it incurred in 2018. *Id.* Accordingly, Capitol Water requests a new, increased PPCA of 2.93%. *Id.*

STAFF REVIEW AND ANALYSIS

PPCA Adjustment

Staff reviewed the Company's Application and supporting documents, and recommends the Commission authorize the proposed 2.93% PPCA rate, which will increase the current PPCA from \$17,034 to \$19,088. Staff verified that the calculations made in the Application and the workpapers are correct, and confirmed actual power costs incurred in 2018 were \$94,571, which is \$19,088 higher than the \$75,483 embedded in base rates.

¹ Capitol Water's current PPCA rate was authorized by Commission Order No. 34124.

PPCA Methodology

In Order No. 33876, Case No. CAP-W-17-01, the Commission approved changes to the PPCA methodology. The Company compares its actual charges directly from Idaho Power to the energy cost embedded in base rates to calculate the PPCA. Staff notes that by using this approach, PPCA filings are completed in-house without the need for a consultant. Only the costs related to the supply of metered energy are used in the calculation of the PPCA. Costs related to late payment fees or services beyond the delivery of metered energy are excluded from the calculation.

Due to the current customer charge rate structure, the current methodology can maintain its simplicity and remain accurate without a true-up as long as the number of customers remains stable over time. Capitol Water experienced a 0.6% growth in customers in 2018, with an increase of 18 customers. Staff notes that the number of customers continues to be relatively stable, and that Capitol Water's service territory has little room for growth.

In Order No. 33876, the Commission also stated, “[g]oing forward, the Company shall 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) with its PPCA filing.” Order No. 33876 at 4. Staff notes that the calendar year information on the total average number of customers and total volume of water pumped has been provided in the Company's annual report. The Company files its annual reports on time, so the information is available to Staff and other interested parties. Therefore, Staff recommends this portion of the annual filing requirement related to number of customers and total volume of water pumped be eliminated, while retaining the total electric energy portion.

System Efficiency

The PPCA methodology trues up the actual cost of electricity to the cost of electricity embedded in base rates allowing the Company to recover actual differences in electricity costs. Because the mechanism essentially passes through the actual cost of electricity to customers, there is no incentive for the Company to use electricity efficiently. Consequently, Staff performed an analysis to ensure that the Company incurred electricity costs during the period in a prudent manner. Through its analysis, Staff believes that pumping efficiency has begun to

decline in some of the Company's wells which could be a sign that the wells may need added maintenance to restore pumping efficiency to historically efficient levels.

The Company is asking for an increase of \$2,054 in this year's PPCA even though 2018 average cost of electricity on a kilowatt-hour (kWh) basis declined 5% from 7.47 to 7.10 cents per kWh compared to the prior year. Offsetting the reduced unit cost of electricity was an increase in the total amount electricity used. The amount of electricity needed to serve customers in 2018 increased 7.3% from the prior year, while the amount of water pumped only increased by 0.7%. All things being equal, an increase in the amount of water pumped should correlate with approximately the same increase in electricity consumption. The difference in the amount of electricity used and the amount of water pumped indicates more energy was used to pump each gallon of water as compared to the previous year.

Staff analyzed water pumping and energy consumption for each of the Company's wells provided in responses to Staff's production requests. The increase in energy usage relative to the amount of water pumped lowered the system average pumping efficiency from 72% in the prior PPCA to 67% for the current PPCA as shown in the table below.

WELL INFORMATION	UNIT	2017	2018	DIFFERENCE
TOTAL WATER PUMPED	gal	873,646,600	879,820,000	0.7%
TOTAL ENERGY USED	kWh	1,213,775	1,302,816	7.3%
TOTAL COST OF ELECTRIC ENERGY	\$	90,667	92,482	2.0%
COST OF ELECTRIC ENERGY (UNIT)	¢/kWh	7.47	7.10	-5.0%
PUMPING EFFICIENCY	%	72	67	-6.9%

Staff discussed various factors that could account for the lower pumping efficiency with the Company. The Company noted that the two main wells which account for 75% of the system's water production were cleaned approximately 4 to 5 years ago and are due for another cleaning. Staff believes it's important for the Company to monitor the pumping efficiency and address well maintenance and cleaning to maintain pumping efficiency to ensure that customers are paying for prudently incurred electricity cost.

Rate Design

With the proposed change in the PPCA, the monthly bill for an unmetered customer with ¾ - inch service line would increase by \$0.09 - from \$29.45 to \$29.54 - in May through

September and by \$0.04 - from \$12.98 to \$13.02 - in all other months. The annual bill for this customer would increase by \$0.73, from \$238.11 to \$238.84 (0.31% increase). The bill for a metered customer will vary with water usage and the PPCA portion of the bill will increase by 0.32%. These bill calculations exclude franchise taxes.

CUSTOMER NOTIFICATION

The Company filed its Customer Notice and Press Release with the Company's 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 with customers' July 1, 2019 billing statements.

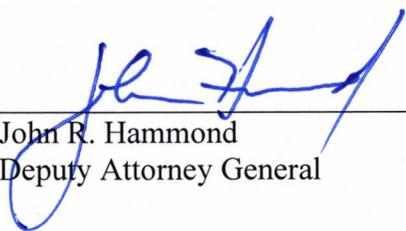
The Company sent a Press Release to the Idaho Statesman and the Idaho Business Review at the time of the Application's filing on June 20, 2019.

As of Wednesday, August 14, 2019, no customer comments have been received.

STAFF RECOMMENDATION

Staff recommends that the Commission authorize an overall 2.93% PPCA rate, and approve the Company's proposed Schedule No. 3. Staff further recommends that the Commission eliminate the directive to include the average number of customers and the total volume of water pumped in the annual PPCA filing.

Respectfully submitted this ^{14th} day of August 2019.



John R. Hammond
Deputy Attorney General

Technical Staff: Kathy Stockton
Bentley Erdwurm
Rick Keller
Chris Hecht

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF AUGUST 2019, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. CAP-W-19-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY